



Confederation of Indian Industry

# CII Policy Dashboard on *Tourism*



December 2018: New Delhi

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# Foreward

The Tourism Industry in India is at a cusp in its growth trajectory. The Indian tourism and hospitality industry has emerged as one of the key drivers for the economic growth of the country. Tourism in India has substantial potential as it has rich cultural and historical lineage, places of natural beauty and world renowned tourist destinations spread across the country.

The Ministry of Tourism designs National Policies for development and boosting tourism. By the means of Stakeholder Consultations, the Ministry consults and collaborates various key stakeholders from the sector including various Ministries, State Governments and private sector representatives. Intensive efforts are being made to promote niche tourism products such as rural, cruise, medical and eco-tourism.

The Ministry of Tourism's aim of attracting 20 million Tourists by 2020 may well happen with the pace of Reform and introduction of Policy initiatives during 2014-19. The most notable being the extension of e-Visa facility for Single and Multiple Entry visas to 166 Countries, 120 days before travel and 60 days validity has given dividends with 40% of all inbound Tourists using this facility till November 2018. The Government's effort to enhance Airport, Port, Rail and Highway infrastructure and facilities including Convention Centers amongst other initiatives will have far reaching impact in enhancing India's Ranking in the Tourism sweepstakes.

According to the World Economic Forum Travel & Tourism Competitiveness Index India has moved from 65 Rank in 2013 to Rank 40 in 2017 a gain of 25 places!

CII through its continuous efforts has put forth the industry challenges and key recommendations to the Ministry of Tourism for smooth functioning of the industry and to create a win-win situation. We hope through this report we would be able to highlight the concerns and initiatives taken in this direction to create a symbiotic environment for existence.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dipak Haksar', written in a cursive style.

**Mr Dipak Haksar**

**Chairman, CII National Committee on Tourism and Hospitality &  
Chief Executive ITC Hotels and WelcomHotels**



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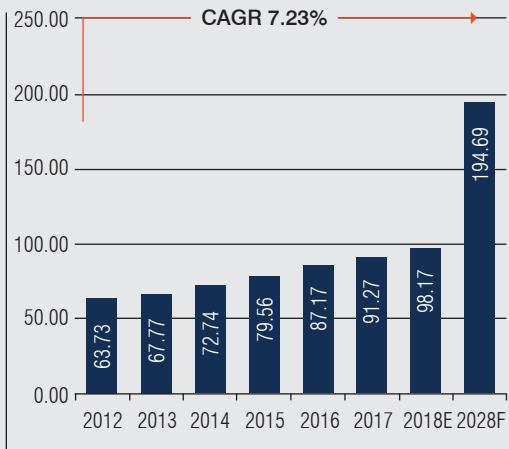
# Why Tourism Matters?



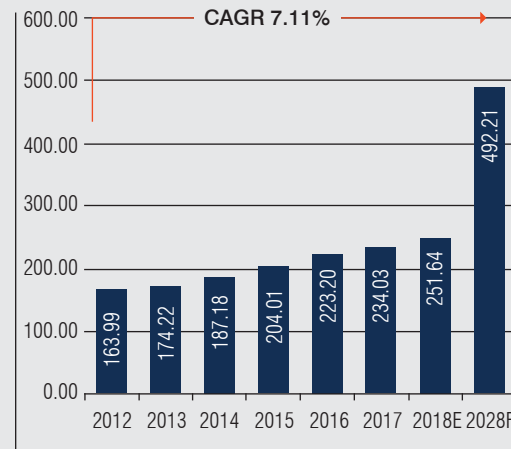
**Tourism is more than you imagine!**

# Rising Contribution to India's GDP

**Direct Contribution of Travel and Tourism to GDP at Real 2017 Prices (US\$ billion)**



**Total Contribution of Travel and Tourism to GDP at Real 2017 Prices (US\$ billion)**



Source: UNWTO & IBEF Report 18

**India Ranked-8th in the world in terms of absolute direct contribution of Travel & Tourism sectors to its GDP**

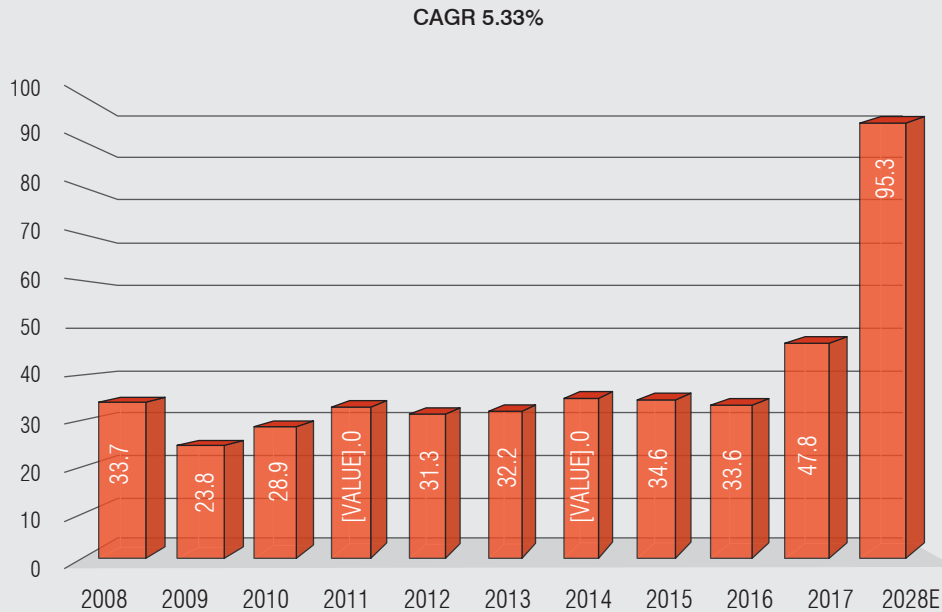


# 3rd Largest Foreign Exchange Earner for India \_\_\_\_\_





# Capital investments in the Tourism Sector (US\$ billion)



Source: UNWTO & IBEF Report 2018



## *CII Policy Advocacy*

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*This section includes the Challenges of Travel & Tourism Sector which requires attention of the Policy Makers*



## I. Inclusion of Tourism in Concurrent list

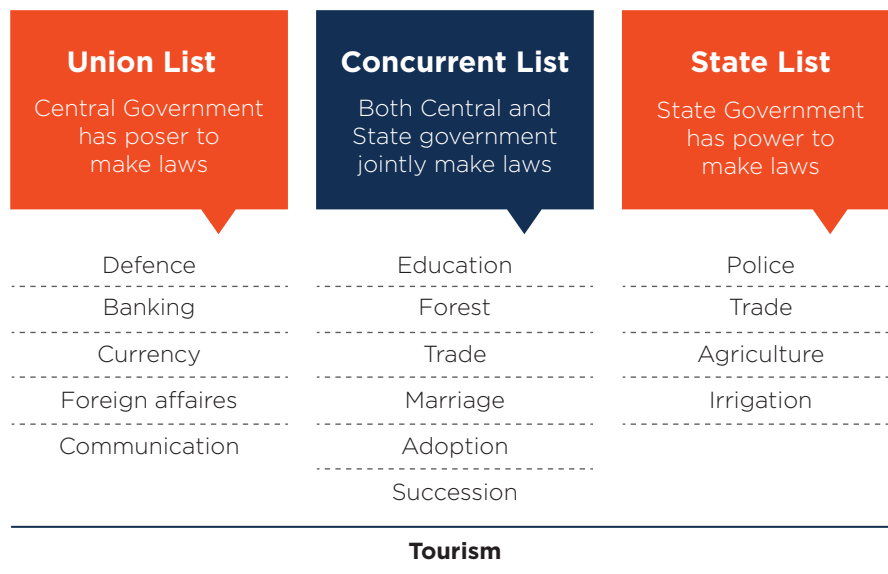
**The Travel & Tourism Sector does not feature in any list under Seventh Schedule to Constitution of India; neither Centre, State nor Concurrent list.**

It is highly recommended to include tourism in the Concurrent List of the Constitution of India. This will help elevate the sector to a priority one on the national agenda. "National prioritisation of the sector is critical to ensure focus, investment, alignment, and competitiveness as precursors to maximising the impact of the

tourism sector for the benefit of India at large; specially when it falls under the Champion Sectors as identified by Ministry of Commerce and Industry. Including tourism in the Concurrent List will enable the Centre and States to effectively legislate and demarcate clear roles for the Centre and states/Union Territories (UTs).

### Central Government

### State Government





## II. Exports Status for Tourism Earnings

Tourism Exports be treated at par with other exports and services and such transactions may be zero rated for GST without stopping the flow of input credits.

“In this regard, in “Chapter XXI - miscellaneous, para 147 of GST Laws”, it is mentioned that the Government may, on the recommendations of the Council, notify certain supplies of goods as “deemed exports”, where goods supplied do not

leave India, and payment for such supplies is received either in Indian rupees or in convertible foreign exchange, if such goods are manufactured in India”.

Under the above clause tourism services provided to Foreign Tourists in India on receipt of foreign exchange should be treated as **“Deemed Export”** and exemption of GST should be made available.

**It may be noted that Tourism sector taxation is higher than global taxes and therefore India becomes uncompetitive.**

Countries	Tax rate on hotels	Tax rate on restaurants
China	6%	6%
USA	15%	7%
France	10%	10%
Thailand	7%	17%
Malaysia	7%	7%
Singapore	6%	6%
<b>India</b>	<b>18-28%</b>	<b>18%</b>

### III. *Conferring Infrastructure Status to Hotel Industry*

**H**otel sector is equated with real estate. The Reserve Bank of India has equated the hotel sector with real estate in the circular dated June 29, 2005. Due to a higher risk perception, the interest rates are typically increased by 3 per cent to 4 per cent per annum. Hotel sector does not enjoy benefits that are available to other capital-intensive sectors as airports, power projects etc.' This discourages investors to put in money as rate of borrowing ie interest rate from banks is high and rate of Investments is low due to gestation period. The government and the RBI may remove constraints for sustaining the growth in the tourism sector by delinking it from Real Estate.

As the industry is highly capital intensive and construction of a medium sized new hotel project may require a massive capital investment the hotel industry should therefore be declared an infrastructure industry under section 80IA/IB of the Income Tax Act 1961. This would enable the hotel industry to avail all benefits that are available to other sectors of infrastructure such as airports, seaports, power projects etc.

***The hotel industry should be granted infrastructure status under Income Tax Act as well as in RBI definition.***



### IV. *Bed & Breakfast and Homestay Policy*

**M**inistry of Tourism had taken out revised guidelines for B&B and Homestays in 2009 but since then scenario has changed and there is a need to revisit the policy.

In today's time and age; traveller does not necessary stays at star hotels and can choose to stay with locals ie home stays or affordable homes ie Bed & Breakfast. Moreover, there is a gap of room inventory which can be met with home stays & B&B.

The Ministry of Tourism may consider to release guidelines for "National Standardisation of services and Accreditation of Homestays and B&Bs.

## V. Eco-Tourism Policy

India has impressive natural heritage and our \*World Ranking of Natural Heritage Site is 6/141, however our ability to attract tourists to natural attractions is very low at 110/141 with limited Tourism receipts. Absence of relevant policies from Centre; aggregate to the situation.

(\*As per World Economic Forum; Travel & Tourism Competitiveness Index 2017)

Indian Natural Heritage & Adventure Tourism holds immense potential for economic development and creation of millions of jobs throughout the regions of natural beauty in the country. These regions are often the remotest, most under-developed as well, but of immense strategic importance as they are located close to border or, island regions of the country. It is to be noted that Adventure and Natural Heritage Tourism is already a global industry worth USD 430 Billion and with growth rates of 46% per annum and is expected to cross USD 1 Trillion, within the next decade.

Further Global Visits to Protected areas like National Parks are calculated at USD 850 Billion per annum. India's nature and adventure tourism is still nascent by comparison.

An overarching Eco-Tourism policy by Ministry of Environment, Forest and climate Change (MoEF&CC) should be released with below suggested components.

Changing laws to recognize tourism as a forest-friendly activity

Revised tourism Guide-lines in Tiger Reserves"

New funding mechanism and investment structures for conservation investment to create SMART FORESTS"

Identifying areas in Himalayas for opening up of tourism along with necessary protection mechanisms. (Disperse Tourism)

Creating tourist friendly approval process for expeditions

Identifying policy mechanisms to facilitate creation of appropriate tourism infrastructure in the Himalayas

Promoting tourism in deserts; coral islands; rivers

Create Partnerships: PPP Model

***CII Taskforce on Adventure & Eco-Tourism has provided a detailed report to Ministry of Environment, Forest & Climate Change (MoEF&CC) and Ministry of Tourism (MoT) for kind consideration***

## VI. Goods & Services Tax (GST)

Room rates provided by hotels are dependent on various factors as the location of the hotel, demand supply ratio, contract terms with the customers etc. For instance, business hotels may be more in demand and may have higher room rates during the weekdays, leisure hotels may have higher demand during the weekend. Further, demand for leisure hotels may also increase during wedding/ vacation season and thus, the room rates offered by the hotels may increase during such seasons.

Further, hotels may enter into long term contracts with corporate customers, airlines etc wherein they may agree to provide an all-inclusive fixed contracted rate/ crew rate/ long term stay rates for a substantial period of time. As in such cases, the corporate customers/ airlines commit to book a specified number of rooms with the hotels, the hotels may enter into agreement with them to make them rooms available at a much lesser rate than the rate available for general or walk-in customers.

### (a) High rate of tax on Tourism Sector

Levy of GST at the rate of 28% on hospitality industry on accommodation services provided by five-star hotels, casinos, race-course, gambling etc. has the potential to create unprecedented damage to the tourism industry which shall not only effect adversely on impact inbound tourist traffic, but also spur the domestic meetings & conferences segment and holiday makers to increasingly travel to competitors, rather than within India.

**It may be noted that Tourism sector taxation is higher than global taxes and therefore India becomes uncompetitive.**

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China	6%
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<b>India</b>	<b>18-28%</b>

### Suggestion



GST on services of accommodation in hotels including five -star hotels, inns, guest houses etc. should be reduced to 18 per cent rate.



## (b) Immovable Property

Under section 17(d) of Central Goods & Service Tax, taxes paid “goods or services or both received by a taxable person for construction of immovable property on his own account including when such goods or services or both are used in the course or in furtherance of business” are not eligible as “input credit”.

**Recommendation:** In case of hotels industry, building is the “cash generating unit” unlike in the case of other industries where “plants” are the “cash generating units”. Construction of building constitutes more than 70% of the fixed capital investment in hotels and denial of input credit on immovable property is a major loss to this industry. It is recommended to allow the input credit on immovable property in case of hotels.

## (c) Travel & Tours services: Outbound from India

Tour operator and travel agents provide tour and travel services to customers travelling outside India. The services provided are performed as well as consumed outside India. GST is proposed to be consumption/ destination-based tax and is not intended to be charged on services consumed outside India. Further, for facilitating outward supplies, travel agents & Tour operator pay overseas taxes to foreign vendors/ suppliers. Such overseas taxes are not creditable against GST payable in India.

Accordingly, levying GST on the outbound tour is leading to double taxation for the cause of inability to recoup input tax cost incurred outside India on outbound travel & tours and will therefore burden the Indian service providers with additional cost in the form of taxes vis-à-vis an overseas service provider. Also, the travel agents & tour operators located in foreign country will be in an advantageous position from a price point as compared to Indian Tour operator for provision of tour and travel services.

The place of supply for outbound tour services should be deemed to be outside India. Such services should not be taxed to avoid double taxation and provide a level playing field to Indian travel agents & tour operators in foreign countries.

Under the GST principle of consumption-based tax that rules under **Place of Supply Rules may be amended with “The place of supply of services in relation to outbound travel & tour services to be the location of the travel & tour & not the location of the Service provider.**





### (d) Adventure & Cruise Tourism

The Cruise and Adventure Tourism being among the greatest unrealized economic potential of India which is rated as the 6th best in the world while, utilization is just at 113th, Govt importance given is at 102nd in the

world, must be made at zero GST for ten years as this will provide millions of jobs in the remotest parts of India where the poorest sections of society of the country lives.

### (e) Declare hotels capex above ₹25 Crs. capex (excluding land) as infrastructure

In the medium term, India needs to target an additional 0.5 million hotel rooms which should be a mix of standard & quality budget accommodation to move towards a respectable world share in tourism. As the industry is highly capital intensive and construction of a medium sized new hotel project may require a massive capital investment the hotel industry should therefore, be declared an infrastructure industry under section 80IA of the Income Tax Act 1961.

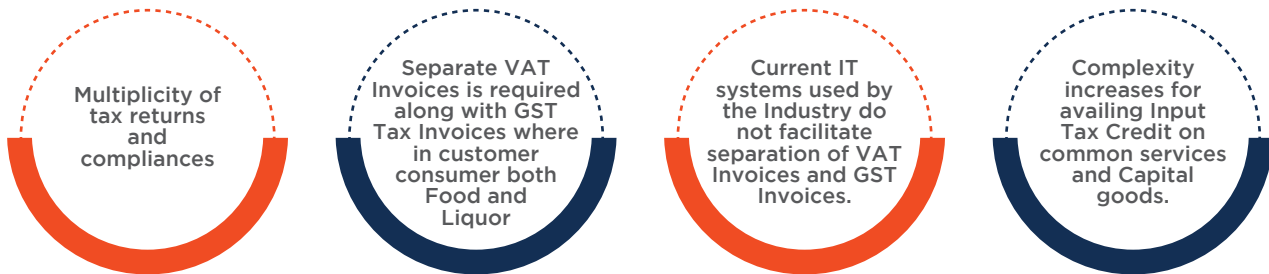
This would enable the hotel industry to avail all benefits that are available to other sectors of infrastructure such as airports, seaports, power projects etc. At a weighted average cost of ₹5 million/room across all the price categories, this would imply - ₹2.5 lakh crores in project costing. At a conservative debt equity ratio of 1:1 this would imply a privately

generated equity of ₹1.25 lakh crores and banking funds of the same amount.

This is a highly capital-intensive industry where the breakeven currently is around 8-10 years on a minimum due to repayment periods putting upward pressure on prices to mobilize such large-scale funds & to generate investor interest in this sector which will spur large scale employment. It requires to be classified as an infrastructure sector for budget & mid-market hotels, which will give access to very longer-term capital at lower cost & a higher breakeven period. That would fast track addition of more hotels rooms & thus both direct & indirect jobs. 90% of hotel driven jobs fall in the unskilled -semi skilled category thus impacting the lowest most economic strata of our society.

### (f) Liquor

Currently Liquor remains outside the ambit of GST and State VAT is applicable on the sale of the same. This leads to the following issues:



It is therefore suggested that liquor should be brought under the ambit of GST.

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### (g) Duty credit scrip entitlements under Services Exports from India Scheme ( SEIS)

Other than the challenges being faced by the hotel industry in the GST regime, the profitability of Hotels has been adversely effected by the decrease in duty credit scrip entitlements under Services Exports from India Scheme (SEIS). The Foreign Trade Policy of India 2015-20 restricted the entitlement to 3% of the Net foreign

exchange earned as against the previous 10% of the Net foreign exchange earned under Foreign Trade Policy 2009-14. This reduction has a strong adverse effect on the profitability of the Industry and a request to reinstate the earlier entitlement of 10% is being made.

**WAY  
FORWARD**



**1. Formation of Unified Tourism body: Creation of Empowered National Tourism board with private sector involvement and Professionals on board to run various aspects:**



**2.** China should be a strategic focus for India as it is the largest outbound market. Special products and strategies should be designed around the China market to enhance its inbound share into the country.

**3.** At least 20% of Tourism Earnings of India should be ploughed back by the Govt. in the Sector. This could be in a form of increasing the promotional budget, subsidies for enhancing tourism infrastructure

**4.** Ministry of Tourism, Govt. of India to release National Tourism Policy (long impending), National tourism policy draft is with the cabinet and has to be approved.

**5.** Buddhist Circuit: A complete Eco-system should be created to formulate the Buddhist Circuit and to attract not just the back packers but high spenders. This means all ministries and State Govt. to join hands to improve infrastructure, build accommodation facilities and transport facilities. Airlines, Railways, Hotels and Bus Stations to work in tandem. The Airlines and Rail timings to be co-ordinated from arrival of the tourist till exit and accordingly rest of facilities may be mapped.

6. India needs to increase its focus on enhancing short haul tourism. Currently a major part of the country's inbound tourism is from -long haul tourism which is susceptible to socio-economic shocks.  
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7. The National Tourism marketing strategy should be region and country focused with local language and communication and region-specific product requirements.  
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8. Benchmarking must be undertaken of the top 100 tourism destinations of India at a global scale to develop them on a holistic basis at par with world class standards.  
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9. Rural Tourism, has to be developed with a strategic focus by leveraging our farm assets and creating a global brand around India's natural strengths in this niche segment.  
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10. Developing Sustainable Coastal Tourism
  - a. To promote water sports, tourism related activities to take advantage of 7500 km rich Indian coastal line
  - b. Creating a framework for encouraging investment in Sea plane activities  
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11. North East has received a boost in connectivity with the RCS UDAN Scheme. Various schemes of Ministry of Tourism has integrated North East to becoming closer to being a mainstream tourism destination. Urgent need to upgrade accommodation to hold more tourists need of the hour for North East to realize its immense Tourism potential.
12. The pollution in Delhi due to crop burning in States like Haryana and Punjab had taken a negative beating last year with foreign tourist, as well as this year. This is disastrous for Tourism if it continues like this, more so Delhi being the key gateway for tourists travelling to India. Need to engage with the respective State Governments, to find a long term solution and with media to mitigate this negative publicity.  
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13. The current level of entry-ticket-price of category A Monuments in India are priced higher than many other world attractions. For example, the Badaling Wall or Giza Pyramids charge in the range of Rs 450 for basic entry to foreign nationals while the Taj Mahal charges Rs 1100. With higher price one expects certain basic facilities to be in place- such as parking, restaurant on location, clean toilets, organized entry etc. None of the top monuments have decent restaurant where tourists can take refreshment breaks. Parking is an issue at many monuments and looking at the growth of tourists at these monuments - particularly during long weekends and festival times, and needs urgent attention.



- 14.** VISA: Whole process of visa application to be streamlined including long term multiple entry visa to tourist for 5 years and reducing the fee in line with countries like Sri Lanka, Thailand without basing it on reciprocity:
- Improvements in the area of visa delivery needs to be done, making it more seamless and less cumbersome on arrival.
  - More airports to offer Visa on arrival services with improved infrastructure.
  - Demands still pending for 5year multiple entry visa, and rationalisation of Visa fee and should be on the lines of South East Asian Countries.
  - Long duration VISA to be introduced, 10 years like USA.
- 

- 15.** Safety especially for Women foreign tourist the Constant and Concurrent campaign of 'Atithi Devo Bhava' in all regional channels across the country:
- Needs to sensitize the media by presenting the positive stories.
  - Work towards Women safety through an active campaigning across Regional / State channels.
  - Change the perception to India being an unsafe country
  - PR campaigns constantly to override negative stories

- 16.** Enabling the air capacity in the country by opening more bilateral which will make air travel more affordable and accessible to Indian and foreign tourists:
- Look beyond Air India to increase capacity and related bilateral rules – India more important than Air India.
  - There is both International and Domestic air travel growth but airport capacity is not being built in the same capacity.
  - More Hubs and airports required with feeder services & international airports in each state.
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- 17.** Carrying capacity of sensitive destination like Wild life Jungles and upcoming uphill destination like Uttaranchal to be carried out to ensure that they do not get destroyed like Mussoorie or Simla:
- Planned Controlled development with assessment of carrying capacity District wise
  - Improve access with air round airports and faster trains.
  - Have tourism zones in these Districts.
  - Improve Infrastructure related to roads parking space, adequate water supply within the cities etc. & water management
  - Modern and equipped Hospitals and rescue services for related activities like trekking, Rafting etc. in every district.





## Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has around 9000 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from around 265 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

As a developmental institution working towards India's overall growth with a special focus on India@75 in 2022, the CII theme for 2018-19, **India RISE : Responsible. Inclusive. Sustainable. Entrepreneurial** emphasizes Industry's role in partnering Government to accelerate India's growth and development. The focus will be on key enablers such as job creation; skill development; financing growth; promoting next gen manufacturing; sustainability; corporate social responsibility and governance and transparency.

With 65 offices, including 9 Centres of Excellence, in India, and 10 overseas offices in Australia, China, Egypt, France, Germany, Singapore, South Africa, UAE, UK, and USA, as well as institutional partnerships with 355 counterpart organizations in 126 countries, CII serves as a reference point for Indian industry and the international business community.

### Confederation of Indian Industry

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