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## Research Article

### IMPACT OF GST ON TOURISM AND HOSPITALITY SECTOR

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#### ABSTRACT

India is one of the hot tourist destinations in the world. It is so due to variety of tourist attractions and delicious food. Due to this, domestic as well as international inbound tourists' movement is worth mentioning. However, it also can be mentioned that, India is not trying hard to attract and excel the tourists, to its potential. Indian tourism sector is one of the industries, where, multiple taxes are levied. The sector was expecting some relief in the new tax regime of Goods and Services Tax (GST). 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. But, apparently, it can be perceived that, instead of providing relief, it has made worst. However academicians do believe that, inflation in the price of tourism, would be a temporary phenomena, in the longer run, the prices would go down, and GST would be beneficial to the sector. Present article, is an attempt to put forth, both the perceptions with facts and figures.

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#### INTRODUCTION

Indian Tourism sector is one of the great contributors to the economy. Tourism in India is very much useful due to various reasons such as employment creation, great contributor to national income, bringing in the foreign exchange etc. Moreover, its multiplier impact gives impetus to overall economy. Hence, ideally, Indian policy makers should make all sorts of efforts to boost this sector, by providing conducive environment in terms of infrastructure such as good roads, friendly taxation policy, safety and security of tourists in general and foreign female tourists in particular. However, in reality, it can be seen that, various taxes are imposed on this sector at various stages. It creates hurdles in growth of this sector. In order to get relief, especially in taxation, the entire industry was expecting lower slabs of Goods and Services Tax (GST). But in reality GST has been levied in the bracket of 5% to 28%. Majority stake holders of the industry are unhappy about it and fear that, such rate may halt the growth of the sector. An academician echoes in other way and positively say that, negative impact of such rate would be in the shorter run, but the scenario may change in the longer run.

#### LITERATURE REVIEW

1. AkankshaKhurana (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.
2. Dr. R. Vasanthagopal, (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

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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.

3. Shefali Dan (2016) The proposed GST regime is a halfhearted 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 the Study

- To provide an overview of Indian Tourist Sector
- To understand the impact of GST on Tourism industry
- To evaluate the effect of pre and post GST impacts on Tourism and Hospitality industries in India.
- To discuss positive and negative impact of GST on tourism sector.

## RESEARCH METHODOLOGY

Since, the present article is a descriptive one, secondary data has been used. Various national English newspapers such as – The Hindu, The Times of India, and various websites providing details about GST and Tourism, has been used for this purpose.

#### An Overview of Indian Tourism Sector

India is one of the fastest tourism growing industry in the world, 6.1% contributing to the Gross National Product (GNP), providing employment to 27 million people, 5.7% to the total employment of the country. Considering such importance, the central as well as state governments are aiming at positioning tourism as a major engine of economic growth. In order to accelerate the growth of tourism, the Ministry of Tourism grants recognition to travel agents, tour operators, tour agents etc. As a result of efforts at governmental and private level, both domestic and foreign tourists are ever increasing. About 88.90 lakh foreign tourists arrived in India. In the year 2016, the tourists' turnover counted to 80.27 lakh in 2015, recording a growth of 10.70%. Due to such growth, foreign exchange earnings from tourism during January - December – 2016 were

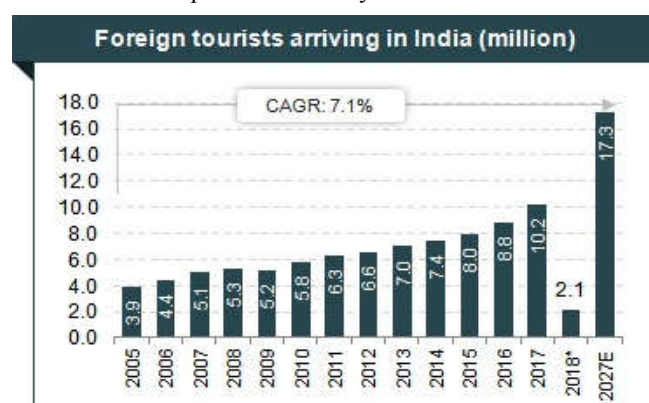
Rs. 1,55,650/- crore, with a growth of 15.1% as compared Rs. 1,35,193/-.

#### Indian Tourism and Hospitality Industry Analysis

The Indian tourism and hospitality industry sector ranks seventh in the world in terms of its total contribution to the country's GDP. According to the WTTC, travel and tourism generated INR 14.1 trillion (USD208.9billion) in 2016, which is the world's seventh largest in terms of absolute size. The sum of equivalent to 9.6%of India's GDP. Additionally, the sectors supported 40.3million jobs in 2016, which ranks India second in the world in terms of total employment supported by Travel and Tourism. The sector accounts for 9.3%of the country's jobs.

India's travel and tourism sector was also the fastest growing among the G20countries, growing by 8.5%in 2016. A further 6.7% growth is forecast for 2017.visitors exports, money they spent by foreign traveller in India, only represents 12% of tourism revenue and in 2016 totaled INR 1.5 trillion (USD 22.8 billion). This is 5.4% of the country's total exports cal average of compared to a global average of 6.6%. UNWTO shows that India has received only 9 million international arrivals in 2016, placing it 40th in the world. WTTC data suggests that visitors export will grow by 5.4% in 2017.

- In CY2017, foreign tourist arrival in India stood at 10.177 million and reached 2.12 million in CY 2018 (up to February).
- Foreign tourist arrivals into the country is forecast to increase at a CAGR of 7.1 per cent during 2005–25
- The number of Foreign Tourist Arrivals (FTAs) in February 2018 were 1.05 million as compared to FTAs of 956,000 in February 2018 and 849,000 lakh in February 2016.
- The growth rate in FTAs in February 2018 over February 2017 was 10.1 per cent.
- The Government of India has set a target of 20 million foreign tourist arrivals (FTAs) by 2020 and double the foreign exchange earnings as well.
- The Government of India is working to achieve 1 per cent share in world's international tourist arrivals by 2020 and 2 per cent share by 2025.



Notes: CY – Calendar Year, E- Estimated, \*up to February 2018

Source: World Travel & Tourism Council's Economic Impact 2017, Ministry of Tourism 12.

#### The Impact of GST on Tourism Industry

In Pre GST era, there was a composite levy of both Service tax i.e 6%, as well as, Value Added Tax i.e 14.5% (Vary from

State to State) on food and beverages served by hotels and restaurants which finally put the burden of 20.5% in the pocket of ultimate consumers. However, some relief was provided for Non-AC Restaurants supplying food and beverages as no service tax was levied on these restaurants.

Post GST, the scenario shall be completely different. As discussed above that supply of food and drinks in a restaurant shall be treated as a supply of services. Hence, only GST shall be levied on such services @ 18% which saves around 3% as compared to the previous. Non AC Restaurants were exempt from levy of Service Tax. But State vat was charged at 12%. In Present System, Restaurant not having the facility of air-conditioning or central heating at any time during the year and not having a licence to serve liquor is liable to tax at GST Rate of 12%. Overall things shall continue to remain status quo as far as pricing goes. Further, staying in a good hotel is going to be very costlier as the rate of tax has been doubled from 9% to 18%. Even Luxury Hotels of 5 stars or above-rated charging room rent Rs. 7,500/- or above will attract 28% tax.

**GST Rates for Hotels based on Room Tariff**

Tariff Per Night Per Room	GST Rate
Less than Rs. 1,000	No Tax
Rs. 1,000 – Rs.2,500	12%
Rs. 2,500 – Rs.7,500	18%
Above Rs.7,500	28%

**Positive and Negative Impact of GST on Tourism Sector**

Tourism sector shall be impacted both positively and negatively under the GST regime.

**Positive**

**Uniformity in Taxes**

The multiple taxes would be replaced by one single tax, the rate of which is likely to be between 16%-18%. The sector may benefit in the form of lower tax rates which should help in attracting more tourists in India.

**Increased Revenue for State Government**

- 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.
- 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.

**Saving in Food and Beverage operations**

Companies specializing in food and beverages operations could be the biggest beneficiaries of GST within the hospitality sector. Food and beverages bills have multiple components

which inflate the bills by 30- 35%. It is expected that GST to result in savings of 10-15% on the overall bill.

**Negative**

**Multiple Registrations**

Service providers having centralized registration will have to get registered in each state from where they provide services. Although Government has been claiming “One Nation One Tax”, practically it is not going to be so. Service providers will have an option to take different registration for separate business verticals which need to be examined on a case by case basis. Every state has been constitutionally granted right to collect GST on services.

**Increased Compliance Burden**

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.

**No Credit on Work Contract Services**

The hotel industry spends a lot of money on construction and renovation. The money paid as taxes on the works contract services when supplied for construction of an immovable property is not allowed for this sector when such services are not used for the further supply of works contract service. This would have a negative cascading effect despite strong promises being made by the government in this regard.

Any proposal to make supplier of goods or services liable to pay tax under reverse charge when receiving supply from an unregistered supplier can increase burden in case of B2B transactions on registered assessee.

**Highlights**

- The lower GST rate will contribute to a Decrease in our current account deficit and will increase in the GDP and attract the more number of outbound at the same time domestic tourist also and this will bring doubling-up up of tourism induced employment.
- Due to high GST rates in India, Foreign tourist will plan their trip across Asia may entirely skip India.
- Most of the Bed and Breakfast accommodations owners’ offer breakfast to the travelers. They handpick the source of the ingredients by ensuring that they are safe and economical. Thus, the cost of bed and breakfast rooms will be either same or lesser.
- GST will make it easy for the restaurants to take credit of input goods and services consumed while providing restaurant services. Understandingly, The Kitchens and food delivery services are happiest about GST and the high end AC restaurants are bit grave due to high GST tax rate.
- According to the National Restaurant Association of India’s services report:

- They estimate that many edge smacking dishes could be cheaper after the GST. The overall cost of procurement of raw material will go down and some food grains are expected from GST.
- For travelers, the GST will bring about a hike in prices when it comes to travelling and paying for hotels. But the same is likely to change and benefit in the long run. As the duplication of taxes will be avoided on airlines and hotels.
- The taxes over the hotel and restaurant supplies which from the major components of tourism costs will likely to be subjected to single tax .thus, reducing the burden of cascading taxes, initiating flexibility and cost effectiveness to benefit travelers .
- The hotel and tourism industry are one of the industries which are levied with multiple of taxes. When VAT, luxury tax and service tax are combined, the taxes will go up. With the implementation of GST, the cascading taxes would combine and single tax regime would be reduced. This will be benefited as more tourists will visit India due to the lower tax rate.
- The Indian hospitality and tourism industry, which was pegged at US\$ 136.2 billion at the end of 2016, is one of the sectors which will see major changes post GST with effect from July 01, 2017.
- 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 impede this growth. The growth rate of the tourism sector of Indian economy was recorded as 17.3% in the previous year.

## CONCLUSION

Tourism Industry was suffering severely from multiple taxes. Almost all the industry players were eyeing on the GST for some relief. However, the outcome was other way round for the industry. The optimist from the industry still feels that it would be too early to react negatively. They believe that such negativity will prevail only in the short run and may change positively in the longer run, once GST gets settled in every sector in the economy. Hence it could be concluded by expecting that it really give positive impact to the industry to cheer. 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 lakhs 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 RiyazAmlani said.

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