Choking the hospitality sector

Why in news?

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Following the Supreme Court’s ban on the sale of alcohol on highways, high GST rates have come as a double whammy.

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What is the issue?

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- Generating over $200 billion in revenues and employing over 40 million people in 2016, the travel and tourism industry contributed almost 10 % to India’s GDP.
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- ‘Make in India’ and the provision for e-visas were steps in the right direction for promoting the tourism industry in India.
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- But recent events, such as liquor ban on highways and some provisions in the GST suggest the hospitality business has been extended a second-fiddle treatment.
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- Hotel projects tend to be highly capital intensive, require a long gestation period and are frequently plagued by tribulations such as a very high cost of borrowing, relatively short repayment schedules as well as a maze of licenses, permits.
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- Hotel performances are instantly impacted by changing socio-economic and political factors and the business is inherently cyclical from a performance stand-point.
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- The recent liquor sale ban by the Supreme Court on all national and state highways, however well-intended, has ended up impacting free-standing

restaurants and hotels as well.
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- The impact of this is not limited to loss of revenue by way of liquor sales.
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- It has caused a ripple effect on consumer choices from a lodging standpoint — the primary generator of revenue for hotels.
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- It’s a case of the presence of alcohol not necessarily aiding revenue enhancement, but its absence almost certainly harming the ability to attract guests.
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- Hotel owners now must contend with an unforeseen environment that has made an immediate and significant impact on their ability to earn revenue
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- It will not be surprising to see more NPAs in the months ahead.
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What is the issue with GST?

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- Under GST hotels with a realised rate of Rs5,000 and above shall be required to levy 28 % GST on the bill.
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- The argument is that this level of spend points to ‘luxury’.
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- The hotel sector was traditionally marred with a variety of taxes and these varied from State to State.
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- Luxury tax ranged from zero % in certain parts of the nation to 20 % of published tariff in others.
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- If one were to put aside other costs (such as service charge, municipal tax, cess etc.), not a single state was levying such a high tax on its guests as will now be the case with this new tax regime.
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What are the flaws in taxation?

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- The basic premise of creating slabs for hotels (No tax below Rs1,000, 12 %

GST between Rs1,001 and Rs2,500 and 18 % GST between Rs2,501 and Rs5,000) is flawed. India has about 120,000 organised, branded hotel rooms.
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- About 65 % of this inventory averaged a realised room rate of Rs5,000 or more in 2016.
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- Essentially, two-thirds of the branded supply in India is now left with no option but to brace itself for tough times ahead.
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- Hotels may be forced to reduce their room rates in a bid to woo guests, who will most certainly not be keen on paying an extra 10 % to 16 % tax on their room rate.
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- The Government's inability to view the hotel sector as a provider of infrastructure rather a source of luxury is at the root of the issue.
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- Over 70 % of hotel accommodation is presently consumed by corporate or business travellers. Hotel rooms are thus a "need" and not a "luxury".
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Source: Hindu Business Line

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