Federation of Associations in Indian Tourism & Hospitality

Corporate Office : 3rd Floor, ITC Green Centre, Near NIIT, Sector-32, Gurgaon, India
Registered Office: RZ – A / 96, Road No. 6, Street No. 9, Mahipalpur Extension, New Delhi – 110037, India
Phone: +91 (0124) 4171038 | Mobile:+91 8130877112 | Email: secretariat@faithtourismindia.in

Media Statement

Following GST announcement, FAITH appeals to the Hon'ble Finance Minister

-The Apex body of Tourism, highlights reservations on the high tax bracket for the industry-

New Delhi, May 25, 2017 – The Federation of Associations in Indian Tourism & Hospitality (FAITH), today expressed its concerns to the Hon'ble Finance Minister, Mr. Arun Jaitely, in a letter documenting major impediments, following the proposed tax slabs, to the industry.

Under the proposed GST rate slabs, hotels and similar accommodation with a rate of above ₹5000 have been classified as luxury and put under a newly created bracket of 28% for services. In addition, for consumption in restaurants in a property which is classified as 5 star and above, the GST rate has been pegged at 28%.

In light of the above, the communication touched upon major aspects that augmented concern and warranted consideration:

Upon implementation, this slab will make India **hugely uncompetitive** while quoting rates in the global market, it said. We compete in the global marketplace with countries such as Thailand, Malaysia & Singapore. Thailand has a consolidated indirect hotel tax rate of 7% & 17.7% on restaurants. Singapore has a hotel vat of 7% & 7% on restaurants. Malaysia has a hotel vat of 6% & a 6% on restaurants. A 3-day stay by a foreign tourist at a daily rate of $150 (assuming hotel and food & beverage) will be taxed per night in India at $42 (not including cesses), $18 in Thailand (weighted average), of $10.5 in Singapore, $9 in Singapore. That implies on a total stay 3 nights, for one person, India now becomes expensive by $72 vs Thailand, by $95 vs Singapore and by $100 vs Malaysia.

This difference will get compounded, when Indian companies, bid for global conferences and events and large tour groups which come to India. Assuming the above simple economics, for a visiting conference of 100 people, India now becomes $7200 more expensive than Thailand, $9500 than Malaysia & $10000 than Malaysia. This difference will further get compounded as most of the groups normally stay post conferences for 7-10 days and travel around the country. These travellers are now most likely to give India, a miss.

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These countries are already way ahead of India in terms of tourism. Thailand already gets 26 million foreign tourists and $ 42 billion in foreign exchange. Malaysia gets around 25 mn foreign tourists and $ 22bn in foreign exchange and Singapore which is a fraction of India's size gets 12 mn foreign tourists and 20 bn in foreign exchange. In contrast India gets less than 9 mn tourists and $21 bn in foreign exchange.

While benchmarking itself to other countries, FAITH highlighted that China is estimated to get 55 mn foreign tourists and $50 bn in foreign exchange, USA 70 mn foreign tourists and $170 bn in foreign exchange, Spain 60 mn foreign tourists and $61 bn foreign exchange, France 85 mn foreign tourists and 57 bn in foreign exchange. Their indirect rates are highly competitive. China's hotels and restaurants have a vat of 6%, for USA it is 15% and 7% respectively, for France its 10% across both the categories and for Spain it is 7%. Clearly India is at a disadvantage.

The document further expressed that a levy of 28% has the potential to create **unprecedented damage** to the tourism industry from which India will find it extremely difficult to recover. India after more than 60 years of freedom has less than 0.7% of world tourism share and in key high end segments such as meetings and conferences, cruise tourism, adventure tourism we are estimated at shares less than 0.5% of the world share. With increasing global threat to travel for terrorism, ageing population in key markets, increasing unemployment from digitisation, imposing such tax driven financial barriers to travel to India will be a big blow to the country.

Not only will this impact inbound tourist traffic, but also spur the domestic meetings & conferences segment and holiday makers to increasingly travel to our South and East Asian competitors, rather than within India, since these destination will seem even more lucrative now.

The overall impact of all of the above on our foreign exchange earnings, reduced stays in Indian hotels and lost investment attractiveness of hospitality & tourism as a sector will result in large scale unemployment. The clubbing of the hospitality industry with the likes of gaming & racing in the same GST slabs, which are speculative and do not contribute to nation building has already dealt a major jolt to the investment community.

The note also made reference to the visit of the author of the legendary thesis of 'comparative advantage of nations' Mr. Michael Porter who had been invited by NITI AAYOG for sharing his thoughts. Urging the Hon' ble Finance Minister to consider Porter's recommendations and leverage the immense comparative advantage which India has in tourism.

India was rated the 12th best on its natural & cultural tourism assets, but a meagre 52nd in tourism by the World Economic Forum. Clearly India has been unable to convert them into competitive, sustainable, financial advantages from tourism. A GST rating of 28% on these two categories will only further impede that.

In view of the above, FAITH requested the Hon'ble Finance Minister to reassess the rating of 28% on hotels and other accommodation, of ₹ 5000 and above and on restaurants at 5 star hotels and bring it down to the rate of 18% GST on **'actual rates'** charged, which is still closer to the earlier indirect tax slabs of this industry. If so required, FAITH volunteered to partner with the Ministry on what could constitute the definition of **'luxury'**.