

**Issues and concerns to be addressed by
Ministry of Finance
For enhancement of the National Tourism Economy**



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**Green Revolution
White Revolution..
IT Revolution..**

now it is time for a

Tourism Revolution

Current Status

- **Employment Created – 50 Million jobs**
 - **GDP Contribution – 6%**
- **Foreign exchange earnings 12 billion USD**

2015 Potential

- **Employment created 75 million**
 - **GDP Contribution 8%**
- **Foreign exchange earnings 25 billion USD**

Ownership of the 2015 potential rests with the Ministry of Finance whose partnership with the Tourism industry is sincerely requested to realize this potential, which is of national importance and contributes significantly to inclusive growth

Role of Ministry of Finance in facilitating Tourism:

The Indian Government's Economic policies and substantial investment in infrastructure have helped to mute its impacts of the global slowdown. Ministry of Finance is a key facilitator in the development of Tourism in India. Over the years the Government of India has provided the requisite impetus and stimulus to the industry, however there is scope of more to be done for the hotel and tourism industry. The Finance Ministers initiatives in Budget 2010-2011 for investment linked deductions for 2 Star hotels and above across India. Tourism is a crucial contributor to jobs and economy and its heartening to see this reflected in the Hon'ble Finance Minister's speech. The FM's Package of Rs 200 crore as a Special Golden Jubilee package for Goa to preserve the natural resources of the State by restoring Goa's beaches. The industry has also welcomed the Government of India's thrust on Infrastructure, Roads & Highways, Railways, Environment and Textiles. These interrelated contributors to the tourism will definitely boost the sector.

The Government's thrust on the Social Sector spendings is another hallmark in this budget. Given the due importance in India, Travel & Tourism could definitely contribute to a large extent in jobs, poverty alleviation, alternate source of livelihoods, development of infrastructure, agriculture, arts and crafts and promote international understanding – basically create inclusive growth.

It is therefore of utmost importance that the Ministry of Finance lends positive support to the sector through its various policies and initiatives for Tourism in India to be a crucial contributor to the Economy of the country.

Macro Issues:

- Include Tourism as a subject in the Concurrent List of the Constitution of India.
- States across India have varying tax structures. The State taxes that impact the travel & tourism sector such as luxury tax, transport tax and ATF must be lowered and made uniform. **The current varying levels be reduced to a 4% uniformly across the country.** Some states charge on the actual rate, and some on rack rates (published rate) of the hotel. Each state has its own criteria. In the bargain, the tourism industry suffers and creates ambiguity in the minds of travelers.
- Income Tax – Sec 80-ID- Considering the tourism potential in India it is suggested to extend benefit to cover hotel projects located in metro cities. The deduction should be **given for 10 years** as the gestation period of new hotels itself is around 4-5 years.
- **Seek a reinstatement of 80 HHD benefits**, which provided a tax relief to hotel & Tourism companies linked to the ratio of export turnover viz gross turnover.
- Income-Tax – Sec 80-IA/IB (Infrastructure Status)- Hotels not granted infrastructure status. Benefit u/s 80 IB was restricted to hotels located in hilly area/rural area, etc and the hotels located in the metro cities were not covered. Further this benefit was not extended beyond 31-3-01. Request to grant infrastructure status to hotels so as to give the benefits as prescribed in section 80IA. This would be in sync with the amendments made previously to include hotel for benefit u/s 10(23G) and Section 72A. Given the acute shortage of quality hotel rooms to keep pace with economic growth, hotel industry **be granted infrastructure status**. Suggested course is to extend benefit to tourism sector is to cover hotel projects located in metro and tourism cities as well.
- Value Added Tax (VAT)/Sales Tax: Apart from the rooms, guests pay significant amount of taxes on Food and Beverages, and Alcoholic products. Again, there is no uniformity in the tax system and variations exist at state levels in matters like VAT, sales tax (in states where VAT is not yet in force) and excise duties.

- **Exemption of Service Tax on Tour Operators is imperative** - Government has announced exemption of service tax on the foreign exchange earning by the exporters(in the form of refund). Similarly, **service tax on the tour operators should also be exempted on their foreign exchange earnings.**
- Lowering of State taxes that impact the travel & tourism sector such as luxury tax. **The current varying levels be reduced to a 4% uniformly across the country.** We also request that all States should **charge luxury tax on the actual rate paid of the room and not the published tariff.**
- GST if implemented in Dual Rates be at the lower of the two accorded rates and **not more than 4%, covers all Interstate taxes on vehicle, road tax, toll tax etc & a 50% discount on the GST for the off season months (i.e. April – September),** avoid double tax and triple tax on tourism and Cenvat credit should be available for Tour Operators and Hotel Industry.
- Grant hotels **industry status** across India (Grant Tourism as Industry status covering Hotels and tourism related services i.e. Tour Operators approved by MOT)
- Give importance to Rural Tourism and its capacity to generate of jobs in Rural areas Rural Tourism will provide more jobs of over 150 days duration as compared to NAREGA and can lend a helping hand to Government for rural projects including health, hygienic and civic/social upliftment. Hotels created/built at Rural Tourism Sites must be given the highest tax relief and subsidy.
- ATF must be put under the **declared goods category** (with uniform tax all states)
- Allow Foreign Direct Investment by Foreign Airlines (and International Hotels /chain)
- **Export industry status to Travel & Tourism (earning foreign Exchange) at par with other deemed exporters as per foreign trade policy.**
- **Depreciation on tourist vehicles should be increased to 40% from 30%** since these vehicles are replaced much before the normal commercial vehicles.

Micro Issues:

- Relief in the areas of service tax, Vat payments must be considered as a support to the industry.
- Restore the “set off” norms under Service Tax as were applicable until March 31, 2008 and thus withdrawal of the new “Set Off” norms introduced in the last Finance Bill.
- High cost of Debt for Hotel development
- No fund raising through ECB/FCCB routes
- Hotels considered as “Real Estate” rather than infrastructure projects.
- Multiple agencies responsible for approval of hotel projects, opaque licensing policy.
- Since a positive image of India needs to be built immediately it is important to incentivise and subsidize PR and market promotion expenditure by the industry.

Quick Wins:

- All Air travel has been brought under Service tax net irrespective of class of travel and destination. However, tax shall be effective from the date to be notified by the control. **Request to revoke this act as this will kill demand.**
- Taxation on every service e.g., toll, State permits is cumbersome and complicated and expensive to collect. **Request for a one time fee to be incorporated while buying tourist vehicles, the fee collected may be distributed to States etc on a decided mode.**
- Service tax applied to Indian Tour Operators and not the offices of foreign operators operating from India
- Levying of service tax has encouraged foreign tour operators to do this and avoid tax & bypass the domestic industry – this be reviewed.
- Tax on money changing/exchange be reviewed

- Grant special incentives for budget hotels across the country to alleviate funding issues
- Give incentives, in the form of tax breaks, to reinvested capital in hotel industry and tour operator on tourist vehicles.
- Extend the **benefits of Sec 80-ID to other parts of India**
- Rationalize and increase transparency for the entire license/approval process, with minimum documentation

Conclusion:

The success of any Tourism depends upon the benefits it gives to the various users. A healthy fiscal & policy support to Tourism, which could be a crucial contributor to GDP of our economy and generate jobs and ensure sustainable livelihoods and alleviate poverty, is the need of the hour. Ministry of Finance is a key facilitator of Tourism and is of paramount importance for implementation and constant improvement in Tourism Policy. There is an urgent need for structured institutional changes from the Ministry of Finance in order for work cohesively together with Tourism and realize the potential of Tourism.

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