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Research Article

Impact of the GST on the Development of Hospitality and Tourism Sector in India

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ABSTRACT

Tourism is one of the prime activities which play a vital role not only in the generation of employment and income but also in holding firm socio-political relationship with the other countries. India is one of the most fascinating destinations to the world tourists as it is known for its diversity in culture, languages, rituals, traditions, ethnicity with rich civilization. The tourism sector in India is one of the rapidly growing sectors. It contributed 9.2 percent of GDP in 2018 and is expected to contribute 9.9 percent of GDP by 2028. Goods and Service Tax (GST) is said to be a non-discriminatory tax, which affects various layers of the economy. The recent rate cuts announced by the GST council are expected to yield good results in the promotion of hospitality and tourism business in India. Generally, rationalization of GST rates is a positive step taken by the policymakers and it augments this sector to a great extent. It is expected that the rate cuts will give a boost to the tourism which in turn brings a good number of job opportunities in the sector. At this juncture, an earnest attempt has been made to analyze the post-effect on the hospitality and tourism sector after the implementation of GST and the consequent amendments therein.

Keywords: GST, Taxation, Economy, Hospitality and Tourism Sector, Impacts

Introduction

The tourism sector is one of the rapidly growing sectors in Indian Economy. It is predicted that the contribution of the sector increases from US\$136.2 billion in 2016 to US\$ 275.2 billion by 2025. There were many fears about the impact of GST on the performance of Hospitality and Tourism industry and still they are prevailed in some forms. The unfurl GST in

India on 2nd July 2017 is expected bring many changes to address the problems existed in the previous tax regime. The expectations were include reduction of business transaction costs, reduction of cost of customers, balancing taxes, etc. As per the report of World Travel and Tourism Council (WTTC), India ranks 7th position in world in terms of its contribution to GDP. In terms of creating employment opportunities,

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travel, and tourism sector 40.3 million jobs which equal 9.3 percent of the total employment opportunities generated in the country. Further, this report expected to increase employment opportunities up to 46.42 million by 2026. These figures hold a great significant of both economic and social benefits for Indian economy. It acts a powerful player in order to create new employment opportunities, attracts new investments, and earn foreign exchange currency in huge. The hospitably sector as a main ingredient of tourism sector plays a vital role to pave the new roads for the development of economy.

The hospitality and tourism industry, like every other sector of the economy, had to pay multiple taxes like VAT, luxury tax and service tax, etc. before they kicked started GST. A hotel where the room tariff was greater than Rs. 1000 was subjected to pay 15 percent of service tax. However, the VAT ranging from 12 percent to 14.5 percent and luxury tax was in addition to the service tax. An abatement tax up to 40 percent was allowed on the tariff value

thus the effective rate of service tax is brought down to 9 percent. The bills for packaged services like seminars, conferences, marriages, etc were taxed with an abatement of 30 percent. Further, it is quite common to pay tax on tax by the taxpayer, due to cascading effect, increases the final tax. Furthermore, under the old regime of tax, there was no provision as such to pay any input tax credit on the tax paid a central taxes could not set off against state taxes. The launch of GST has bought tremendous changes in the hospitality sector (see Table 1). These reforms are intended to reap the benefits of standardized and uniform tax rates and easy utilization of input tax credit. As the result it is expected to decline the end cost of tax, in turn it attracts more foreign customers than before. Moreover, this move ideally improves the revenue base of the government. In this context, an earnest attempt is made to analyze the impact of GST implementation on the performance of Hospitality and Tourism in India.

Table 1. GST rates for hotel based on room tariff with effect from 01-10-2019

Tariff per Night	GST Rate
< INR 1,000	No tax
INR 1,001 -7,500	12%
= or > INR 7,501	18%

Review of Literature

The literature available on the impact of GST on the performance of hospitality and tourism sector is limited. The authors have tried to present the existing literature on the field of study. The review of literature allows the researcher to identify the research gap so as to bridge the gap. The following paragraphs present the existing literature in the field of study. Renuka (2018)¹ has conducted a study on Impact of GST on Tourism and Hospitality Sector. She opined that tourism sector was severely suffered from multiple taxes of the old regime of taxation and the new tax system of GST is brought to address the problems of old system. The shortfalls of the GST prevailed in

short-run and they may change positively in long run, she added. She concluded that the new tax regime will boost the new opportunities in the industry to cope up with potential of industry which is expected to grow in the coming years. Gupta and Swami (2017)² have conducted a study on the Impact of GST on Travel and Tourism Industry. They opined that the growth of tourism industry may be halted due to initial hiccups due to implementation of GST. However, they are optimistic that the cons overweigh the pros for the sector. Saxsena and Payal (2018)³ have investigated the impact of GST on tourism industry. They were in the opinion that taxes imposed on international tourists are high in comparison with South

Asian countries that fears the inbound tourists to step in India. Further, they expressed that tourism is best venue to fetch required foreign reserves and it would be possible only by implementing GST at grass root level. Acharjee (2018)⁴ in his article entitled "Impact of GST on the Travel and Tourism Sector in India" opined that tourism is responsible for creating massive employment opportunities apart from revenue and foreign exchange. He uttered that GST is going to be an efficient and harmonized destination-based tax system in India. He also opined that the GST removes the problems faced by the tourism sector that leads to cost optimization and free flow of transactions. Furthermore, he stressed that GST might promote uniformity in tax rates, better utilization of input credit to optimize the stakeholders benefits.

Objective of the Study

The primary objective of the present study is to investigate the impact of GST on the performance of the hospitality and tourism sector after GST implementation.

Research Methodology

To reach the predefined objectives of the study it is intended to make use of secondary data. The required data has been collected from different sources such as periodical reports of RBI on GST and tourism, reports published by Ministry of Finance and Corporate Affairs, journals, magazines, published and unpublished literature in the field of study. After collection of the data, it is processed, tabulated, and interpreted as per the needs of the analysis. The statistical tools like descriptive statistics are used

to analyze the data. The year 2016-17 has taken as the reference year for the study as the GST has rolled out on 2nd July 2017. The study period has divided in two parts in such a manner before 2016-17 and after 2016-17 so as to capture the effect of GST in the performance of hospitality and tourism sector.

Discussion

The direct contribution of travel and tourism to GDP plays vital role in the development of economy of the country. India ranks 8th place in the world in terms of absolute direct contribution of travel and tourism industry to GDP. The tourism and hospitality sectors direct contribution was Rs. 5.94 trillion during 2017 and it is expected to grow to Rs. 12.68 trillion by 2028. Table 2 exhibited the direct contribution of travel and tourism to GDP during 2015-2019. The table reveals that there is a steady growth in the contribution of travel and tourism to GDP. Total contribution of the sector is Rs. 79.56 billion during 2015 against Rs. 105.04 billion in 2019 with the compound annual growth rate (CAGR) of 5.71 percent. In terms of year to year changes, the year 2017 has registered the lowest with 4.70 percent of change over previous year whilst the highest is 9.57 percent registered in 2016. Though there is a growth in absolute terms, the to and fro fluctuations can be noticed in terms of year to year change. Taking the reference period (2nd July 2017) into consideration, the introduction of GST may be caused to decline in the contribution of travel and tourism to GDP coupled with other structural adjustments of economy.

Table 2. Contributions (direct) of travel and tourism to GDP during 2015-2019 (real prices 2017)

Year	Contribution of Travel and Tourism (USD billion)	% of Change
2015	79.56	-
2016	87.17	9.57
2017	91.27	4.70
2018	98.17	7.56
2019	105.04*	6.99
CAGR		5.71 %

Source:<http://tourism.gov.in/sites/default/files/Other/India%20Tourism%20Statistics%20at%20a%20Glance%202019.pdf>

% of change and CAGR is calculated by the author

Note: *Denotes estimations

Total contribution of travel and tourism to GDP and percentage of change is given in the Table 3. In absolute terms, the highest total contribution to GDP is recorded in 2019 with USD 269.21 billion whereas it stood at USD 204.01 billion in 2015. The compound annual growth rate for the period is 5.70 percent. There is a constant growth during the study period without any exceptions. In terms of year to

year change, the highest year to year change during 2016 with 9.41 percent as against to 2017 with 4.85 percent. The year to year change is varied from one year to the other. The initiation of GST in 2017 might be caused to sharp decline of percentage change over the previous year.

Table 3. Contribution (total) of travel and tourism to GDP during 2015-2019 (real prices 2017)

Year	Contribution of Travel and Tourism (USD billion)	% of Change
2015	204.01	-
2016	223.20	9.41
2017	234.03	4.85
2018	251.64	7.52
2019	269.21*	6.98
CAGR	5.70 %	

Source: <http://tourism.gov.in/sites/default/files/Other/India%20Tourism%20Statistics%20at%20a%20Glance%202019.pdf>

% of change and CAGR is calculated by the author

Note: *Denotes estimations

The strength of travel and tourism industry primarily lies with the potential of country to attract the foreign tourists into the country. The Government of India is working hard to achieve a one percent share in the world's international tourist arrivals by 2020 and two percent share by 2025. The number of foreign tourist arrivals to India during 2015-2019 is given in the Table 4. The arrivals of foreign tourists during 2019 stood at 10.92 million against to 8.03 percent in 2015. The CAGR is 6.34 percent. In terms of year to year growth rate, the 2017 has registered the highest

growth rate with 14 percent as compared to 3.41 percent in 2019. The reference year of the study exhibits the highest growth rate and the year to year has further declined in the following years. It is interesting to note that there is a constant increase in the number of tourists arrived to India throughout the study period in terms of absolute terms. The contrast picture is prevailed in terms of year to year changes. It may be understood that the pace of the year to year growth rate in number tourist arrivals to India has declined after introduction of GST.

Table 4. Foreign tourist arrivals in India (2015-2019)

Year	Number of Tourists (millions)	% of Change
2015	8.03	-
2016	8.80	9.59
2017	10.18	15.68
2018	10.56	3.73
2019	10.92*	3.41
CAGR	6.34 %	

Source: <http://tourism.gov.in/sites/default/files/Other/India%20Tourism%20Statistics%20at%20a%20Glance%202019.pdf>

% of change and CAGR is calculated by the author

Note: *Denotes estimations

The expenditure on domestic tourism and year to year change in terms of percentage is portrayed in Table 5. The domestic expenditure on tourism has increased significantly during the study period. It has registered at Rs.163.82 billion in 2015 as compared to Rs.214.18 billion in 2019 with CAGR of 5.50 percent. The year to year change is highest in 2016 (9.47 percent) while the lowest in 2017 (3.74 percent) with to and fro fluctuations during the study period. It may be understood that there

is a negative impact on GST on domestic expenditure on tourism as the reference year, i.e. 2017 has shown declining year to year growth rate over the previous year even though there is a constant increase in absolute figures of expenditure incurred on domestic tourism. It is notice that the negative impact did not last long and the recovery can clearly be seen in the following years of GST implementation year.

Table 5. Domestic expenditure on tourism during 2015-2019

Year	Domestic Expenditure (billion)	% of Change
2015	163.82	-
2016	179.33	9.47
2017	186.03	3.74
2018	199.63	7.31
2019	214.18*	7.29
CAGR		5.50 %

Source: <http://tourism.gov.in/sites/default/files/Other/India%20Tourism%20Statistics%20at%20a%20Glance%202019.pdf>

% of change and CAGR is calculated by the author

Note: *Denotes estimations

In India, the collective government spending on travel and tourism is very low in comparison to its counterparts in the region (Table 6). In recent years, the government of India has taken many initiations to boost the tourism sector in India so as to capture its full potential. The collective spending by the government is at USD 2.97 billion in 2019 whilst USD 1.97 billion in 2015. During the study period CAGR is 8.55 percent. The growth is stable in absolute terms during the study period. The year to year change in the collective government expenditure is highest in 2017 and the lowest in 2019.

In terms of year to year percentage change in collective government spending, a downward trend can be identified in contrast to absolute figures. The year of GST introduction the growth rate slipped to 12.99 percent from 17.26 percent and further it declined in 2019 to 2.77 percent. It clues that there is a negative impact on collective government spending on tourism sector after GST introduction. There might be some other reasons that explain this decline.

Table 6. Collective government spending on tourism during 2015-19

Year	Collective Government Spending (USD billion)	% of Change
2015	1.97	-
2016	2.31	17.26
2017	2.61	12.99
2018	2.89	10.73
2019	2.97*	2.77
CAGR		8.55 %

Source: <http://tourism.gov.in/sites/default/files/Other/India%20Tourism%20Statistics%20at%20a%20Glance%202019.pdf>

% of change and CAGR is calculated by the author

Note: *Denotes estimations

The foreign exchange reserves strengthen the economy of a country particularly where the imports are dominated by exports of the country (Table 7). In India, tourism is considered as an important source of foreign exchange. As per the report of WTO, the number of tourists from India is expected to grow to 50 million by 2020. This spurt increases in outbound tourism from India is going to benefit foreign exchange providers in India. During the study period, there is an uptrend in the absolute terms of foreign exchange earnings from tourism in India. The amount earned through foreign exchange from tourism stood at USD 21,013 million in 2015 and it reached to USD

28,585 million in 2018. It witnessed growth at a CAGR of 7.99 percent during 2015-2019. It is evident that there is oscillating variation in terms of percentage of change to previous year. The highest year to year percentage change is recorded in 2017 with 19.1 percent whereas the lowest is at 4.7 percent in 2018. It is quite contrasting that the GST implementation year registered the highest year to year percentage change over previous year and the following year (2018) has shown drastic decline. Hence, it may be summed up that the GST has a negative impact on foreign exchange earnings from tourism.

Table 7. Foreign exchange earnings from tourism in India (2015-2019)

Year	Amount (US\$ million)	% of Change	Amount (₹ crores)	% of Change
2015	21013	-	1,35,193	-
2016	22923	9.1	1,54,146	14.00
2017	27310	19.1	1,77,874	15.40
2018	28585	4.7	1,94,882	9.56
2019	1412*	NA	98,681*	NA
CAGR		7.99 %		9.57 %

Source: <http://tourism.gov.in/sites/default/files/Other/India%20Tourism%20Statistics%20at%20a%20Glance%202019.pdf>

% of change and CAGR is calculated by the author

Note: *Denotes estimations

Conclusion

The primary objective of the present study is to investigate the impact of GST on the performance of hospitality and tourism sectors in India. To reach out the predefined objectives of the study it is intended to use the secondary data only. The required so collected is processed, tabulated and interpreted as per the needs of the researcher. It is felt that the impact of GST on the performance of the hospitality and tourism can be measured with the help of some variables, these are direct contribution of travel and tourism to GDP, total contribution of travel and tourism to GDP, foreign tourist arrivals in India, domestic expenditure on tourism, collective government spending, and foreign exchange earnings. The summary of the findings clue that almost all the variables are exhibiting steady growth in terms of absolute terms throughout the study period but the contrast

picture can be seen in terms of year-to-year percentage changes over previous year. In other words, GST has negative impact on the performance of hospitality and tourism sector in short run but in long run, this impact is almost insignificant.

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