

# IMPACT OF GOODS AND SERVICE TAX ON TOURISM INDUSTRY WITH FOCUS ON TOUR OPERATOR AND HOTEL INDUSTRY

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## ABSTRACT

The purpose of the research paper is to ascertain the impact of change in GST rates on tourist prices. In tourism industry the price elasticity of demand is very high and any change in price structure may influence the inbound travel decision. The methodology adopted in this paper is case study method. The actual data were analysed and then masked to hide the identity of firms involved. After developing the case study and data, the actual taxation rates were applied and then compared with pre-GST rates and impact was analysed.

The research has some limitations. The algorithm is limited to small set of data obtained from representative sample of

companies. The paper has ignored the un-organised travel segment, and the travel made by tourist, using his own arrangements.

The paper has huge Managerial Implications as it will help managers of tourism companies to understand the changes in costing of travel product. The changes will also affect the balance sheet of the company, thus, by understanding the costing they can make necessary changes in marketing of travel product.

**Keywords:** GST, Tourism, Tour operators, Hospitality Industry.

**JEL Classification:** B21, E6, H2, H25

## 1. INTRODUCTION

The word tax has been derived from the Latin word 'Taxare', meaning to estimate. In a welfare state tax is a major source of Governments revenue, but taxation as an economic policy should fuel the economic growth and investment environment. The heavy incidence of taxes affects the national saving, which restricts the lending capacity of the banks. Dr. G. Sunitha (2017) found that, there is a problem with indirect taxation system on India. It is a complex and burden element in Indian economy. Taxation has a major impact on business and any increase in taxation has both positive and negative impact. On positive side it increases the revenue of the state and if this increase is used as capital investment, it raises the GDP and pushes up the demand side. On the negative side, the less saving ratio suppresses the investment, Credit supply for working capital and capital investment. In this scenario it is important for any government to introduce the taxation in such a way that, while maximising the tax revenue, it should not adversely affect the business.

Historically, France was the first country to implement GST (Goods and Service Tax) in 1954, followed by many other countries like Australia (2000), New Zealand (1986), Canada (1991), Singapore (1994) and, Malaysia (2015). One of the major industries affected by new tax system in India, is tourism industry. As per World Travel Organization (2019) It is a major contributor to Indian economy, contributing around 9.2% (USD 247.3 Bn) in GDP and 8.1% in total employment.

It is estimated that, during the year 2018 total inbound tourist were 17.43 million, who contributed USD 28.9 billion to the domestic economy.

Anand Nayyar (2018) has observed that, GST is regarded as a comprehensive and one tax system on manufacture, sale, and consumption of goods and services at the national level. On positive side the GST made businesses free of high rates of taxation, multiple taxes, cascading effect of taxation and cess. These were responsible for sluggish growth, increased cost of product, lower export growth, fragmented market, unhealthy competition among states for industrial development, crony capitalism and inflationary trend in economy. Dr. Pawan Kumar Singh (2018) is of the opinion that declining exports and high infrastructure spending necessitated early adaptation of GST in India. The increase in administrative cost to manufacturers, due to multiple indirect taxes hasten the process.

Dr. Chandu Ravi Kumar (2017) found that GST is a transparent tax and it will not have hidden cost to tax payers, thus will help in increase in consumption and ultimately economic growth. Dr. Sutinder singh (2017) has correctly pointed out that, GST will improve the tax to GDP ratio of the country. One of the positive side of introduction of GST is formalisation of Indian Economy as evident in report of CBIC in Goods And Service Tax (GST) Concept & Status (2019).

S. No.	Details	As on 30th June, 2019
1.	No. of transited (migrated) taxpayers	66,25,077
2.	Total No. of new applications received for registration	85,70,881
3.	No. of applications approved	72,58,894
4.	No. of applications rejected	12,60,462
5.	Total No. of taxpayers; new + migrated (1 + 3)	1,38,83,971

**Figure 7: Registration in GST**

Source: CBIC in Goods And Service Tax (GST) Concept & Status

This trend was seen by Dr. P. Govindan (2019) and he found that there is an increasing trend in GSTR 3B returns filed and tax payers registered.

India took first step in this direction when GST was first suggested by the Atal Bihari Vajpayee Government in 2000. The Vijay L. Kelkar Committee formed (2004) to propose the basic Skelton of GST which was announced in the year 2009. The GST was finally made applicable from 01.07.2017 ending a seventeen-year long discussion on this subject. Dr. Banamali Nath (2017) has found that, GST is a comprehensive tax system that will subsume almost all the indirect taxes of states and central governments.



**Figure 1: Stakeholders in Tourism Industry**

Source: Sudipto Mundle, 'Finally a goods and services tax. But what lies ahead?', LiveMint, Published on 16<sup>th</sup> June 2017.

**TOURISM INDUSTRY IN INDIA**

Dr. B.S. Vhankate (2017) has found that, tourism is fastest growing industry contributing to 6.1% in GNP and providing employment to 27 million people. Renuka R (2018) found that, the Indian tourism and hospitality industry sector ranks seventh in the world in terms of its total contribution to the country's GDP. Tourism Industry comprises of various verticals of Service Industry like Tour operators, Transport operators, Hotel Industry, Entertainment Sector, Monument Service providers etc. It supplies goods and services to consumer for consumption as a single product. The various stakeholder industries are as below:



**Figure 2: Stakeholders in Tourism Industry**

Source: Authors' Contribution based on Industry verticals

The sector as whole has direct impact on GDP, employment and foreign exchange earnings. Hilal Ahmed (2014) in his study found that there is direct relation between tourist arrival and employment generation in a country. It indirectly affects various other industries like Construction, Entertainment, Transport etc. Resultantly any impact on this industry has spill over effect on other sectors. India has improved its rank as tourism destination over the years. An historical analysis of India's rank in world tourism shows that, it has gone up from 40 to 26.

This improved flow of inward domestic tourist has earned lot of foreign exchange. Within the span of 10 years from 2001 to 2017, it has increased 10 times and the tourism industry earned the title of one of the biggest foreign exchange earners in India. In this context it is important to study the GST as a factor in Tourism development.

Tourism has both positive and negative impact on Economy. On one side it is a major contributor in foreign exchange earnings, development of rural India, Employment Generation and, growth in per-capita income and on the other side it contributes heavily in environment degradation. The share of employment in tourism sector grew substantially during the period 2013-14 to 2018-19 and in 2028-19 it was 8.1% of total employment in India (Council, 2019) .

Similarly, its impact on the foreign exchange earnings is very positive and as per World Travel and Tourism Council Report, it rose from less than 5000 million in 1997 to approximately 30000 million in 2018.

On the negative side, the excess flow of tourist in India has affected and brought Undesirable social and cultural changes. Mass tourism led to change in unique social and cultural identity of the society. A good example in India is Goa, which was a small hamlet of fisherman till 1960. After that due to mass tourism of hippies, its social culture changed and use of drug, prostitution increased manifold. This has resulted in Conflict among tourist and local community. Many times, it has been observed that increased tourism led to conflict with social community. Sometimes it led to crime against women in India. This conflict led to decrease in help towards tourism industry. Due to lesser participation of local in tourism related activities, the local community feels alienated and does not support the activity. It happens when most of the benefits are reaped by multinational companies or large corporations. One more impact was seen as environment and ecological damage. The tourism industry consumes local resources and adversely impact the local environment and ecology. This degradation affects the life of locals and many times force them to change their way of living.

The stated objective of GST was to have a tax neutral rate i.e. the tax impact on pre and post GST era remains same. However, the overall impact on tourism industry was increase in taxation. Higher tax rates have two sides on economy on positive side it enables the government to priorities the spending with higher volume, which in turn increases the job and creates higher demand and consequently increased economic activities. It also sucks out the excess liquidity from the market and reduces the budget deficit which curtails the inflation. On negative side higher taxes take out the surplus money from the public, which in turn impacts spending and supresses the demand. Due to the shrinkage of savings the lending capacity of banks goes down and industrial growth hampers and consequently GDP shrinks.

In India, domestic travel industry and especially the luxury travels were riding on nature of Indian economy, which was marked by the rampant tax evasion, parallel and hidden economy. This was generating parallel black money, which was spend on luxury consumption and travel. With the introduction of GST this vast parallel economy was wiped out and net impact on economy was felt as higher taxes. In order to give perspective to increased taxation on tourism Industry, it is imperative to draw a parallel between pre and post GST taxation in India.

The domestic Travel is mostly dominated by leisure and religious tourism, which is very sensitive to price. In pre-GST era the tour operators were charged Service Tax @15% on gross revenue. On this income an abatement of 40% was allowed. Thus, tax was charged on abated value of 60% of income, which was effectively 9% of gross revenue. With effect from 22.01.2017, CENVAT Credit was allowed on all services procured to support services of Tour Operator. Thus, the effective burden on tour operators was very minimal. Similarly, on Air travel Agent Services, the agent was to pay Service tax @15% on commission received from Airlines and Service charges collected from the customers. There was another option before the Air travel agent to pay an alternate tax @ 0.7% of basic fare in the case of domestic bookings and @ 1.4% of basic fare in the case of international bookings in place of paying 15% service tax on commission and service charges.

## 2. REVIEW OF LITERATURE

India has a rapidly growing Tourism industry both in terms of volume and foreign exchange earnings. The net export in tourism industry is as high as 80%, which shows the importance of this industry in Indian economy.

At the initial phase of discussion, GST was seen as saviour to a crumbling economy. **Poddar & Ahmad, (2009)** found that the introduction of GST will provide simpler and transparent tax system and this will increase in output and productivity of economy in India. However, he was of the opinion that, the benefits of GST are critically dependent on rational design of GST. He added that "Indeed, it has the potential to be the single most important initiative in the fiscal history of India. It can pave the way for modernization of tax administration - make it simpler and more transparent - and significant enhancement in voluntary compliance." Similar views were echoed by R. Vasanthagopal (2011) in his study concluded that "the switchover to a 'flawless' GST would be a big leap in the indirect taxation system and also give a new impetus to India's economic change". Similarly, Nishitha Gupta (2014), in her

study concluded that "It is considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country". Poonam (2017) in her study stated that "The new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country. GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax. A single rate would help to maintain simplicity and transparency by treating all goods and services as equal without giving special treatment to some 'special' goods and/or services."

As the reality of GST implementation came nearer, the initial euphoria subsided and a cautious approach came. Dani (2016) termed the proposed GST regime as a half-hearted attempt to rationalize indirect tax structure. He cautioned the Government of India they must study the GST regime set up by various countries and also their fallouts before implementing GST. He was of the opinion that there is a need to insulate the vast poor population of India, against the inflation pressure. There is no doubt, GST will simplify its existing indirect tax system and will have to help to remove inefficiencies created by the existing current heterogeneous tax 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.

During this period the researchers started looking at its impact on Indian Economy. Shilpa Rani (2017) observed that "GST will provide relief to producers and consumers by providing wide and comprehensive coverage of tax credit set-off. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States." Some researcher like Kaur (2016) warned that due to GST prices of some of the commodity will fall, while prices of some other commodity will rise. Thus, they raise the issue of price rise, inflation and reduction in financial resources of the States.

After introduction of GST in July, 2017, many researchers started analysing its impact on various verticals of tourism industry. Diksha Panwar (2019) found that "A subsuming single tax slab will create a standardized price and will benefit consumers directly by providing law and easy to read bill whenever they dine out. Reduction in tax will increase consumption which will create more employment opportunities boosting the make in India initiative." They also brought forth the point that medium scale restaurants will be charged into the tax slab of 28%, which is too high and tax bracket for budget and luxury hotels is simply too wide. However due to availability of ITC the working capital requirement will be optimised and customers need not settle for inferior quality of food and services. Shana and Rohit Bhat (n.d.) looked in to hotel industry and concluded that the customers have an opposed mindset towards the GST rates in various hotels. It is also shown that the lower income people are facing financial burden in paying higher GST in very localised hotels. S. Gupta & Swami (2017), has found that "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." K S, Vinaya Kumara, T A

Bino (2017), found that GST it is a mixed bag of better and easier rules and regulations and increased costs and compliances for tourism sector.

## 2.6 RESEARCH GAP

The various studies discussed above were trying to study role of tourism in economic development, employment generation, scope of growth, poverty alleviation etc. Tourism industry is not a monolithic industry but it comprised of various independent industries coming together to create a monolithic tourism product and consequently each vertical has impact on other vertical. Thus, the effect can be studied keeping in view all the verticals. This study tries to study Tour operators with Hotel and Restaurant services and impact on final travel product.

The second important gap found in the literature review is analysing the challenges faced by the tourism industry. The impact can be sub divided into various segments like Impact on Tour Operators, Impact on Costing of tourism product, Impact on Hotels and Restaurants, Positive Impact of GST on Tourism industry, Negative Impact of GST on Tourism industry. The goal of this literature review is to analyse above challenges faced by the tourism sector after nearly three years of implementation.

## 3. OBJECTIVE AND HYPOTHESIS OF THE STUDY

The Indian Tourism industry showed a very resilient growth in the past. Up to 2014 the average growth rate of inbound tourist was hovering around 14%. After the world recession in economy, it went down and stabilises near 5-6% till 2018, However, there was a continuous increase in foreign exchange earnings during this period. In the case of Domestic travel, it showed some erratic pattern and effect of demonetisation and GST can be seen clearly in graph below

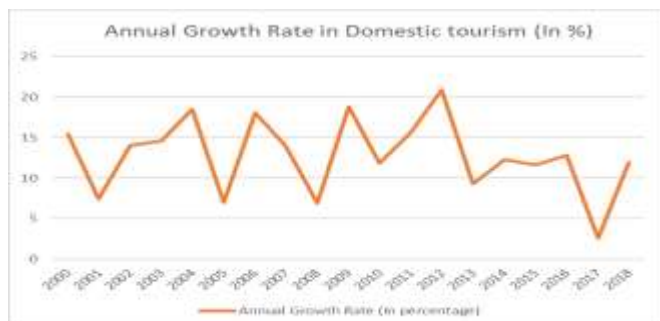
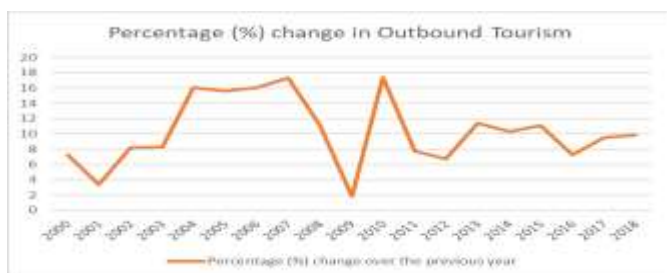


Figure 3: Annual growth rate in domestic tourism

Source: India Tourism Statistics at a Glance 2019 (2019)

In outbound front also the effect of demonetisation can be seen. During the year 2013, 2014 and 2015 the Outbound travel was growing at healthy rate of approx. 11%, then it suddenly fell to 7.3 percentage and stabilised at nearly 9.5%. It is marked here that 2009 is the time of global recession.



## Figure 4: Percentage change in outbound tourism

Source: India Tourism Statistics at a Glance 2019 (2019)

The taxation in tourism industry is very sensitive in nature and given its importance in poverty alleviation and job creation, any upward taxation may affect this section and can wipe out the efforts taken to lift them from poverty. It is in this context; the study is undertaken with the objectives given below.

### OBJECTIVES OF THE STUDY:

- To have a brief understanding of concepts of GST both in historical as well as current context.
- To identify the challenges faced by travel industry after the implementation of GST.
- To study the impact of one travel vertical of industry on another.

### HYPOTHESIS

**H0:** The introduction of GST has not impacted Tourism industry and it has no effect on price sensitivity of tourism demand

**H1:** There is a significant impact on tourism industry due to increase in tax rate and complexity of procedure.

### 4 DATA AND RESEARCH METHODOLOGY:

The research study is descriptive in nature and used the exploratory techniques. For the primary data case study method has been adopted and data has been sourced directly from the company engaged in travel business. The Secondary data source includes various research journals, Act and Rules, Government of India publications and international data such as World Travel and Tourism Council Report.

### 4. IMPACT ANALYSIS

**Impact on Tour Operators:** By definition tour operator is any person engaged in business of planning, scheduling, organising or arranging tours by any mode of transport & includes any person engaged in business of operating tours in a tourist vehicle/contract carriage covered by a permit. Thus, Tour operator is a legal entity, engaged in the business of buying individual travel component of tourism industry and supplying them to the ultimate consumer as one homogeneous package. Thus, tour operator is a manufacturer of whole tourism package or experience and sells either directly or indirectly to the ultimate consumer. There are five different types of tour operators. They can work in single field or multiple fields.

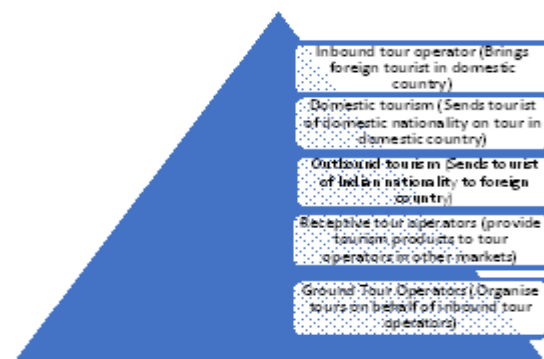


Figure 5: Types of Tour Operator

Source: Authors' Contribution



As an example, relationship between tour operator and hotel industry was taken. In Tour operator Service, the bookings of the hotel are done in three ways:

01. Directly by the customer.
02. By the domestic tour operator and sold to customer.
03. By the overseas tour operator and sold to customer.

In GST era, the tour operators are falling under HSN heading 998555 and liable to pay 5% Service tax on services of tour operator without the benefit of Input Tax Credit (ITC), which is uniform for package tours, hotel accommodation etc. The condition is laid down in Notification No. 11/2017-Central Tax (Rate) New Delhi, the 28th June, 2017.

The GST has both positive and negative impact on tour operators:

**Positive impacts:** The first positive impact is uniformity and fixed tax rates. The multiple tax rates and different local taxes has been replaced by one single tax rate of 18%. This may help in attracting the tourist and reduced compliance at tour operator end.

**Negative impacts:** The GST has negative impact also on tourism sector. The major impact is on multiplicity of Registrations. The biggest problem facing the tour operators is that, now they have to get registered in all states and UTs from where they provide services. Service providers will be able to register for multiple business verticals, which will need to be

reviewed on a case-by-case basis. Secondly, the Compliance Burden has increased and it became a nightmare for compliance, each invoice/receipt for ITC and Services provided must be uploaded into the system. Credit matching under GST is extremely difficult to implement and lot of paper works needs to be completed for it. The number and frequency of returns filed has increase. All this has resulted in cost to company. Dr. Rajeev (2018) has found that, MICE industry will be terribly hit because convention and conferences facilities are only available in 5-star hotels. These 5-star hotels charge room rates of Rs. 5000 or above on which GST is 28% instead of 18%.

**Impact on Costing of Tourism Product:** In order to elaborate the costing and tax impact a detail study was conducted and a sample costing was done taking the example of a Delhi based Hotel having tariff rate of ₹5000/- per day and beak fast is separate of tariff ₹800/-. The taxes are extra in all the cases. The detail costing is as below:

The first case is Hotel room and breakfast booked by Tour Operator for Customer in pre-GST tax period. In this case Tour operator is not availing benefit of CENVAT. Tariff rate of ₹5,000/- per day and one breakfast in hotel restaurant costing ₹800/-. The pre-GST rates have been calculated taking in to account Notification No. 4/2017-Service Tax, Dated 12th January, 2017 (With effect from 22.01.2017).

**Table 1: Bill issued by Hotel to Tour operator**

Sr. No.	Taxable Amount	Type of Tax	Rate	Amount of Tax	Cost to consumer
	<b>Taxes on Room Rent</b>				
1.	Basic Cost = 5000/-				5000
2.	5000	Luxury Tax	15%	750	750
	<b>Total Cost</b>				<b>5750</b>
3.	5750	Service Tax	14%	805	805
	5750	Swachh Bharat	.5%	28.75	28.75
	5750	Krishi Kalyan Cess	.5%	28.75	28.75
				<b>Total</b>	<b>6613</b>
	<b>Taxes on restaurant</b>				
4.	Basic cost = 800				800
5.	800	VAT	14.5%	116	116
6.	816	Service Tax	14%	114	114
	816	Swachh Bharat	.5%	4	4
	816	Krishi Kalyan Cess	.5%	4	4
				<b>Total</b>	<b>1038</b>
	<b>TOTAL</b>				<b>7651</b>

Source: Compiled by Authors

**Table 2: Bill issued by Tour operator to Customer**

S. No	Head	Amount	CENVAT Available	Net Cost
1.	Cost to Tour operator	7651	0	7651
2.	Profit 10% of 7651			765
	<b>Total Cost to tour operator</b>			8416
3.	Service Tax 14% on (10% of 8416=842)		0	117 (Paid in Cash)
	842 Swachh Bharat .5%			4.20
	842 Krishi Kalyan Cess .5%			4.20
	<b>Total Cost to Consumer</b>			<b>8542</b>

Source: Compiled by Authors

If the Tour operator is availing the benefit of CENVAT the pre-GST period taxation is as below.

**Table 3: Bill issued by Hotel to Tour operator**

Sr. No.	Taxable Amount	Type of Tax	Rate	Amount of Tax	Cost to consumer
<b>Taxes on Room Rent</b>					
1.	Basic Cost = 5000/-				5000
2.	5000	Luxury Tax	15%	750	750
<b>Total Cost</b>					<b>5750</b>
3.	5750	Service Tax	14%	805	805
	5750	Swachh Bharat	.5%	28.75	28.75
	5750	Krishi Kalyan Cess	.5%	28.75	28.75
				<b>Total</b>	<b>6613</b>
<b>Taxes on restaurant</b>					
4.	Basic cost = 800				800
5.	800	VAT	14.5%	116	116
6.	816	Service Tax	14%	114	114
	816	Swachh Bharat	.5%	4	4
	816	Krishi Kalyan Cess	.5%	4	4
				<b>Total</b>	<b>1038</b>
<b>TOTAL</b>					<b>7651</b>

Source: Compiled by Authors

**Table 4: Bill issued by Tour operator to Customer**

S. No	Head	Amount	CENVAT Available	Net Cost
1.	Cost to Tour operator	7651	985	6666 (5000+750+800+116)
2.	Profit 10% of 6666			667
<b>Total Cost to tour operator</b>				<b>7333</b>
3.	Service Tax 14% on 7333 = 1027		-911 (Setoff from CENVAT)	116(Paid in Cash)
	7333 Swachh Bharat .5%		-37	0
	7333 Krishi Kalyan Cess .5%		-37	0
<b>Total Cost to Consumer</b>				<b>7449</b>

Source: Compiled by Authors

Thus, the tour operator was able to supply the room and breakfast service at the rate of ₹7449/- by availing the benefit of CENVAT. The non-availment of CENVAT was a costly affair as it was costing to customer ₹8542/-. For the same amount, the taxation in GST period will be as below for hotel room and breakfast booked by Tour Operator for Customer

**Table 4: Bill issued by the Hotel.**

Sr. No.	Taxable Amount	Type of Tax	Rate	Amount of Tax	Cost to consumer
<b>Taxes on Room Rent and Restaurant</b>					
1.	Room Rent Basic Cost = 5000/-				5000
2.	5000	GST	12%	600	600
3.	Restaurant Basic cost = 800				800
4.	800	GST	18%	144	144
<b>TOTAL</b>					<b>6544</b>

Source: Compiled by Authors

**Table 5: Cost to Customer**

S. No	Head	Amount	ITC Available	Net Cost
1.	Cost to Tour operator	6544	0 (ITC available if Tour Operator is registered in same state, which is not possible)	6544
2.	Profit 10% of 6544			655
3.	GST 18% on 7199 = 1296		-0 (Setoff from ITC)	1296 (Paid in Cash)
<b>Total Cost to Consumer</b>				<b>8495</b>

Source: Compiled by Authors

The calculation sheet for overseas tour operator is as below for Hotel room and breakfast booked by Overseas Tour Operator for Customer

**Table 6: Bill issued by Overseas Tour operator to Customer**

S. No	Head	Amount	ITC Available	Net Cost
1.	Cost to Tour operator	6544	372 (IGST is available)	6544
2.	Profit 10% of 6544			655
3.	GST 18% on 7199 = 1296		-372 (Setoff from ITC)	924 (Paid in Cash)
<b>Total Cost to Consumer</b>				<b>8123</b>

Source: Compiled by Authors

**Table 7: The final chart for Cost to Customer is as under:**

S. No.	Condition	Booked Directly by Customer		Booked by domestic tour operator		Booked by overseas tour operator
		Pre-GST	GST	Pre-GST	GST	
1.	CENVAT Credit not available	7651	6544	8542	8495	
2.	CENVAT Credit available			7449		8123

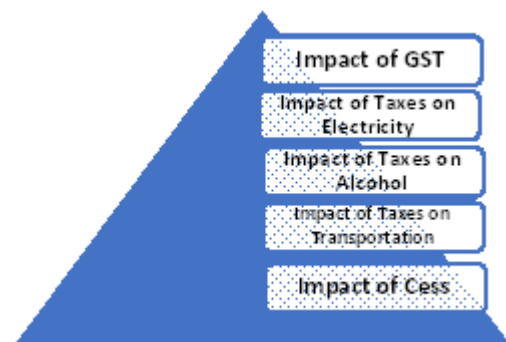
Source: Compiled by Authors

From the above, it appears that, the customer is getting cheapest price at ₹6544/- in GST regime if he books the hotel directly. The second-best option is to get the booking done by overseas tour operator, then he will get the price of ₹8123/-. In this case domestic tour operators are at disadvantage and it is affecting their business very badly.

**Impact Analysis on Hotels and Restaurants:**

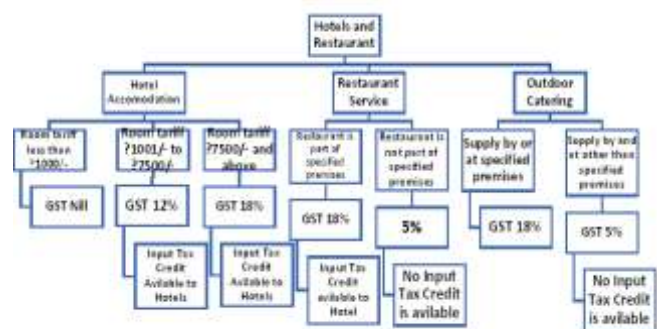
The second important vertical is Hotel and Restaurant services. The word “Hotel” owns its genesis to the French word “hôtel”, which refers to a French version of the townhouse. Directorate of Economics and statistics defines it as “A hotel provides temporary lodging, accommodation with or without arrangements for meals, other prepared food and refreshments. Such accommodation may be provided in furnished or in unfurnished rooms. Hotels may also provide room service, lounge facilities, conference room, entertainment and other facilities.” In this paper this definition is relied upon. The development of hotel industry is an indicator of economic and tourism development of that area. As a part of tourism industry, it is a major employment generator and foreign exchange earner. The Hotel Industry in India had a turnover of US \$136.2 billion at the end of 2016. Abhishek Mehrotra (2020) quoted the Food Service Report (2013) of National Restaurant Association of India, in which it was estimated that the Food Service Industry will grow by 11% to Rs. 408040 crores by the year end 2018. The major drivers of this growth are rapidly increasing disposable income of Indian Middle Class coupled with rapid Urbanization, Western Lifestyle and Employee Generation.

In pre-GST era the hotel Industry had to pay various type of taxes VAT, Luxury Tax and Entertainment Tax, Excise Duty on liquor to the State Government and Service Tax and Customs duty to the Central Government. After the introduction of GST, the hotel industry is affected by following taxes:



**Figure 6: Impact of Taxation on Hotel Industry**  
Source: Authors’ Contribution

With the advent of GST and merger of various taxes in to it. GST on hotels depends up on Tariff rate of hotel room on per day basis. The most important aspect of availment of Input Tax credit is that recipient of hotel service should be situated in same state. As per Notification No. 20/2019-Central Tax (Rate) dated 30th September, 2019 (with effect from 01.10.2019), the present tax structure is as follows:



**Figure 7: Impact of Taxation on Hotel & Restaurant Industry**  
Source: Authors’ Contribution

The impact of GST on hotel and restaurant industry can be seen as below:

**Positive and negative impacts:** The GST has affected Hotel and Restaurant industry in both positive and negative way. From the revenue perspective, it has resulted in increased

Revenue for State Government. For the Hotels & Restaurant the State government were levying local Luxury Tax on hotel stay and VAT on food supplied, whereas the major tax revenue went to Central government in the form of Service Tax. With the GST the place of supply is shifted to the place where immovable property is situated. This is benefiting the states. Similarly, the states with higher outbound travel will get more tax. Secondly there is tax saving in Food and Beverage operations. The pre-GST tax rates on this sector were 30-35%, which came down to 18% in GST. This will immensely benefit the Companies specializing in food and beverages operations.

On negative side no ITC is available on Work Contract Services. The hotel and Restaurant sector invests a significant amount of money in new development and renovations. Money paid as taxes on works contract services provided for the building of an immovable property is not available as ITC, if the services are not used for works contract services. This has a harmful cascade effect.

**IMPACT ON COSTING:**

**Table 8: The impact of GST on hotel and restaurant industry**

S. No.	Conditions	Hotel Industry	Restaurant Industry
1.	Pre GST	6613	1038
2.	GST	5600	944

Source: Compiled by Authors

Thus, the incidence of tax has reduced on the hotel and restaurant industry.

The above discussion leads to the conclusion that introduction of GST has both positive and negative impact on this sector. Some of the changes has benefited the state but adversely affected few verticals of travel industry. As discussed above the domestic tour operators have been severely affected by GST. This has led to mass closure of this vertical and job loss to many.

**5. Result and Discussion**

**Positive Impact of GST on Tourism Industry**

**a. Benefit to Restaurants:** On positive side it has been noticed that, the small restaurant, eateries and food industry has benefited from the reduction in tax rate and overall food bill as it has gone down. Further, the extension of ITC to restaurant services is a good step and it has reduced the cost to customer. But at the same time high end AC restaurant has got high GST rates.

**b. Abolition of multiple Tax:** Again, the industry as a whole has benefited from the abolition of multiple taxes and cascading effect of taxes. It has resulted in simplified tax structure. This has also reduced the ambiguity in imposition of tax.

**NEGATIVE IMPACT OF GST ON TOURISM INDUSTRY**

On negative side, there are many areas, which needs to be addressed.

**a. Issue of place of supply:** In GST place of supply has been defined as place where the immovable property is situated. This has increased the revenue of state of all those states where hotel, sightseeing’s, monuments etc are situated, but at the same time tour operators cannot take ITC as he cannot register

in each state. Similarly, in case of outbound travel, the states having maximum sea, airports etc. has benefited.

**b. Issue of Registration:** GST has raised the issue of multiple registration. The different verticals of the industry need to take registration in multiple states and maintain records for that state.

**c. Problems in IT infrastructure:** The GST is based on IT infrastructure. Thus, each record, returns, invoices, E-way bill needs to be generated on GSTN, which is a cumbersome process to do. Apart from this it is so complex that a normal businessman either has to employ a trained staff or take the services of consultants and CA. Thus, cost of compliance is very high.

**d. Loss of business due to high GST rate:** Due to high GST rates the foreign tourist is going to other south-eastern countries and avoiding India altogether. This has resulted in loss in foreign exchange earnings and job opportunity. This can be seen in the chart that from 2015-2018 there is near stagnation in tourist arrival percentage. Again, the share of India’s tourism receipt in this region dropped from 7% to 6.6% in 2017 to 2018 period (**Council, 2019**).

**6. CONCLUSION**

**Research Outcomes:** Tourism has emerged as key enabler in the socio-economic growth of country. This growing industry needs a lot of support from the society and government. Being the largest employer of the country, its reach is enormous and it has effect on each social strata of the society. The intermingling of different cultures, creates an opportunity for export sector, which can be harnessed.

The GST regime in its present form is far from satisfaction level. It has affected the Job and Economy. It has not achieved its stated goal of “One nation One tax One market”. The failure of GSTIN has encouraged the tax evasion and harassment of honest tax payers. However, the Government of India is trying hard to remove the difficulty faced by tax payers and it is just a matter of time when these problems will be removed.

In order to give a boost to tourism industry which is already under pressure due to demonetisation, liquor ban on highways and depressed economic condition world over etc., it will be good to bring liquor under GST as this industry consumes a good quantity of it without any ITC availment. This will give seamless ITC flow to upper horizontal of the industry.

The incidence of tax on tourism industry is too high. It will be great help to industry, if in the case of inbound tourism, different verticals are treated as engaged in export of services. This will help in reducing the cost of tourism and make Indian tourism sector competitive and sought-after destination. There is a immediate need to address the issue of place of Service and recognising foreign exchange earnings as export or deemed export earnings. Inbound tourism should be treated as zero rated supply of service in parallel to other export of service. The ITC Credit should be extended to all the related service and accumulated ITC should be refunded. In GST there should be a provision of refund of taxes on goods purchased by tourist at airport.

**6.1 Implications of Research on Industry, Academia and Policy Making**

The paper has huge Managerial Implications as it will help managers of tourism companies to understand the changes in



costing of travel product. The changes will also affect the balance sheet of the company, thus, by understanding the costing they can make necessary changes in marketing of travel product.

One important suggestion is that, the GST Act needs a radical new thinking, rather than imposing a tax structure, which is nothing but clubbing of Central Excise and Service Tax Acts together. The tourism industry should be treated as one single unit and then tax structure should be framed in such a way that it encourages inbound tourism and foreign exchange inflow.

## 6.2 FUTURE SCOPE OF RESEARCH:

The impact of GST can be studied on various other verticals of tourism industry and further study can be conducted on procedural impact on various verticals.

## LIMITATION OF STUDY

The research has some limitations. The algorithm is limited to small set of data obtained from representative sample of companies. The paper has ignored the un-organised travel segment, and the travel made by tourist, using his own arrangements.

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