

Ups & downs of Hospitality Sector - 365 days Focus

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Hospitality and tourism represent third-largest export avenue in terms of global earnings after fuel and chemicals in the world. Hospitality industry is a major employment generating sector and a significant source of foreign exchange in India, it is responsible for one out of 11 jobs and 10% of the world's economic output. Apart from providing employment, it also generates income and foreign exchange for the country. The growth of the hotel industry in any place is an index of the economic development of that region, especially the industrial development and development in terms of tourist activity.

There were multiple taxes charged on hospitality sector by the Central as well as State Governments and after implementation of Goods and Service Tax a significant edge was given to the economy, by reducing costs for customers, integrating taxes, and reducing business transaction costs.

GST council headed by Finance Minister Nirmala Sitharaman, decided on 20th September 2019 to tax hotels on rates varying from 18 to zero per cent, depending on their tariffs. With this, the hotel industry has been removed from the 28 per cent tax slab, the highest under the GST regime. The tax cuts were made with the intention to serve the interests of ultimate consumers with lower bills in the hospitality industry.

After observing various factors of economic slowdown Government came forward with some perks for several sectors as well as hospitality sector to give a boost to the crawling economy which is at the six-year low of 5% and un-employment rate which is highest in last 4 decades.

To boost job-creating hospitality industry and tourism, in the 37th GST Council Meeting, Finance Minister announced new GST rates on several services offered under Hospitality, thus hotel services are now under just three brackets.

A comparative analysis of the tax rates:

S.No.	Transaction Value per Unit (Rs) per day	GST rate till 30.09.2019	Proposed GST rates w.e.f. 01.10.2019
1.	Rs. 1000 and less	Nil	Nil
2.	Rs. 1,001-2,500	12%	12%
3.	Rs. 2,500-7,500	18%	12%
4.	Rs 7,500 and more	28%	18%

Benefits of lower tax rate in hospitality sector has resulted in a benefit to the end consumer. These rate cuts under GST will have a positive impact on the pocket of the mango man. Now, staying in premium and mid-level segment hotels is comparatively cheaper. However, what needs to be noted was that no relief was been passed on in the lower tax strata of society. In case of room tariff are bound till INR 2500 per day then no rationalization is being undertaken and levy of tax remains the same. Government should have given a small benefit to travelers booking room in the category of hotel tariffs from INR 1,001-2,500, whereby taxes could have been reduced to 5% only. We still hope government will focus this segment in future meetings, especially with the damage that tourism sector has seen due to pandemic coronavirus.

Soft drinks, Energy drinks, and other caffeinated drinks are costlier with the GST Council's move to increase the rate on these drinks to 28 per cent from the current 18 per cent tax slab. In addition, a cess of 12 per cent shall also be charged taking the effective tax rate to 40 per cent. The caffeinated energy drinks market in-country is currently estimated at over INR 1,000crore. As per Industry sources majority of the products are

already priced in the premium price range of INR 95-100 and the tax hike will push the prices further. This move has increased the tax incidence on energy drinks and hotel have seen lower returns in restaurants as compared to previous tax periods, as they are unable to take tax credit of such soft drinks, energy drinks, and like other caffeinated drinks.

Indian government has ordered a 100% lockdown of Indian states like many other economies of the world for 3 weeks, forcing the industry to practically shut shop and get boiled in the high running cost. States like Delhi has already issued an advisory to not to lay off permanent, temporary contractual and outsourced employees forcing the industry to bleed further. Rajasthan state government has given a small relief and agreed to pay a reimbursement of State Tax due and deposited by hotels operating in the state of Rajasthan from April 01, 2020 for 3 months. With this background, it is expected that for the next 3 months hospitality sector would be in soup especially the luxury segment and the business segment may pick up once the health concerns are well under control. Once the government is free from the control of Covid-19 then it will re-focus on the economy, jobs, wealth, fiscal deficit etc. and a lot will be expected from the hospitality sector.