

# Impact of GST on Travel and Tourism Industry

Sahil Gupta<sup>1</sup>, Akhil Swami<sup>2</sup>

**Abstract:** Under GST the place of supply is shifted to the place where immovable property is situated in case of Hotels, Restaurant & Monuments for sightseeing. This will increase the revenue of such states where immovable property is located. Currently, on such income, States charges local Luxury Tax on hotel stay and VAT on food supplied. While Union Government gets revenue from Service Tax on such services. Because of GST, the States having maximum tourist places, hotels or restaurants for tourist shall earn the maximum revenue by way of SGST which will be equivalent to CGST.

**Keywords:** GST travel and tourism Impact Hotel tariffs

## 1. Introduction

**Goods and Services Tax (GST)** is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Act Bill.

Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that will be levied on every value addition. In simple words, GST is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India. It leads to a high-cost and inefficient tax structure prone to evasion and revenue leakage. Hence, the pressing need for a modern integrated goods and services tax (GST), with tax payable only on the value added at each stage of output and set-offs available along the value chain, both at the Centre and the states. The GST would amount the result of over 25 years of indirect tax reforms, which would boost the efficiency of taxation, improve tax enthusiasm and bring about an integrated market nationally.

### Components of GST

There are 3 applicable taxes under GST: CGST, SGST & IGST.

- CGST: Collected by the Central Government on an intra-state sale (Eg: Within Karnataka)
- SGST: Collected by the State Government on an intra-state sale (Eg: Within Karnataka)
- IGST: Collected by the Central Government for inter-state sale (Eg: Karnataka to Tamil Nadu)

The impact of the GST on the prices of goods and services largely depend on the item. It will also depend upon the respective State governments and their intervention with respect to controlling prices of essential commodities. Broadly, services are expected to become costlier under the GST regime, as the expected GST rate would be higher than the existing service tax rate of 15%. Clearly, the GST is expected to bring down prices of indigenously manufactured goods on account of current effective indirect taxes (central excise @ 12.5%, State VAT @ 5%-15% etc.) being higher as compared to recommended lower GST rate @ 5% and standard GST rates @ 12% and 18%. Thus, price of certain category of goods may come down depending on the

effective rate of indirect taxes being paid at present and the tax brackets under which goods are classified under the GST.

## 2. Tourism Industry and GST

Tourism industry is one such sector in the economy that is deliberating over the new tax regime. Tourism is one of the most competitive and steadily growing industries in the country. The tourism industry contributes nearly \$136 billion to India's GDP and is expected to further grow to US\$ 280.5 billion by 2026. Hospitality and tourism are also among the highest employment generating sectors and among the top 10 sectors in the country with the highest volume of foreign direct investment. In addition to being one of the top sources of foreign exchange, tourism is also among the highest tax generating sectors in the country

In the former indirect taxation regime, the state government would first charge VAT, luxury and entertainment tax, while the central government would then levy a whole different set of taxes such as excise duty, service tax, customs duty and central state tax. Consider the VAT, for instance, which is often charged by state governments on a value already including an excise duty. Hence, with different states having their own tax rates, hotels and hospitality businesses had no option to avail an input tax credit since the burden of central taxes cannot be set off against state taxes like VAT, or vice versa.

In the previous regime, a hotel with room tariffs exceeding Rs. 1,000 would be liable to pay 15 percent service tax. A deduction of 40% allowed on the tariff value would bring the effective rate of service tax down to 9%, but its effect was negligible since the VAT and luxury tax would still apply. Such a cascading effect of the tax regime rolls down right to the end customer, who bears the burden of paying taxes on taxes.

Assigning GST rates for hotels and restaurants against annual turnovers is a progressive move by the authorities. One of the major benefits of GST to the tourism sector is that it will eliminate multiple taxation by subsuming all taxes previously levied under one single entity. The promise of 'one nation, one tax' will also increase the ease of doing business in the country with the provision of standardized tax rates and flexible criteria to avail input tax credit.

The rates in the overall hospitality sector, however, have a complex classification and are on the higher end. The GST rates for non-AC restaurants are 12% on food, while AC restaurants and those with liquor license, including restaurants in five-star hotels will be levied with 18% GST. Hotels with room tariffs between Rs. 2,500 and Rs. 7,500 will be charged 18% tax while those with daily tariffs above Rs. 7,500 will be levied a GST of 28%.

There is good news for budget conscious travelers as small and budget hotels with daily room tariffs of Rs. 1,000 will be exempt from the GST schedule, while those charging up to Rs. 2,500 per day will pay 12%. Further, restaurants that have an annual turnover below Rs. 50 lakhs will be charged the lowest rate at 5% GST. Allotting a lower tax bracket to small restaurants and budget hotels will help them grow and enable them to enhance their service quality and standards on a regular basis. Currently, low to medium budget hotels constitute nearly 80% of India's hospitality market, so a low tax burden on these hotels will also help create thousands of new jobs.

#### GST on Hotel Tariff

Prices of hotel room per night	GST rate (%)
<1000	0
1000 to 2500	12
2500 to 7500	18
>7500	28

In the case of Passenger traveling, the state with the maximum outbound journey shall earn the highest revenue so the station or the port having highest outbound flights, train journey or local cab journey shall earn substantial revenue.

The procedure for all the invoices/receipts towards inward and outward supplies will become cumbersome as each one of them will have to be uploaded in the system. The concept of credit matching under GST would be very difficult to handle and would lead to increase in working capital requirements.

The frequency and number of returns to be filed will go up. In place of a half yearly service tax return, under GST law, one will be required to file state wise monthly three GST returns along with an annual return will also be required to be filed.

### 3. Literature Review

**Akanksha Khurana (2016)** , It can be said that GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax compliance. It can be further concluded that GST have a positive impact on various sectors and industry. Although implementation of GST requires concentrated efforts of all stake holders namely, Central and State Government, trade and industry. Thus, necessary steps should be taken.

**Dr. R. Vasanthgopal, (2011)** Studied "GST in India: A Big Leap in the Indirect Taxation System", and found that the positive impacts are dependent on a neutral and rational design of the GST, balancing the conflicting interests of various stakeholders, full political commitment for a fundamental tax reform with a constitutional amendment, the method. Different news articles, Books and Web were used which were enumerated and recorded. Switchover to a 'flawless' GST would be a big leaf ion the indirect taxation system .It is also noted that, buoyed by the success of GST, more than 140 countries have introduced GST in some form to other and is fast becoming the preferred form of indirect tax in the Asia Pacific region. The Honorable Minister of Finance, Corporate Affairs & Information and Broadcasting, Government of India further mentioned that the implementation of the GST will be pegged as one of the biggest game changing reforms of the Indian government. It will help India become an economically integrated economy, will help reduce business costs and facilitate seamless movements of goods and services eliminating local charges. It would reduce tax cascading eliminating tax on tax and hence help reach a situation where revenue would be benefited and GDP would improve.

**Shefali Dan (2016)** The proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. At the same time, the government should make an attempt to insulate the vast poor population of India against the likely inflation due to implementation of GST. No doubt, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until the consensus is reached, the government should resist from implementing such regime.

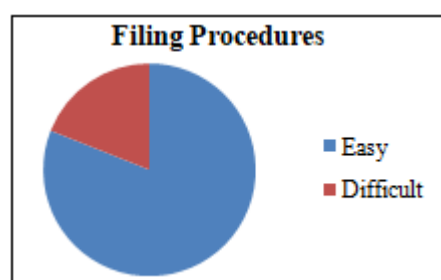
#### Objectives of study

- Detailed analysis on impact of GST on travel and tourism
- Benefits & drawbacks of GST on travel and tourism

### 4. Data Analysis & Interpretation

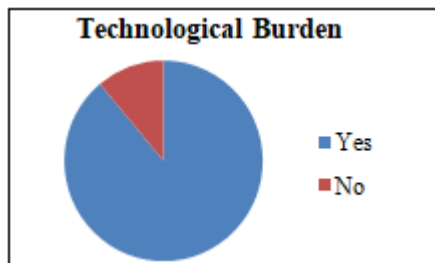
#### Easier administration and procedures

81% of the sample population believes that subsuming multiple taxes under a single category, GST will abolish the tax-on-tax structure which will reduce the complexity of taxation procedures and streamline it.



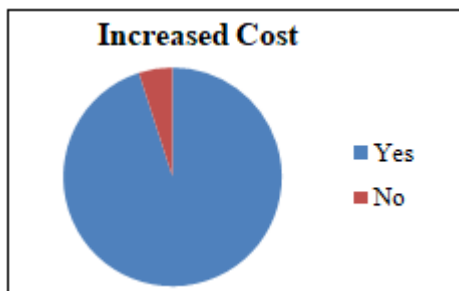
**Greater technological burden**

From the survey it is found that 89% of respondents feel that, there are a few cons that are hard to overlook. One of them is increased burden on service providers to employ technology-based tools for taxation procedures. While the guidelines on managing accounts and filing returns are well-defined, it will require businesses to become technologically adept, increasing the burden and cost of compliance.



**Increased Costs**

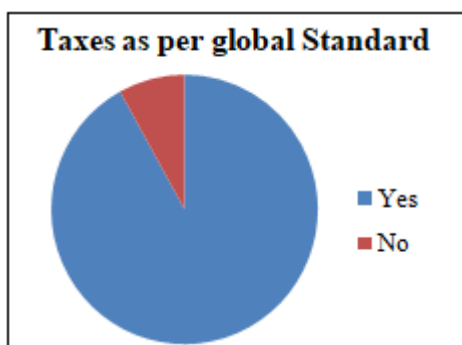
Looking at the response, it can be said that almost every believes that businesses will increasingly look to recover the additional technology costs from their customers, which may lead to higher tariffs.



**Lack of competitiveness with other Asian countries**

92% of respondents feel that while GST is making India a bigger player in the global hospitality and tourism industry, there is no global competitiveness in tax rates. Other Asian countries such as Japan and Singapore have much lower tax rates in the hospitality sector (8% and 7% respectively) which is amongst the top reasons why tourists prefer to visit these countries and others such as Malaysia, Thailand, etc.

While the sector remains divided on the predicted impact of Goods and Services Tax, most players in the industry have welcomed the move to the new tax regime with great enthusiasm. The long-term impact, however, remains to be seen and only time will tell how and if GST does accelerate growth in the sector.



**5. Conclusion**

GST is a mixed bag of better and easier rules and regulations, increased costs and compliances. The Hotel and Restaurant Association of North India had been eyeing for a GST rate of 5% as it believed that a lower rate will bring in more tourists and allow Indian businesses to compete with global chains. However, the GST Council deemed it fit to set the rate at 18%.

The Tourism and Hospitality industry in India is expected to grow to US\$ 280.5 billion by 2026, and the initial hiccups after GST implementation are highly unlikely to hinder this growth. However, it remains to be seen whether the cons outweigh the pros for this sector. The GST for tour packages, both domestic and international, has seen a very little increase from 4.5 per cent to five per cent, and as such we do not impact demand for holidays; in fact, this is as a positive response by consumers as it compares extremely favorable against the pre service tax which saw a doubling of the rate from 4.5 per cent to nine per cent. Again, the increase from 1.5 per cent to 1.8 per cent on international air tickets is marginal which do not foresee any impact; and this applies to domestic air tickets too with a change from 0.75 per cent to 0.9 per cent "While we applaud the government's effort to keep GST at 5 per cent for restaurants below 50 lacs and 12 per cent for restaurants without AC. We are disappointed with the high GST slab of 18 per cent for organized restaurants and 28 per cent for 5 star restaurants. This will not go a long way to promote tourism and tourism related jobs", National Restaurant Association of India (NRAI) President Riyaz Amlani said.

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**Annexure**

**Questionnaire**

- 1) Name
- 2) How many years you have been in this industry?
  - a) 1-3
  - b) 3-5
  - c) 5-7
  - d) 7 & above

- 3) Do you think implementation of GST is good industry?
  - a) Yes
  - b) No
- 4) Do customers have concern over increase tariffs?
  - a) Yes
  - b) No
- 5) Is Indian tax as per global standard?
  - a) Yes
  - b) No
- 6) Is there any technological burden?
  - a) Yes
  - b) No
- 7) Do you give any discount to combat GST?
  - a) Yes
  - b) No
- 8) Are filing process complicated?
  - a) Yes
  - b) No