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# International Journal of Advance and Innovative Research

Volume 6, Issue 1 (XXXVI): January - March 2019

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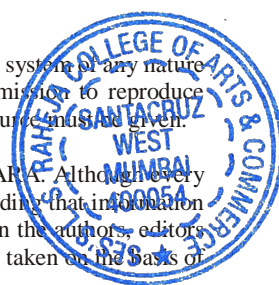
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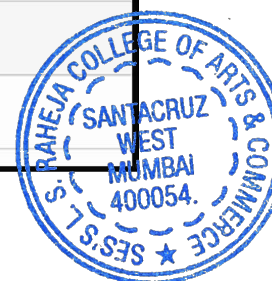
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<b>INFORMATION TECHNOLOGY IN TOURISM</b>	126 – 128
Prajakta Ameya Joshi	
<b>POST TESTING OF TOURISM ADVERTISEMENT IN INDIA WITH SPECIAL REFERENCE TO MUMBAI CITY</b>	129 – 132
Laila Ahmed Patel	
<b>IMPACT OF TAXES ON TRAVEL AND TOURISM</b>	133 – 137
Dr. Gordhan N Devnani	
<b>A STUDY ON ECOTOURISM IN INDIA W.S.R.T. TOWN AUROVILLE</b>	138 – 142
Henna Punjabi	
<b>EDUCATIONAL TOURISM - NEED OF AN HOUR</b>	143 – 150
Mehul Barai	
<b>SUSTAINABLE TOURISM: A CASE STUDY OF KONKAN</b>	151 – 153
Samiksha Jadhav	
<b>ROLE OF VARIOUS ATTRIBUTES FOR GROWTH OF ONLINE TOURISM AGENCIES</b>	154 – 157
Dr. Sangeeta Makkad	
<b>IMPACT OF MARKETING STRATEGIES OF TOURISM INDUSTRY ON THE SATISFACTION OF TOURISTS IN MUMBAI</b>	158 – 163
Rajendra B. Vare	
<b>OVERVIEW OF MEDICAL TOURISM IN INDIA</b>	164 – 167
Dr. Anupama Nerurkar	
<b>INNOVATIONS IN TOURISM: A CASE STUDY OF SINDHUDURG DISTRICT TOURISM</b>	168 – 173
Kirti N. Ranjane	
<b>APPRAISAL OF GOVERNMENT TOURISM SCHEME: CASE OF DISTRICT KANGRA IN HIMACHAL PRADESH</b>	174 – 178
Neetu Sharma and Dr. Savitsmita Vilasrao Chawan	



## IMPACT OF TAXES ON TRAVEL AND TOURISM

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## ABSTRACT

The Tourism industry plays an important role in the development of the country. The concept of campaigns as the 'Incredible India', which promoted India's culture and tourist attractions in a fresh and tremendous way. Traveling and Tourism has been an integral part of Indian Culture and Tradition. Tourism Industry is the most vibrant tertiary activity and a multibillion industry in India. Tourism is a major social and economic phenomenon of a country like India with enormous economic implication; it is an important instrument for Peace and harmony, socio-economic development Entrepreneurship & Employment generations

Tourism is one of the fastest growing service industries in the country with great potentials for its further expansion and diversification. Moreover, it is also one of the important engines to attract more foreign exchanges and development of the country's revenue. Taxes on aviation will reduce the economic benefits accessible from aviation, which will result in a negative impact on economic growth and overall government revenue bases. We need to concentrate to have liberal policies, relaxation in taxes, and provide comprehensive package, so as to influence tourist and foreign investments. There is a need to increase the government's role to make India flourishing in tourism and established in the global market by providing various reliefs and subsidies to achieve success in Travel & Tourism.



## INTRODUCTION

Tourism is one of the world's largest growing industry, generating not only wealth and employment. India is one of the strong cryptogram of becoming the giants in world tourism. India has been a hotspot for International and local tourists since ages. India's Tourism and Hospitality industry is set poised to grow to US\$280.5 billion by 2025.

According to data, the travel and tourism sector generated Rs 14.1 trillion (USD208.9 billion) in 2016, which is world's 7th largest in terms of absolute size; the sum is equivalent to 9.6% of India's GDP. Additionally, the sector created 40.3 million jobs in 2016, which ranks India 2nd in the world in terms of total employment generated. The sector accounts for 9.3% of the country's total jobs. India's Travel and Tourism sector was also the fastest growing amongst the G20.

Therefore, most important factors for successful tourism development include promotion, product enrichment, rules and regulations and human resource development. Tourism in India is one of the flourishing sector not only from ancient time but remain thriving till today. Tourism in India is growing constantly not only to generate employment but to earn large amount of foreign exchange in order to stabilize the country's economic and social development. It also helps in preserving, protecting and sustaining the diversity of the India's cultural, heritage and environments.

Modern tourism is closely linked to socio- economic development. Tourism is responsible for one out of 11 jobs and 10% of the world's economic output. The tourism sector apart from providing income, employment, and foreign exchange of the country, has also an positive economic impact on other industries such as food manufacturing, services, construction, handicrafts etc. In addition, investments in infrastructural facilities such as transportation, accommodation and other tourism related services lead to an overall development of infrastructure in the economy. Hospitality sector not only provide high foreign exchange but it is also generate the largest tax sector in Indian economy. More Taxes on aviation will reduce the economic benefits available from aviation, which in turn resulting in a negative impact on economic growth and overall government revenue bases. Hospitality is not only a high in collection of foreign exchange but it also generate the largest taxes from tourism. There are multiple taxes charged by the Central as well as State Governments on the same Service/Product offered by it. Taxes levied by the government on the Tourism sector is the highest in the country and this is one of the reasons for India losing Foreign Tourists compare with other Asian Countries.

Tourism industry/sector is becoming one of the most important branches of the economy, and hence it is essential to find the best solution, and the best tax rates that would levy to encourage tourism sector and the most important part is that these funds should be used to invested in return in tourism industry only so as to achieve real objects. Which in turn will increase of the income from the tourism industry/ sector. Imposing high tax rates will have negative impact on tourism industry. High rates of taxes would have negative impact not only on competitiveness, but would be a great disaster towards income from tourism industry. Hence it is very important, to have very goods tax system, which will not only encourage tourism but at the same time helps in earning of more foreign exchange. To understand better, the taxation in tourism we are going to bring here some conclusions and recommendations.

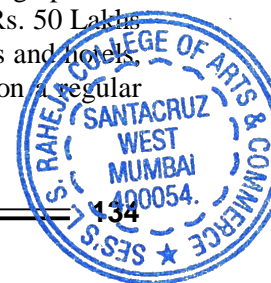
1. The Tourism industry contributes nearly \$136 billion to India's GDP and is expected to further grow to US\$ 280.5 billion by 2026. Tourism and Hospitality sectors are among the highest employment generating sectors and among the top 10 sectors in the country with the highest volume of foreign exchange earnings. Apart from being one of the top sources of foreign exchange earnings, tourism is also among the highest tax generating sectors in the country's revenue.
2. The Tourism and hospitality industry is one the important sector in the economy that is to be considered carefully for imposing new tax regime. Hospitality is also one of the most progressively and competitive growing industries in the country and hence require utmost care while imposing new tax regime.

Hospitality/ Restaurant/ Hotels sector and GST: Before and After:

In the former indirect taxation scenario the state government has to charge first VAT, luxury and entertainment tax, while the central government would levy a whole different set of taxes such as excise duty, service tax, customs duty and central state tax. 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. For example in the former scenario, 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 flow effect of the tax regime rolls down right to the last customer, who in turns bears the burden of paying taxes on taxes.

While assigning GST rates for hotels and restaurant/ hotels one of the major benefits of GST to the hospitality and tourism sector is that it will eliminate multiple taxation by including taxes previously levied under one single component. The Prime Minister Mr. Modi's 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 through out the territory of India. However the tax rates in hospitality sector have a complex classification and the tax rates are much higher side. The GST are on 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%. Where as GST rates for non-AC restaurants are 12% on food. The new budget brought the good news for travelers as small hotels with daily room tariffs of Rs. 1,000 will be exempt from the GST scheme, while those charging up to Rs. 2,500 per day will have to pay 12% GST. Further, restaurants that have an annual turnover below Rs. 50 Lakhs will be charged the lowest rate at 5% GST. While allocating lower tax schemes to small restaurants and hotels, with an object to help them raise and enable them to enhance their service quality and standards on a regular basis, which in turn will help to create thousand of new jobs in such industries.

The impact of GST on the hospitality and tourism sector:





1. Making the administration and procedures simple and Easier: By removing multiple taxes under a single category scheme and bringing GST, which will eliminate complexity of taxation procedures and bring one and simple Tax with one time of paying tax.
2. Simplicity for Consumers: Most normal consumers cannot distinguish between multiple taxes and other tax rates. With the introduction of GST scheme the consumers will have a more clear and transparent tax structure with only a single tax charged on their bill.
3. Require technological savvy : One of the essential requirement under the new GST system is that the service providers have to employ technology-based tools for taxation measures. While the guidelines for managing accounts and filing returns of the businesses are required to filled through E process, which will force the business owners to be computer savvy or else they will be force to appoint technologically skilled person which in turn will increasing the cost in compliance of the requirement.
4. Increased Costs: By adding new GST, the Business unit will be forced to recover additional technology costs from their customers, which will result in to higher tariffs / charges.
5. Higher rate of taxes compare with other Asian countries: Other Asian countries such as Thailand and Malaysia and Singapore have much lower tax rates in the Tourism/ hospitality sector (8% and 7% respectively) which is one of the main reasons why tourists prefer to visit these countries rather then in India.

### **HIGHLIGHTS OF NEW GST RATES ON HOSPITALITY/ RESTAURANT/ HOTELS AND TOURISM SECTOR**

1. Hotels, lodges with tariffs less than Rs 1,000 will be taxed at 0%.
2. Restaurants with a turnover of less than Rs 50 Lakhs will be levied a tax rate of 5%.
3. Hotel lodges with tariffs between Rs 1,000 – Rs 2,500 will be charged 12% tax.
4. Non-AC restaurants will have a 12% tax rate, where as AC restaurants will have 18% tax.
5. Hotel lodges with tariffs between Rs 2,500 – Rs 7,500 will be charged 18% tax.
6. Hotel lodges with tariffs above Rs 7,500 will be charged 28% tax.

### **POSITIVE IMPACT OF THE GST ON TOURISM SECTOR**

#### **1. Uniformity in Taxes**

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

#### **2. Increased Revenue for State Government**

By imposing GST on immovable property, such as in case of Hotels, Restaurant & Monuments for sightseeing, which will increase the revenue of such states where immovable property is located. Before GST on such income, States uses to charges local Luxury Tax on hotel stay and VAT on food supplied.

#### **3. Effect of GST in Food and Beverage operations Companies**

Specializing in food and beverages sector could be the biggest beneficiaries of GST under the hospitality sector. With imposing of new GST it is expected that it result in savings of more than 15-20% on the overall bills.

### **NEGATIVE IMPACT OF THE GST ON TOURISM SECTOR**

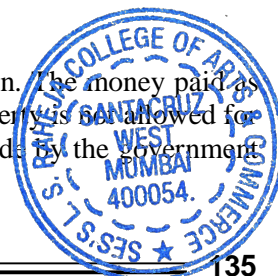
1. Although the Government has been claiming “One Nation One Tax”, practically it is not going to be so. In case of multiple Registration Service providers having centralized registration will have to get registered in each state from where they provide services which should be made centralized process.

#### **2. Complicated process of filing of returns under new GST**

The procedure and 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, which will also required to be filed for Income Tax purpose.

#### **3. Absence of no credit on Work Contract Services**

The hotel industry/sector spends every year 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 Industry/ sector. This would have a negative effects, in spite of strong promises made by the government in this regard.



**4. GST on Liquor not included**

Liquor should have been included in GST to ensure the seamless credit for the tourism industry. Exclusion of liquor from GST regime defeats the very purpose of bringing in a uniform tax structure across the nation.

Following are the KEY REASONS WHY TAX ON TOURISM SHOULD NOT BE LEVIED:

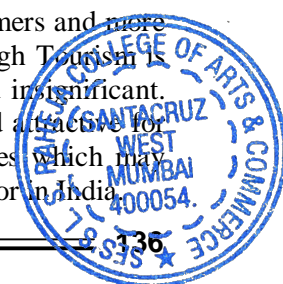
1. Increased Taxes on aviation may result in unprofitable for Tourism sector, which will result in reducing the frequencies of aviation for destinations to, from or within a country itself.
2. Increased Taxes on aviation will reduce the economic benefits available from aviation, which in turn will have a negative impact on economic growth of the country and overall government revenues.
3. Increased Taxes on aviation charges will have negative impact on tourism industry.
4. Increased Taxes in Hospitality sector not only reduce high foreign exchange but will effect other industries such as food manufacturing, services, construction, handicrafts etc.
5. Increased Taxes in Hospitality Business sector/ Industry, will be forced to recover additional costs from their customers, which will result in to higher tariffs / charges.
6. Which in turn results economic problem, such unemployment and lost foreign exchange.
7. Lack of competitiveness with other Asian countries: GST will make India a larger player in the global hospitality and tourism industry, as India is not par with the global competitiveness in tax rates compare with other Asian countries such as Japan and Singapore which 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 and not India.

**RECOMMENDATIONS/ SUGGESTION THAT ARE TO BE TAKEN IN CONSIDERATION BEFORE INCREASING TAXES ON TOURISM INDUSTRY IN INDIA**

1. Tourism in India should be promoted on priority basis such as “ Bharat Darshan” should be given on priority basis.
2. Government should adopt liberal policies, relaxation in taxes, and provide comprehensive package, so as to influence tourist and foreign investments.
3. The Government should take initiate and make the provisions for making the tourism as flourishing in India and established in the global market by providing various reliefs and subsidies to achieve success in Travel & Tourism sector/Industry.
4. GST on aviation, Hospitality/ Restaurant/ Hotels and Tourism sector should be reduced, which in turn will create more job opportunities and more foreign exchange earnings for country.
5. Government should impose less taxes in Travel & Tourism and easy and transparent process of enforcement legal process which will attract the tourists to visit India, rather visiting other Asian countries.
6. The Government not only imposes less taxes and give more rabbits to the tourists but also provided them safety and security.
7. Imposing more harsh Penal punishment for those found guilty for doing wrong with Tourists and visitors.
8. Providing adequate information on web site with full details of the Tourist places including hotels, foods, drinking water, travelling tariffs.
9. Providing adequate information on the web site for the tourist to approach in case of Emergency and for Medical help.
10. Special provisions shall be made by the government to provide medical and other help to tourist by 24\*7 \*365 days with full information, e-mail and phone numbers.

**CONCLUSION**

Tourism is Inbound a global phenomenon. It is an economic activity that involves a billion customers and more than trillion dollars of money which is required to be spent on travel and allied activities. Though Tourism is very important economic activity in India, but its share in global market is extremely small and insignificant. Therefore the industry needs a good tax policy to push in order to become more competitive and attractive for the foreign tourists in connection with taxes, export promotion incentives and general measures which may need to be incorporated in the Tourism Policy of India to unleash the true potential of tourism sector in India.





With the motto “Atithi Devo Bhava” (‘Where the guest is considered/ equivalent to God’) Indian tourism industry was expected to obtain greater benefits under the new GST regime. Due to uniform tax rates and better use of input tax credit, the final cost for end-user was apparent to decrease which in turn would attract more foreign tourists and foreign exchange and more employment opportunities. This meant more revenue for the government and assist in the growth of the industry.

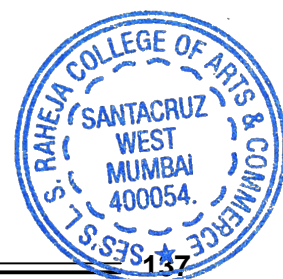
Putting one GST Tax on Tourism Industry is going to be an efficient and boom in tax system and will remove the problems faced by the Tourism Industry /sector leading to cost optimization and a free and transparent flow of transactions. The government should make the Tourism Industry par with the global market by providing various reliefs and subsidies to achieve success in Travel & Tourism. Which will result in more number of tourist visit in India rather visiting other Asian countries.

Apart from the above benefits of GST for Tourism Industry if properly implemented can prove to be a major benefit for the tourism and hospitality industry in India. The process to claim and avail ITC (input tax credit) is simple and clear. Earlier, adjusting the tax paid on inputs against the output was complex and error-prone. This is believed to have become easy with GST. Which in turn makes it easier way for the customer / Tourist.

At last but not the least GST is a glimmer of hope for the Hotel and Tourism Industry if we can keep the GST rate between 05 to 08%. With such GST rate it will not only increase employment but also increase the government revenues and will lead the nation to the prosperity.

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