

# New taxes will make India more expensive destination, says industry

Indian travel and tourism, which was expecting some incentives and exemption from the Union Budget 2011-12, are aghast over the budgetary provisions levying taxes on certain services provided by the industry and feel these taxes will make India as a destination more expensive.

by PREM KUMAR

Going through the budget speech of Finance Minister Pranab Mukherjee, one will not find even a passing reference about travel and tourism industry so far as the development and promotion of the industry is concern, and he mentioned the industry only to bring air ticket and hotel rooms in service tax net. This is the treatment meted out to a sector by the government which is one of largest employment generating industry and one of the largest foreign exchange earners for the country. Union budget has failed to address any policy issues of the sector.

As expected all travel trade associations of the country vehemently protested against the new service tax proposals that they feel would adversely affect the Indian travel and tourism industry. Even Subodh Kant Sahai, Union Minister for Tourism wrote to the Finance Minister seeking roll back of the proposed service tax on hotels and restaurants, but even his plea went unheeded. Sahai had expressed concerns over new service tax proposal.

Commenting on the budget, **Rajji Rai**, President, Travel Agents Association of India (TAAI) says, "The FM has once again disappointed our industry. None of our demands have been met. Instead our trade has been further loaded with levy of service tax on air, hotels, restaurants, which were free from such service tax earlier." Rai avers that no area of industry, travel, tourism (inbound and outbound) and hospitality has been given any exemptions or allocations in the Budget. He opines that certain assertive measures are needed for the growth in this industry.

The industry associations had expected some announcements in the form of fiscal incentives to tourism sector to stimulate consumer confidence. But contrary to



Rajji Rai  
President, TAAI

their expectation, tourism sector has been loaded with new taxes in the new Budget. Expressing his disappointment over the budget, **Vijay Thakur**, President, Indian Tour Operators of India (IATO) said, "These new taxes are going to make our tour packages costly and we may lose business to our competitors like Singapore, Thailand, Malaysia and Hong Kong, where tax limit is around 3 to 5 percent and with present load of taxes we have about 17.5 percent i.e. about 6 times more. This is going to have a very negative impact and tourism industry in India will suffer."

The new budgetary provisions include Service Tax of 5 percent on room charges for hotels charging more than Rs.1000, 3 percent service Tax on A/C Restaurants serving al-

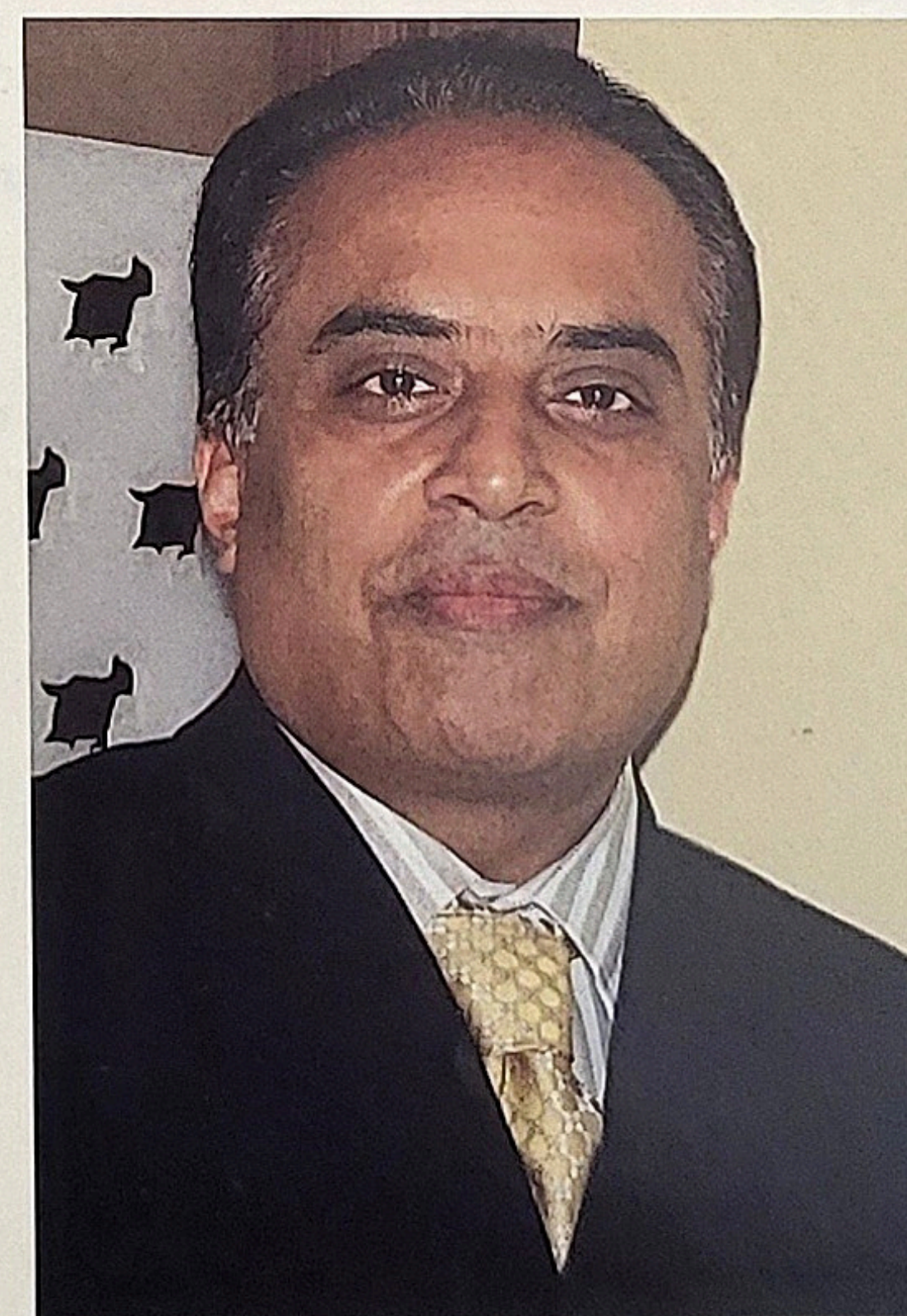
### New taxes on travel industry

- 5 % Service Tax on hotel room given on more than Rs.1000
- 3 % service Tax on A/C Restaurants serving alcohols
- Increased Service Tax on air travel, both on domestic & international flights

cohols increased Service Tax on air travel by Rs. 50.00 in case of domestic of flights, Rs. 250.00 on international flights by Economy class and



Vijay Thakur  
President, IATO



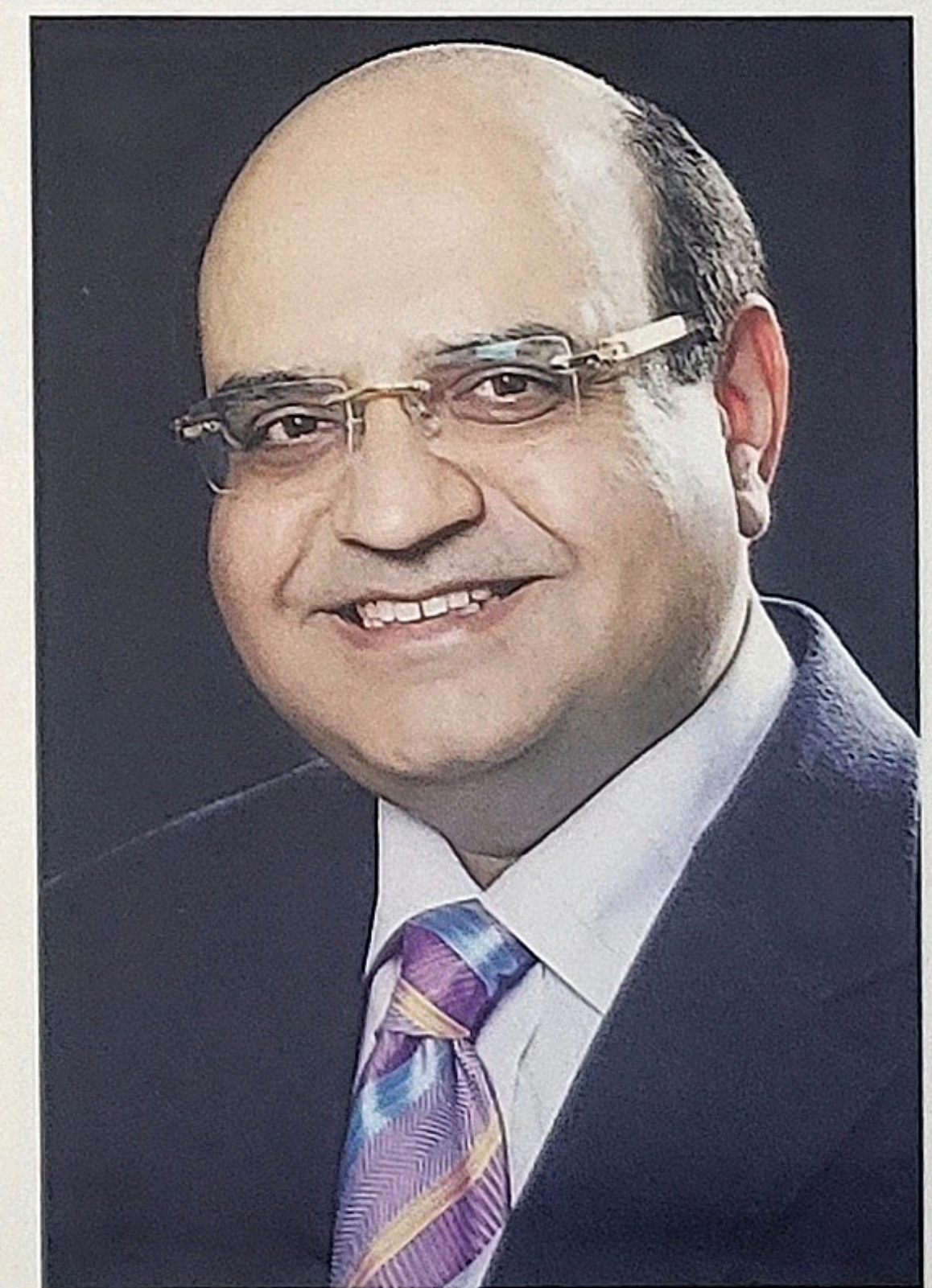
Arjun Sharma  
MD, Le Passage To India Tours & Travels

tax of 10 percent for higher class and tax of 10 percent for higher classes in domestic air travel.

Giving vent to his resentment over the budget, **Arjun Sharma**, Senior Vice President, IATO and Managing Director, Le Passage To India Tours & Travels, said, "The Union Budget has come as a huge unmitigated disaster and disappointment to the tourism industry, which has no major initiatives for the fraternity and in fact has only added a new draconian tax. Introduction of 5 percent service tax on hotel stay for short term accommodation is a cause of big worry as it will make India as a destination more expensive and may turn away

prospective visitors. Thus this move may prove to be a dampener in the growth of inbound travel along with domestic tourism. "

Echoing the similar sentiment, **Anil Kalsi**, Chairman, North India - Travel Agents Federation of India (TAFI), said, "It is indeed sad to note that in a world where tourism promotion is a high priority area of most governments of leading tourism destinations, the government of India accords tourism the least priority. In fact, the Government sees tourism and travel only in the light of increasing revenues, which makes the destination India



Anil Kalsi  
Chairman, North India - TAFI

more uncompetitive. "

The tourism industry, which saw a modest recovery in 2010, is yet to completely emerge out of the impact of the recession and 26/11, and new budgetary provisions may queer its pitch further.

Sharma argues, "Service tax introduced on services provided by air conditioned restaurants, in relation to serving food/beverages, holding a license to serve alcoholic beverage will further increase the cost of dining which is already expensive. Rate of service tax on air travel increased again increasing the cost of air tickets and will discourage the air travel. In view of above there is little to cheer for travel industry."