



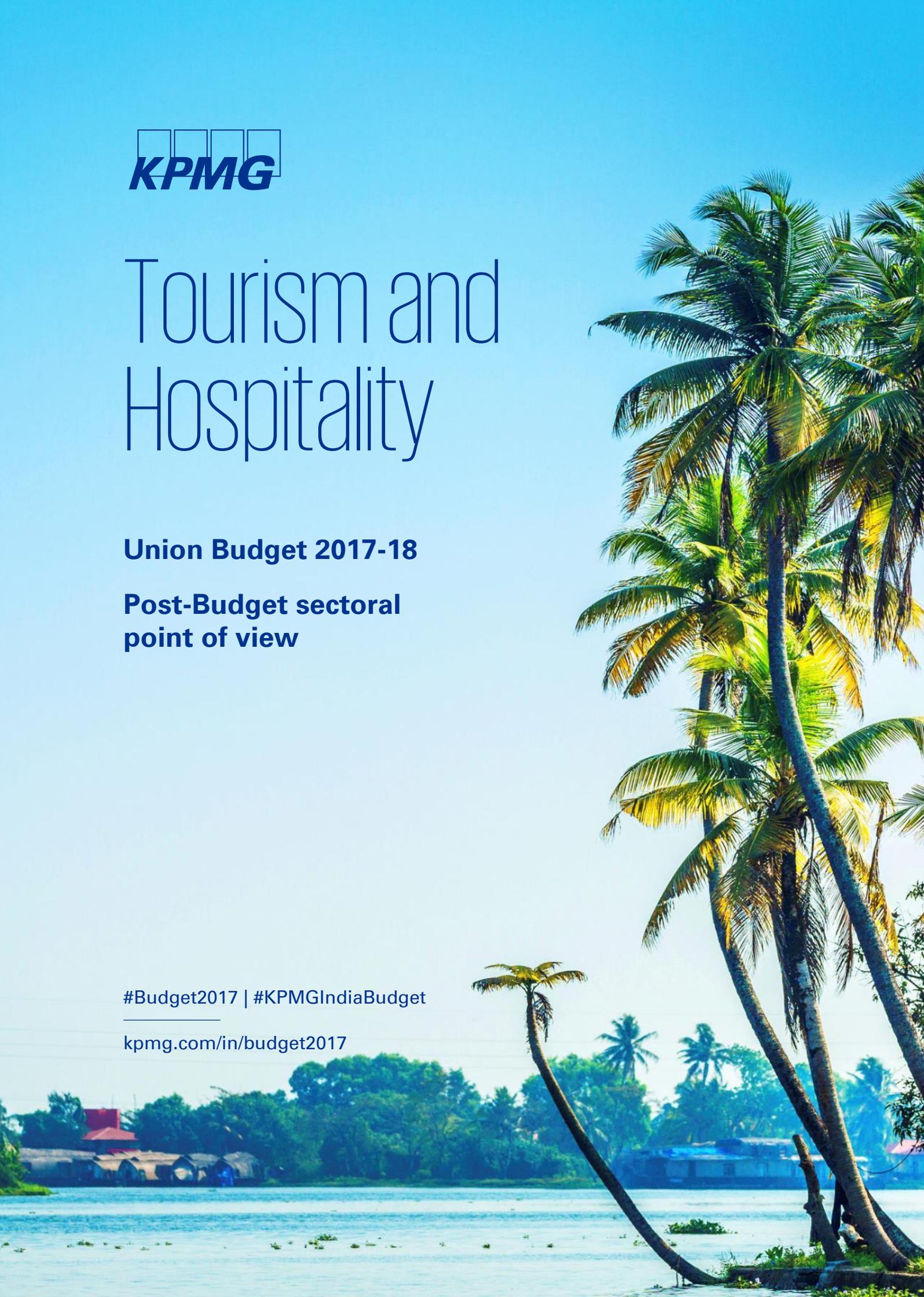
Tourism and Hospitality

Union Budget 2017-18

**Post-Budget sectoral
point of view**

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Setting the context

Where are we

With a consistently growing middle class and increasing disposable income, the tourism and hospitality sector is witnessing a healthy growth. It accounts for 7.5 per cent of the country's GDP, and was valued at approximately INR986.2 thousand crore in 2015. It is expected to grow at 16.1 per cent Compound Annual Growth Rate (CAGR) to reach INR2,796.9 thousand crore in 2022.^{1,2,3} The sector generates a significant amount of direct as well as indirect employment, and is also one of the key foreign exchange earners for the country. In 2015, the travel and tourism segment alone directly supported approximately 23.5 million jobs (5.5 per cent of total employment).⁴ There are several factors that drive the market, including India's attractiveness as a medical tourism destination; steadily growing Meetings, Incentives, Conferences and Exhibitions (MICE) segment; and, an increasing preference among millennials to travel. However, the sector also faces several challenges in terms of high taxation, complex regulatory environment and inadequate tourism infrastructure.

Key issues/challenges

- The indirect tax levied on the tourism and hospitality sector's offerings in India is considerably higher at 18–25 per cent than that levied by some of the major tourist destinations globally, where it is below 10 per cent⁵
- The tourism infrastructure at several major tourist destinations in India is inadequate to support sustainable tourism; the primary areas of concern include poor and unsafe road transportation, insufficient regional air connectivity, unsanitary conditions and safety of travellers
- Although tourist police has been officially deployed by several states, the objective is likely to be achieved once it is strengthened further^{6,7}
- Unregulated tourism activities at several tourist spots, including some heritage sites in the country, are adversely affecting the ecological balance in those places^{8,9}
- Tourism and hospitality is a labour-intensive sector, and the country's complex labour laws at the centre as well as at the state level affect the existing and new businesses trying to enter the Indian market
- The sector has also witnessed a temporary slowdown owing to the government's recent move to demonetise high currency notes of INR500 and INR1,000, which effectively removed 86 per cent of the cash value in the economy¹⁰
- Being a state subject, tourism is challenged by the inconsistencies in regulations imposed on the sector's businesses.

Government's stance

The government is taking several initiatives to encourage domestic as well as international tourism. These include policy/regulatory changes, infrastructural developments and promotional efforts.

1 "Sectoral Report: Tourism and Hospitality", India Brand Equity Foundation, January 2017

2 Currency conversion from USD to INR done at an yearly average conversion rate of USD 1 = INR66.768 for 2015

3 <https://www.irs.gov/individuals/international-taxpayers/yearly-average-currency-exchange-rates>, accessed on 28 January 2017

4 "Travel and Tourism: Economic Impact India 2016", World Travel and Tourism Council, March 2016

5 "Hospitality and tourism industry asks for 6-8 per cent levy under GST", The Economic Times, 18 August 2016

6 "Tourist police force deployed only on paper", The Times of India, 16 January 2014

7 "Created 38 yrs back, Tourist Police yet to make presence felt", Dailyexcelsior, 11 March 2016

8 "Tourism Devastates Turtle Habitat, Morjim Beach, Goa", Conservation India, 2 May 2014

9 <https://driptionsustainabletourism.wordpress.com/2016/12/28/indian-tourism-sector-urgent-need-for-competition-policies-and-regulatory-framework/>, accessed on 29 January 2017

10 "Demonetisation: How badly hit is the unorganised real estate and hospitality sectors", Firstpost, 1 December 2016

- Tourism and hospitality is included as one of the 25 focus sectors under the government's 'Make in India' initiative, which aims to 'transform India into a global design and manufacturing hub'¹¹
- The government has allowed 100 per cent FDI under the automatic route in the tourism and hospitality sector, including tourism construction projects — such as development of hotels, resorts and recreational facilities¹²
- The Ministry of Tourism (MoT) is focussing on driving tourism through branding and promotional campaigns, such as 'Incredible India' and 'Atithi Devo Bhava'
- The government is encouraging local involvement in tourism by promoting homestays; it is also urging the states to make the licensing process easier for homestays, and exempt them from service tax and other levies¹³
- Investment-linked tax deductions are provided for the development of new hotels with star ratings of two and above — allowing 100 per cent deductions towards capital expenditure¹⁴
- Striving to improve the ease of doing business, the MoT has set up a website for online recognition of travel trade service providers¹⁵
- In October 2016, the government set up a task force for adventure tourism to resolve challenges related to the segment's development and promotion in the country¹⁶
- The MoT continues to promote tourism through bilateral/tripartite agreements and Memoranda of Understanding (MoUs) with other countries and international organisations; India currently has 48 such agreements in place¹⁷
- In February 2016, the government launched the 'Swachh Paryatan' mobile application, which allows citizens to lodge complaints about uncleanliness in areas around selected monuments protected by the Archaeological Survey of India (ASI)¹⁸
- Over the past few years, the MoT, in collaboration with state/UT administrations, has been working on getting tourist police deployed at prominent tourist spots in the country
- In 2016, the government announced the National Civil Aviation Policy (NCAP), which aims to improve regional air connectivity, make air travel affordable, simplify the processes and deregulate the industry¹⁹
- The 'Tourist Visa on Arrival (TVOA) scheme' was extended to 161 countries last year — to promote international inbound tourism.²⁰

Expectations

Non-tax

This year's Union Budget is expected to further the government's ongoing efforts towards the promotion of tourism and hospitality in India, and bring in some much anticipated policy changes.

- A thorough and continued effort is required over the next few years to bring significant improvements in the tourism infrastructure across the country; initiatives in this aspect could lead to sustainable tourism at major spots, creation of quality and affordable transportation, and development of niche products, such as adventure and spiritual tourism
- The government can look to incentivise private sector involvement in tourism infrastructure development to accelerate growth²¹; it is also expected to act upon the NCAP announced in 2016, and

11 www.makeinindia.com/about, accessed on 30 January 2017

12 <http://www.makeinindia.com/sector/tourism-and-hospitality>, accessed on 31 January 2017

13 "Easier licences, fewer taxes for homestays", The Telegraph, 1 July 2016

14 <http://www.makeinindia.com/sector/tourism-and-hospitality>, accessed on 31 January 2017

15 "Five significant steps taken by Modi government to promote Tourism & Hospitality sector", The Financial Express, 16 September 2016

16 <http://pib.nic.in/newsite/pmreleases.aspx?mincode=36>, accessed on 29 January 2017

17 <http://tourism.gov.in>, accessed on 29 January 2017

18 <http://pib.nic.in/newsite/pmreleases.aspx?mincode=36>, accessed on 29 January 2017

19 "NATIONAL CIVIL AVIATION POLICY 2016", Ministry of Civil Aviation, June 2016

20 <http://pib.nic.in/newsite/pmreleases.aspx?mincode=36>, accessed on 29 January 2017

21 "Focus on Tourism and Airport infrastructure!", Business Today, 13 January 2017

improve the regional air connectivity by putting to use the underserved airports and developing new ones in tier-II and tier-III cities²²

- While there have been efforts to improve the ease of doing business, there is still a significant scope for betterment in this area; uniformity and consistency in regulatory processes across the states through implementation of initiatives, such as single window clearance, could help achieve that objective
- The safety of foreign as well as domestic travellers is a serious concern that needs to be addressed promptly; the states that have not deployed tourist police need to take this up on priority, and the ones that already have done so need to monitor and improve its effectiveness.

Tax

With the overall tax rate applicable on tourism and hospitality offerings being relatively high in India in comparison with other countries, the sector had expectations of reductions in direct and indirect taxes from the Union Budget for FY18. These include:

- Introduction of a competitive Goods and Services Tax (GST) rate — taking into considering the taxes levied by other tourism-driven countries²³
- Exemptions to tour and travel operators from service tax being levied on foreign exchange earned on inbound tours²⁴
- Eligibility to claim 100 per cent capital expenditure in case of substantial renovation of existing hotel premises not covered as specified business
- Reintroduction of tax incentives for theme park developers
- Provision of administrative relief to the hotels on withholding tax provisions with respect to commission retained by the travel agents directly
- Reduction in the rate of Minimum Alternate Tax (MAT) and permission to carry forward MAT credit for unlimited years.

Key policy proposals

Key announcements²⁵

Non-tax

The Union Budget for FY18 stressed on the importance of the tourism sector as a significant employment generator, and the multiplier effect it produces by generating indirect employment. The announcements and releases made for the tourism and hospitality sector for the upcoming financial year are:

- The budget allocation for the Ministry of Tourism has been raised 15.8 per cent over the previous fiscal to INR1,840.8 crore²⁶
- The government would create five special tourism zones in partnership with the states — anchored on a special purpose vehicle (SPV)
- The second version of the 'Incredible India' campaign is expected to be launched to promote Indian tourism globally
- The Railways would launch dedicated trains for pilgrimage and general tourism

22 "[Focus on Tourism and Airport infrastructure](#)", Business Today, 13 January 2017

23 "[Tour operators seek tax sops in the upcoming Budget](#)", Business Today, 15 January 2017

24 "[Tour operators seek tax sops in the upcoming Budget](#)", Business Today, 15 January 2017

25 "[Budget Speech](#)", Press Information Bureau, 1 February 2017

26 "[Tourism sector gets a Budget allocation of Rs 1,840 cr.](#)", HospitalityBizIndia.com, 1 February 2017

- The Union Budget estimate for the 'Swadesh Darshan' scheme for FY18 is INR960 crore — INR12 crore less than the revised estimate for the previous financial year.

The Budget also proposed changes in the labour laws — stating that the government would undertake legislative reforms to simplify, rationalise and amalgamate the labour laws into four codes to improve the ease of doing business.

Other transportation-related announcements that would indirectly support the tourism and hospitality sector include:

- Cleanliness and passenger safety would be included amongst the major focus areas for the Indian Railways; the government has proposed to introduce the 'Coach Mitra' facility for travellers to lodge all coach-related complaints, and also plans to fit all railway coaches with bio-toilets
- Road connectivity would be enhanced in the upcoming financial year; the government has identified 2,000km of coastal roads to improve connectivity with ports and remote villages
- The development of airports in tier-II cities would be taken up for operation and maintenance through the Public-Private Partnership (PPP) model; this would help enhance regional air connectivity in the country
- As metro rail has emerged as an important mode of urban transportation, the government is likely to announce a new Metro Rail Policy and enact a Metro Rail Act to provide a thrust to metro rail development across the country; this would help significantly improve the quality and safety of local transportation for tourists.

Tax

- The corporate tax levied on Micro, Small and Medium Enterprises (MSMEs) with an annual turnover of less than INR50 crore has been reduced from 30 per cent to 25 per cent
- The government has withdrawn the service charge levied on e-tickets booked through the online platform of the Indian Railway Catering and Tourism Corporation (IRCTC); this would make travelling slightly cheaper through the platform that supports rail, air and bus ticket booking
- MAT/Alternate Minimum Tax (AMT) credit would now be available to be carried forward for 15 years, in comparison to the existing limit of 10 years
- The holding period of immovable property (land, building or both) to qualify as long-term assets has been reduced to 24 months from 36 months.

Impact

- The measures introduced in the FY18 Budget for the tourism and hospitality sector are of an incremental nature; the proposal to develop special tourism zones is similar to the ongoing initiatives around the development of tourism circuits across the country, and the second edition of the 'Incredible India' campaign would also build upon the previous efforts towards the promotion of tourism
- The changes proposed for the development of quality transportation infrastructure are expected to support the country's tourism sector in the long-term
- The labour-intensive sector could also benefit from the proposed reforms to simplify and rationalise the labour laws
- Further, the reduction in tax rate for MSMEs is a welcome move to promote small businesses in the sector
- Going forward, the sector needs more impetus from the government around some key areas of concern, including development of tourism infrastructure, safety of tourists and ease of doing business.

Unfinished agenda

What remains

Non-tax

- The Budget lacked the mention of investments and policies that could target development of sustainable and eco-friendly tourism infrastructure
- Initiatives towards improving the safety of travellers were also not captured
- Further, the government did not introduce any major schemes related to the tourism and hospitality sector.

Tax

- The government would need to introduce tax incentives and rebates for hotels and tour operators, and provide clarity on eligibility to claim deduction of 100 per cent capital expenditure in case of substantial renovation of an existing hotel premise.

What is expected going forward

- The development of infrastructure at major tourist spots in the country, and control on unregulated tourism activities would be desired to enhance their attractiveness and sustainability
- Inconsistencies in laws and regulations due to tourism being a state subject may continue to prevail; therefore, a centre-driven initiative is required to bring states on a common platform to further the government's objective to improve the ease of doing business
- The overall taxation on the tourism and hospitality sector's offerings would need to be reduced to stimulate its growth and make India competitive against other internationally renowned tourism destinations.



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