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Impact of GST on Travel, Tourism and Hospitality

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Abstract :

Goods and Services Tax (GST) is an indirect tax which has replaced many indirect taxes in India. The Goods and Services Tax Act was passed in Parliament on 29 March 2017. The Act came into effect on 1 July 2017. GST is a non – discriminatory tax and its effect will be seen across verticals. The Indian Hospitality and Tourism Industry, which was pegged at USD 136.2 billion at the end of 2016, is one of the sectors which will see major changes post July 2017. Hospitality is one of the most competitive and steadily growing industries in the country. The Tourism industry contributes nearly USD 136 billion to India's GDP and is expected to further grow to USD 280.5 billion by 2026. India is one of the most popular tourist destination in the world. It is so due to rich heritage, myriad attractions and delicious food. Tourism in India is important for the country's economy and its growing rapidly. The world Travel and Tourism council calculate that Tourism generated rs 16.91 lakh crore (USD 240 billion) or 9.2 % of India's GDP in 2018 and supported 42.673 million jobs, 8.1% of its total employment. 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. one of the major benefits of GST to the hospitality and tourism sector is that it will eliminate multiple taxation by subsuming all taxes previously levied under one single entity. Benefits of execution of GST will help in reducing business transaction cost, reducing cost for customers. GST is a fair – minded tax and GST would be beneficial to the Tourism sector.

In this research paper, we will look at the effects of GST on the Hospitality, Travel and Tourism industry.

keywords : GST, Hospitality, Travel, Tourism, India.

Introduction :

Tax means a fee charged by a government on a product, income or activity. If tax is levied directly on personal or corporate income, then it is a direct tax. If levied on the price of goods or services, then it is called on indirect tax. GST means Goods and Services Tax includes all indirect taxes in India. The historic GST or goods and services tax has become a reality. The new tax system was launched at a function in Central Hall of Parliament on 1st July, 2017 (Friday midnight). GST, which embodies the principle of “one nation, one tax, one market” is aimed at unifying the country’s dollar 2 trillion economy and 1.3 billion people into a common market. Under GST, goods and services fall under five tax categories: 0 percent, 5 percent, 12 percent, 18 percent and 28 percent. The Lok Sabha has finally passed the Goods and Services Tax Bill and it is expected to have a significant impact on every industry and every consumer.

India Tourism and Hospitality 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. 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 World Travel and Tourism Council (WTTC), travel and tourism generated INR 14.1 trillion(USD208.9 billion) 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 40.3 million 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.

Table No. : 01**States which has implemented GST are :**

S. No.	State	Date
1.	Telangana	April 9, 2017
2.	Bihar	April 24, 2017
3.	Rajasthan	April 26, 2017
4.	Jharkhand	April 27, 2017
5.	Chhattisgarh	April 28, 2017
6.	Uttarakhand	May 2, 2017
7.	Madhya Pradesh	May 3, 2017
8.	Haryana	May 4, 2017
9.	Gujarat	May 9, 2017
10.	Goa	May 9, 2017
11.	Odisha	May11, 2017
12.	Assam	May 11, 2017
13.	Arunachal Pradesh	May 12, 2017
14.	Uttar Pradesh	May 16, 2017
15.	Andhra Pradesh	May 16, 2017
16.	Puducherry	May 17, 2017
17.	Maharashtra	May 22, 2017
18.	Tripura	May 24, 2017
19.	Sikkim	May25, 2017
20.	Mizoram	May 26, 2017
21.	Nagaland	May 27, 2017
22.	Himachal Pradesh	May 27, 2017
23.	Delhi	May 31, 2017
24.	Manipur	June5, 2017
25.	Meghalaya	June 12, 2017
26.	Karnataka	June 16, 2017

States which has implemented GST are :

S. No.	State	Date
27.	Punjab	June 19, 2017
28.	Tamil Nadu	June19, 2017
29.	West Bengal	June 15, 2017
30.	Kerala	June 21, 2017
31.	Jammu and Kashmir	July 5, 2017

Source : An International Journal of Management and Technology, page no. 50

India's travel and tourism sector was also the fastest growing among the G20 countries, growing by 8.5% in 2016. A further 6.7% growth is forecast for 2017. Visitors exports, money they spent by foreign traveler in India, only represents 12% of tourism revenue and in 2016 totaled INR 1.5 trillion (USD 22.8 billion). 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%.

Objectives of the Study :

- 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.

Research Methodology :

The present research paper is a study of "Impact of GST on Travel, Tourism and Hospitality" based on secondary data collected from the published research paper, articles, journals, news papers and websites.

Literature Review :

- Amandeep Kaur (2018), present “**A Research paper on Impact of GST on Indian Economy**”. He studied that it is the biggest ever change in tax structure of India. There is a fall in prices of Auto Commercial Vehicle, Two wheelers, Small cars, essential items, Footwear, Building Materials etc. and education, healthcare are going to be exempted from GST but on the other hand, price of some other goods and services increased after GST like Hotel room rental, Restaurants and fine dining and Branded Apparels.
- Mr. Gajanan Dhannu Rathod, Mr. Rakesh Kumar (2018), studied “**The Negative Impact of GST on Indian Economy**”. They find that Taxation system is very important for the economy they maintain equity in income group. In context of India, second high tax rate in the world and its devastating impact on poor people, Consumption and productions of goods and services are rising and because of multiplicity of taxes in current tax system, organization complexities and conformity cost is also increasing. At present Indian economy requires a major change in the taxation system.
- Renuka R (2018), present a research article on “**Impact of GST on Tourism and Hospitality Sector**” and found that Tourism industry was suffering severely from multiple taxes. Almost all the industry players were eying 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 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 get 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.

Analysis and Interpretation :

The tourism is one of the sectors in the economy that is deliberately over the new regime. Hospitality is one of the most competitive and steadily growing industries in the country. Hospitality and Tourism are also among the highest employment generating sector and among the top ten 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 higher tax generating sectors in the country. One such service which is extensively used is one of the booming sectors of the Indian economy is travel industry. GST on Travel and Tourism industry is Disappointing. The industry believes that the higher tax slabs will impact and higher growth, putting pressure on the bottom line and squeezing the margins of the players.

In India, the travel and tourism industry is one of the major contributors in country's economic growth and is expected to reach Rs. 2796.9 thousand crores by 2022. To reach this amount by 2022 hospitality industry's expectation from the government was more because 28% GST on hotels over Rs.5000 or above is a matter of concern for the industry, it should not be more than 18% to survive in the international market. In Pre GST era, there was a composite levy of both service tax 6%, as well as, Value Added Tax 14.5%, which inflate the bills by 30-35%. It is expected that GST to result in savings of 10-15% on the overall bill.

Table No. : 02

GST on Airfares

Economy class Fare Under Service		Economy class Fare Under GST Regime	
Fare /Charge	Amount	Fare /Charge	Amount
Base Fare	2000	Base Fare	2000
Airline Fuel Charge	700	Airline Fuel Charge	700
Cute Charge	50	Cute Charge	50
Tax and other charge	-	Tax and other charge	-
Passenger service charge	239	Passenger service charge	239
Ser Development fee	150	Ser Development fee	150
Airline Service tax @5.6%	154	Airline Service tax @5%	137.5
Other surcharge	12	Other surcharge	12
Total fare	3305	Total fare	3228.5

Source : www.hellotravel.com

The cost of travel for economy class passengers is likely to be remaining same. Economy class air travel will become cheaper with the tax rate 5% against the existing 6%

under the GST regime. But the travelling business class ticket will become dearer as the tax will go up from 9% to 12%, which will affect the airline industry. Due to competitive scenario, the airlines are not expected to implement the tax burden to passenger as it might affect the airlines occupancy rate.

The positive impact of GST is that 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 tourist in India. In the case of passenger travelling, 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. Under GST, goods and services fall under five tax categories very difficult to understand for the common man. GST positive aspect is one indirect tax for the whole nation, which will make India into a unified common market.

On the other hand the negative impact of GST is that inflation rate has increased from 1.79% to 5.11% during the period July 2017 to January 2018. The negative impact of GST on price levels in India, it has largely affected consumption and demand of poor people in India. India's economic growth was 8.4% in March 2015 which fell to 5.7% in July 2017, bottoming out from the impact of demonetization and GST, The negative impact of GST is evidently visible on the Indian Economy. The proposed GST may lead to increase the price of essential products leading to low consumption. The implementation of GST (July 2017) increased the unemployment rate (3.39 to 6.06%) during period July 2017 to February 2018 in India. It means negative impact of GST in rampant on employment rate.

Pre and Post GST : How the Situation Has Changed

The Travel, Tourism and Hospitality industry, like every other sector in the Indian economy, was liable to pay multiple taxes (VAT, luxury tax and service tax) under the previous VAT regime. A hotel where the room tariff exceeded INR 1000 was liable for service tax at 15 percent. An abatement of 40% was allowed on the tariff value, thus bringing the effective rate of service tax down 9%. The Value Added Tax (ranging between 12% to 14.5%) and luxury tax, would apply on top of this. However, for restaurants, there was 60% abatement which meant that the service tax was charged at an effective rate of 60% on the

bills, apart from VAT. Bills for bundled service like social functions (seminars, marriage etc.), were taxed with an abatement of 30%. The effect of the VAT regime where the end consumer paid a tax on tax, increase the end cost. Hoteliers and hospitality business did not get any input tax credit on the taxes they paid, as central taxes like service tax, could not be set off against state taxes (VAT).

Under the GST Regime :

Under the Goods and Services Tax, the hospitality sector stands to reap the benefits of standardized and uniform tax rates and easy and better utilization of input tax credit. As the final cost to end user decreases, we can expect the industry to attract more overseas tourists than before. This would ideally result in improved revenues for the government and there are many pros to this new tax regime which could help the industry's growth in the long run. For instance, complementary food (like breakfast) was taxed separately under VAT, but now it will be taxed under GST as a bundled service. Let's have a look at the rates for this industry in detail :

Table No. : 03

GST Rates for Hotels based on Room Tariff

Tariff per Night	GST Rate
< INR 1000	No Tax
INR 1000 - 2499.99	12%
INR 2500 – 7499.99	18%
= or > 7500	28%

source : www.google.com

GST will abolish several other taxes, leading to a reduction in procedural steps and more chances to streamline the taxation process.

Conclusion :

GST is a mixed bag of better and easier rules and regulations, and increased cost and compliances. The Hotel and Restaurant Association of India had been lobbying for a GST rate of 5% as it believed that a lower rate will bring in more tourists and allow Indian business

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 USD 280.5 billion by 2026, and the initial hiccups after GST implementation are highly unlikely to impede this growth. However, it remains to be seen whether the cons outweigh the pros for this sector.

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