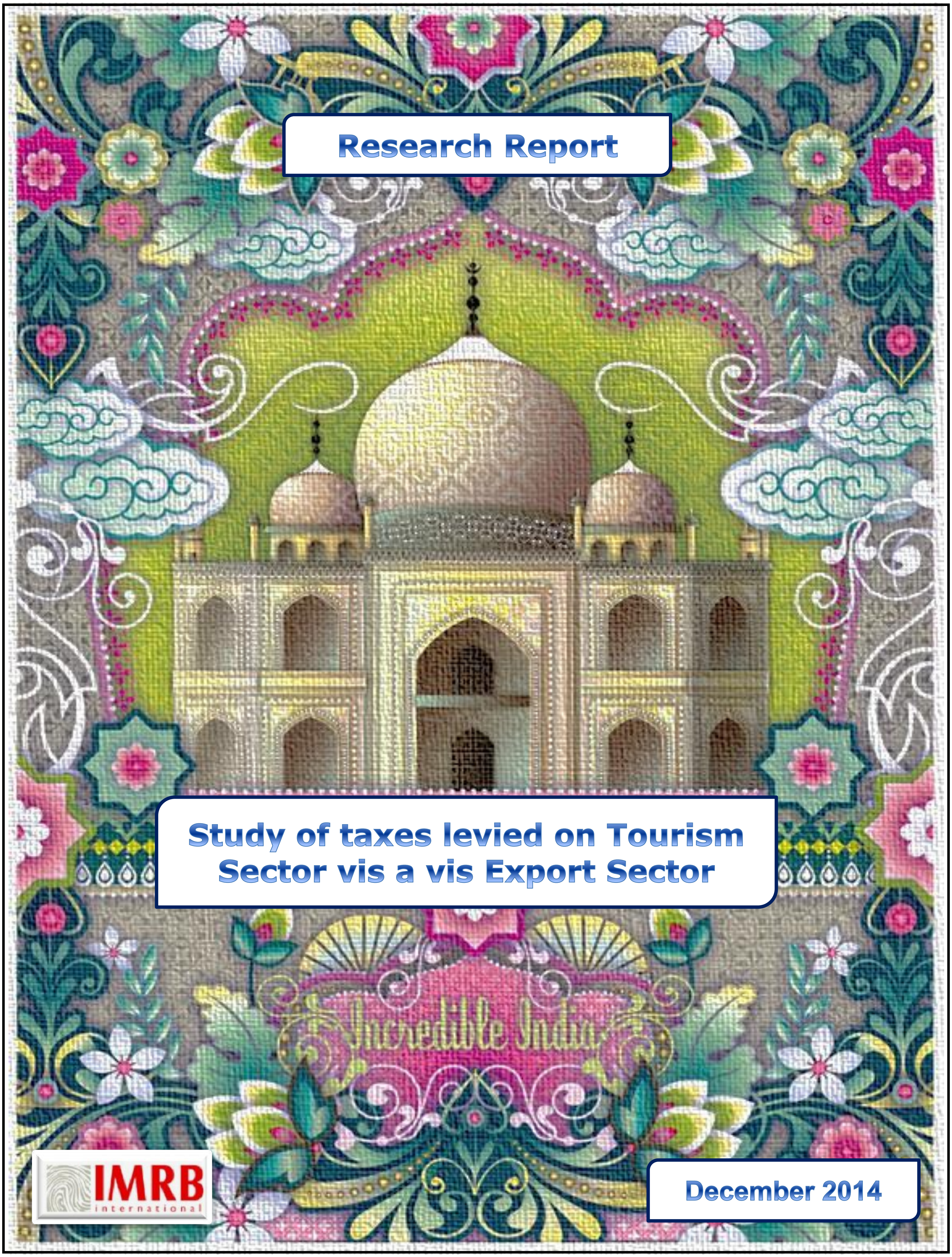
Research Report

Study of taxes levied on Tourism Sector vis a vis Export Sector



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Study on Taxes levied in Tourism Sector Vis a Vis Export Sector

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Ministry of Tourism
Government of India

Submitted by

Business & Industrial Research Division
IMRB International

Acknowledgement

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We would like to take this opportunity to thank the officials of The Ministry of Tourism-Government of India, for their valuable inputs during the project review meetings and presentations. In particular, we are immensely grateful to Dr. L. K. Panwar (Secretary – Tourism), Dr. Ravikant Bhatnagar (A.D.G (MR)), Ms. Usha Sharma (A.D.G (T)) for their support and guidance. We would also like to thank Mr. Shailesh Kumar (Deputy Director), Ms. Neha Srivastava (Deputy Director), Ms. Mini Prasannakumar (Joint Director) & Mr. S.K. Mohanta (DPA Grade "B") for their support during the execution of the study.

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2 Executive Summary

The travel and tourism sector holds strategic importance in the Indian economy providing several socio economic benefits. Apart from providing mass employment, income and foreign exchange for the country, the trade in the tourism sector has an economically beneficial cascading impact on other associated industries such as construction, agriculture handicrafts etc. In addition, investments in infrastructural facilities such as transportation, accommodation and other tourism related services lead to an overall development of infrastructure in the economy.

As a part of this Research, the Economic Importance of the Tourism Sector (i.e. Contribution of the GDP, Employment Generation & Net Foreign exchange Earnings) as well as the Benefits (Export Incentives & others) provided to the various sectors including tourism sector have been assessed. This has been compared with Petroleum Products, Gems & Jewellery, Textiles & Apparel, Chemicals, Pharmaceuticals, Plastics & Plastics Products and Handicrafts from the Physical Exports sector and IT & ITES services from the Services exports.

In terms of contribution to GDP, Tourism Sector in India is ahead of almost all other sectors of Physical exports and second only to Gem Jewellery. However, in net foreign exchange earnings, the sector is at 80%, only behind Textiles & Pharmaceuticals and IT & ITES. In employment generation only Textiles & Apparel sector generates more employment.

Moreover, the sector has started attracting significant amount of FDI in the recent past. In the year 2012-13, the amount drawn was to the tune of US $ 3.52 billion.

Despite that the Tourism Sector, including Inbound Tourism pay a plethora of taxes and do not get any significant benefits as compared to other Export sectors. There are multiple taxes charged on the same Service/ Product offering by the Central as well as State Governments. These taxes have been covered in detail in the Report. It is understood that the Taxes levied on Inbound Tourism is amongst the highest in the country, and is one of the major reasons for India losing Foreign Tourists to competing South East Asian Countries. Tourism sector in some of the key competing destinations in South Asian countries attract much lesser taxes thereby making the products more competitive.

Considering Inbound Tourism to be akin to exports by way of earning significant amount of foreign exchange, a detailed assessment of the Exports Benefits and Schemes Available for the hitherto mentioned sectors have been done and suitably compared with Tourism. It was observed that despite generating huge foreign exchange (80% Net Foreign Exchange Earner) and providing indirect benefits like employment generation to the tune of 25 Million direct employment and 39 million of indirect employment, export benefits, however, available to the sector were significantly lower than the sectors chosen for comparison.

Key Issues facing the Tourism Sector especially on various fronts including taxation are as under:

- High Multitude & Incidence of Taxes
- Taxation of service offerings at multiple levels in the Tour Package
- Differential taxes across states which vary frequently
- Very High Monument Entry fee for Inbound Tourists compared to Indian Tourists.
- High State Entry/Road Tax on commercial vehicles in certain states, which is a burden on the Foreign Tourists.
- Infrastructure (Air & Rail Connectivity/ Stay Facilities) issues in certain important places like Buddhist Circuit etc.

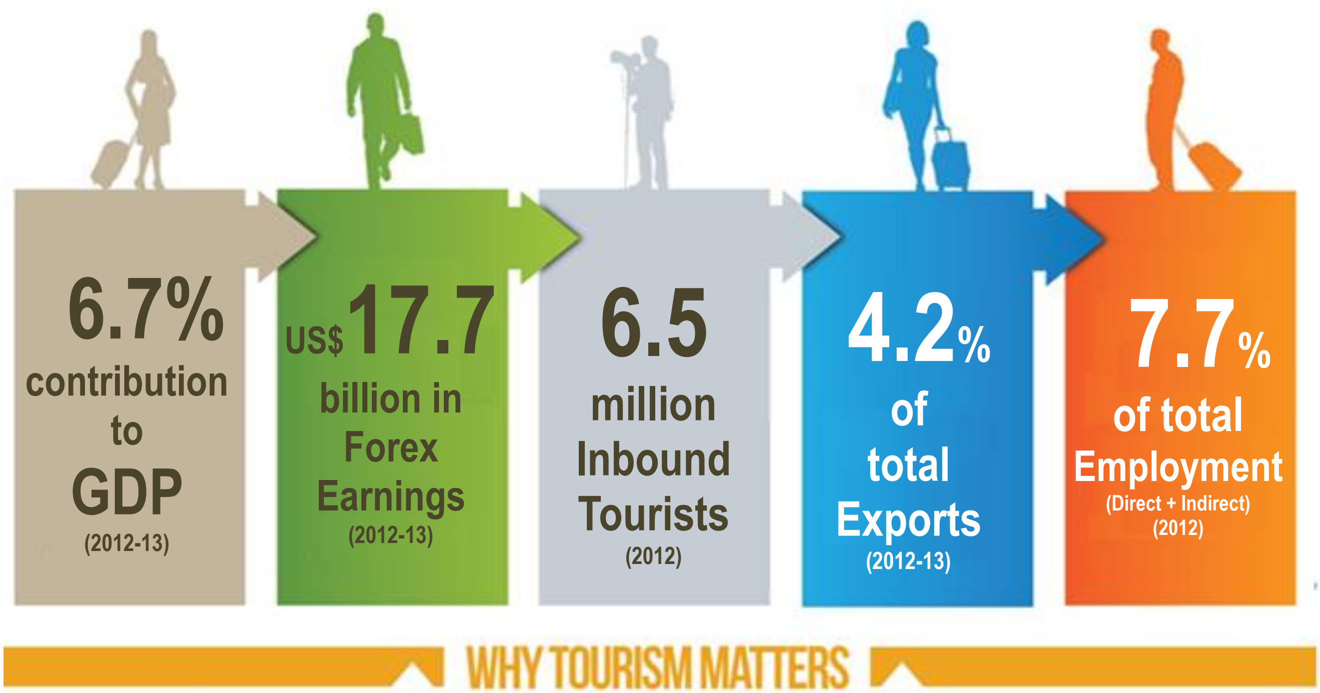
Therefore it is suggested that the following policy & structural changes need to be initiated to give a further boost to the Tourism Sector in India.

- Availability of Cenvat Credit on service tax charged on services provided in a tour package as well as on the overall tour package.
- Increase in Benefit under SFIS Scheme
- Reduction in VAT (Value Added Tax) on Airline Turbine Fuel.
- Reduction in monument entry fee to be charged to Inbound Tourists.
- Harmonization of state entry/Road Tax for commercial vehicles, so that travel is seamless across India.

3 Tourism Sector in India

The travel and tourism sector holds strategic importance in the Indian economy providing several socio economic benefits. Apart from providing mass employment, income and foreign exchange for the country, the trade in the tourism sector has an economically beneficial cascading impact on other associated industries such as construction, agriculture handicrafts etc. In addition, investments in infrastructural facilities such as transportation, accommodation and other tourism related services lead to an overall development of infrastructure in the economy.

Tourism is a vital economic activity. It is a major foreign exchange earner. In 2012-13, the Indian tourism industry, earned a record of more than USD 17 billion in foreign exchange. These earnings from tourism exports grew by a compounded annual rate of more than 14% since 2000 almost double the world average during the same period. India catered to more than 6 million foreign tourists in 2012, a figure which has grown at a compounded annual rate of more than 7% since 2000. The size of domestic tourism too has crossed a mind boggling 1000 million tourists. 25 million Indian citizens are directly employed by this industry and around 40 million citizens are directly/indirectly employed by this industry. Together the whole tourism generates directly an estimated Rs.2 lakh crore of economic output and directly/indirectly an estimated Rs.7 lakh crore of economic output for India.



Source: WTTC, Ministry of Tourism - GOI

According to the World Economic Forum's Travel and Tourism Competitiveness Report 2013, India ranks 11th in Asia Pacific region and 65th globally out of 140 economies ranked on travel and tourism competitiveness Index.

Despite multiple efforts both by the Government and the Private sector, the share of India in world tourist arrivals remains very low, less than 1%, more precisely around 0.6%. As such India was ranked 38th in the world on the basis of international tourist arrivals. On other factors, India was ranked at a high of 21 on the factor of tourism natural resources, 67 in its ease of business environment, but an abysmally low of 110 globally in its regulatory framework for tourism and travel. The implication is clear - *India is unable to convert its comparative natural and economic advantages into competitive advantages for the Tourism Industry.*

Importance of Tourism Sector in India's Economy & Trade

4 Economic Impact/ Contribution of Travel & Tourism

Travel and Tourism is an important economic activity, which apart from its direct economic impact, has a cascading economic impact on other associated industry segments. The sector has significant positive indirect and induced impact on the economy.

DIRECT Travel & Tourism Contribution

Commodities
- Accommodation
- Transportation
- Entertainment
- Attractions

Industries
- Accommodation Services
- Food & Beverage Services
- Retail Trade
- Cultural, Sports & Recreational services

Sources of Spending
- Residents domestic T&T spending
- Businesses domestic travel spending
- Visitor exports
- Individual government T&T spending

INDIRECT Travel & Tourism Contribution
- Travel & Tourism Investment Spending.
- Government collective Travel & Tourism Spending.
- Impact of purchases from Suppliers.

INDUCED Contribution (spending of direct & indirect employees)
- Food & Beverages
- Recreation
- Housing
- Housing Goods
- Clothing

TOTAL Travel & Tourism Contribution
- To G.D.P
- TO Employment

Components of total contribution to Gross Domestic Product

- **Direct Contribution**: The direct contribution of travel and tourism to GDP is calculated from total internal spending by netting out the purchases made by different parts of the tourism sector such as hotels, airlines, airports, travel agents and leisure and recreational services that deal directly with tourists. Internal spending is total spending within a particular country on travel and tourism by residents and non-residents for business and leisure purposes as well as government spending on travel and tourism services, directly linked to visitors such as cultural and recreational services.

Source: WTTC Travel & Tourism Economic Impact – India 2013

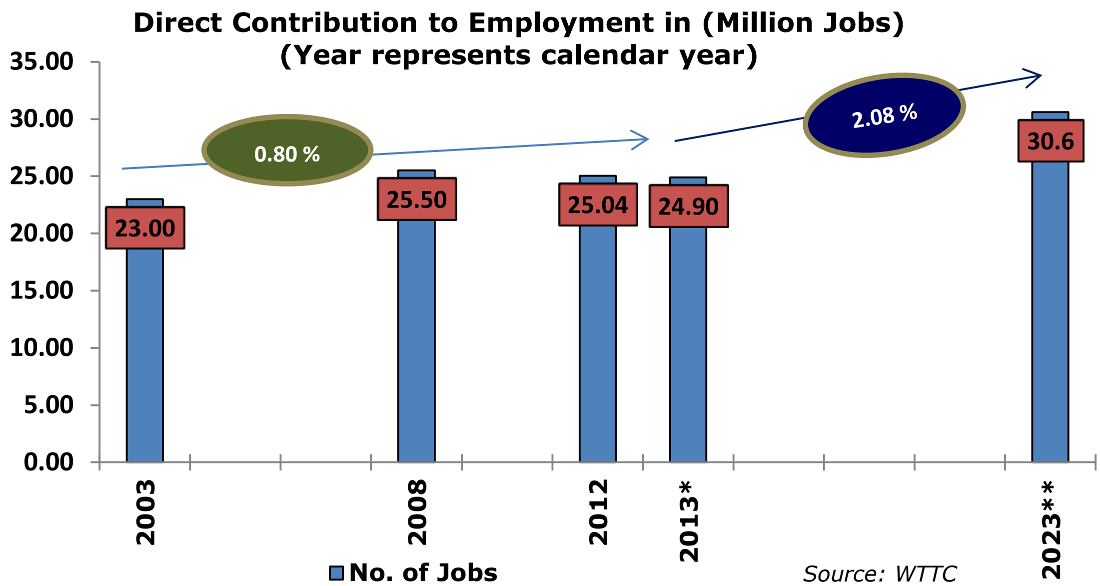
- **Indirect Contribution**: The Indirect contribution includes the GDP and jobs supported by:
    - Travel & Tourism Investment spending – an important aspect of both current and future activity that includes investment activity such as purchase of new aircraft and construction of new hotels.
    - Government Collective spending which helps Travel and Tourism activity in many ways as it is made on behalf of the community at large –e.g. Tourism marketing and promotion, aviation, administration, security services, resort area security services, resort area sanitation services etc.
    - Domestic purchases of goods and services by the sectors dealing directly with the tourists – including purchase of food and cleaning services by the hotels, of fuel and catering services by airlines and IT Services by travel agents.

- **Induced Contribution:** It consists of the GDP supported by the spending of those who are directly or indirectly employed by the travel and tourism industry.

5 Travel & Tourism's contribution to Employment

Travel and Tourism is a major employment generating sector which has the potential to generate direct as well as indirect employment for individuals with varied skill sets.

The Indian Travel and Tourism sector generated 25 million direct jobs in 2012, which accounted for 4.9 per cent of total employment in the country. The numbers expressed constitute direct employment in the travel and tourism sector by hotels, travel agents, airlines, passenger transportation services and other restaurant and leisure employment. The total employment generation in 2012 including direct & indirect employment was approximately 40 million.



Source: WTTC
** Forecasted*

By 2023, the Indian travel and tourism sector is expected to generate and support 30 million direct jobs, an increase of 2.1 per cent over the next ten years. The sector is forecasted to support approximately 49 million jobs, including indirect employment which would account to 8% of the total employment in India.

	2012	2013*	2023*
Direct Employment Generated (% of Total)	4.9%	4.8%	5.1%
Total Employment Generated (% of Total)	7.7%	7.6%	8%
Total Employment Generated (Direct+ Indirect)	40 million	39.6 million	49 million

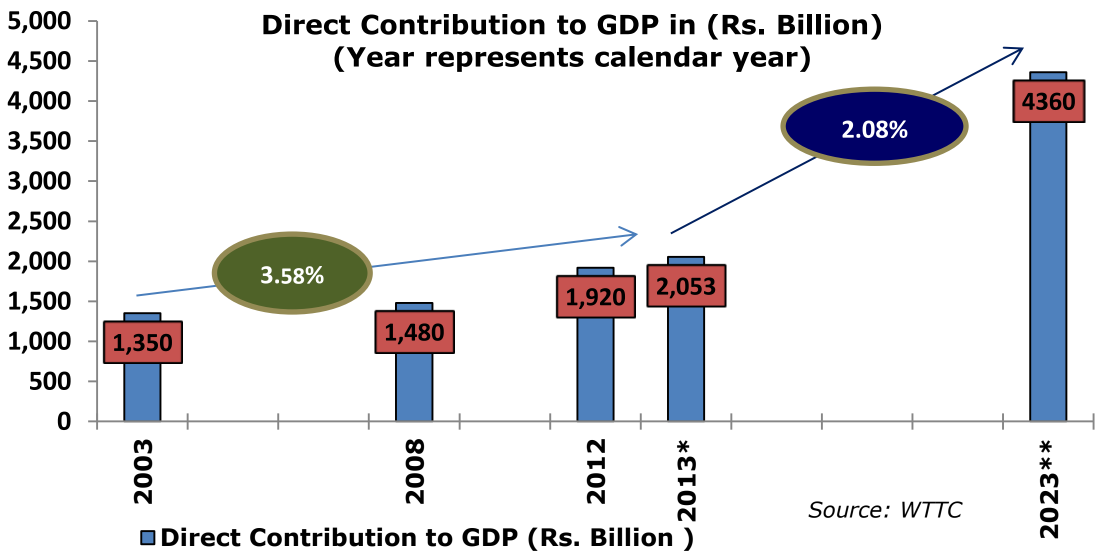
Source: WTTC, Ministry of Tourism

This implies that for every job directly supported by the tourism sector, an additional 0.6 job is supported in the economy when the indirect and induced effects of tourism are considered .Therefore tourism industry is an extremely important sector for creation of job opportunities/source of employment for the skilled as well as semi-skilled workforce.

6 Tourism Sector contribution to Gross Domestic Product

The direct contribution of Travel & Tourism to India's GDP was Rs. 1919 billion in 2012 reflecting a growth of 14 per cent over the period 2007-2012. This is forecasted to grow at a rate of 7 per cent to Rs. 2053 billion in 2013 over 2012.

The direct contribution of Travel & Tourism to GDP is expected to grow by 7.8% per annum to Rs.4360 billion (2.1% of GDP) by 2023. The numbers reflect the economic activity generated by industries such as hotels, travel agents, airlines and other passenger transportation services.



The total contribution of Travel & Tourism to GDP includes the direct as well as indirect and induced contribution. The total contribution of Travel and Tourism to GDP (including wider effects from investment, the supply chain and induced income impacts) was INR 6,385 billion in 2012, accounting for 6.6% of the GDP and is expected to grow by 7.3% to INR 6,854 billion (6.7% of the GDP) in 2013.

It is forecast to rise to INR 14,722 billion by 2023, growing at a rate of 7.9% over the period and would account for 7 per cent of the GDP.

		2012	2013*	2023*
Direct Contribution to G.D.P	Percentage	2%	2.03%	2.1%
	Absolute Figure (Rs. Billion)	1,919	2,053	4,360
Total Contribution to G.D.P	Percentage	6.6%	6.7%	7%
	Absolute Figure (Rs. Billion)	6,385	6,854	14,722

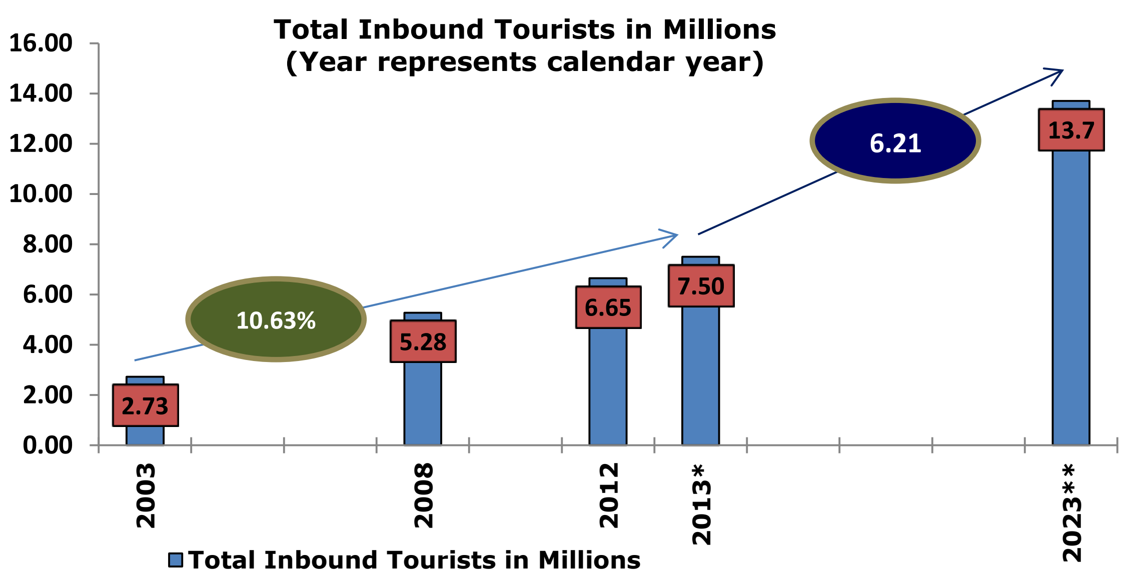
*Source: WTTC, *Forecasted*

7 Total No. of Foreign Tourist Arrivals & Foreign Exchange Earnings

Tourism is an important sector of Indian economy and contributes substantially in the country's Foreign Exchange Earnings.Visitor Exports or the flow of inbound tourists is a key component of the direct contribution to Travel and Tourism Sector.

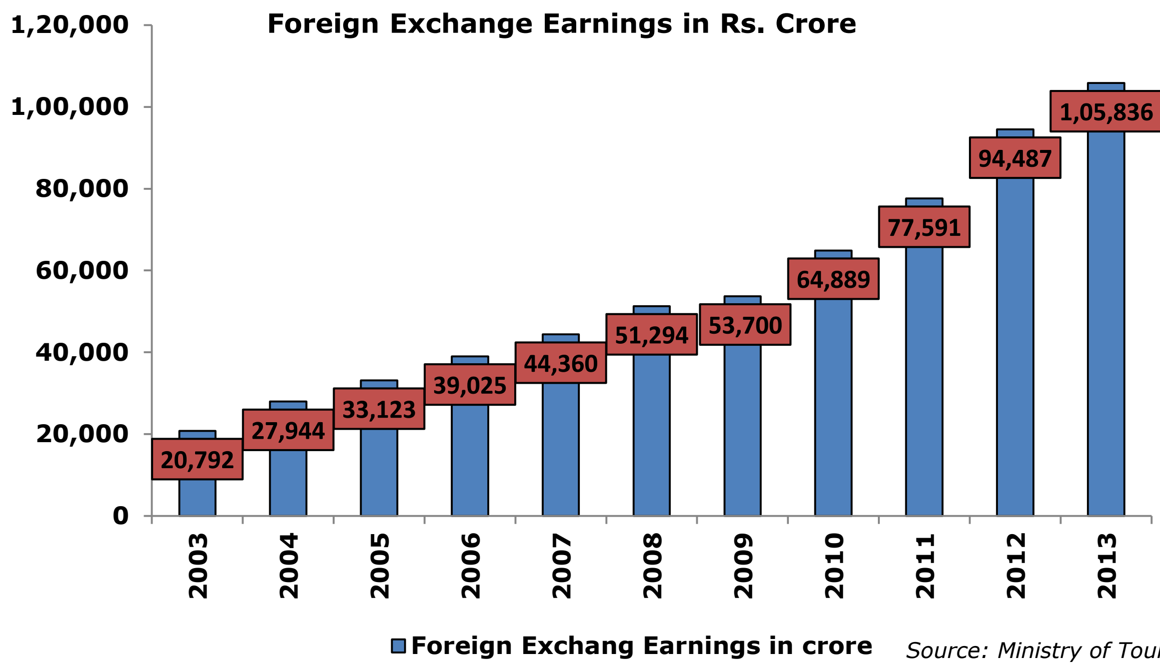
In 2012, India attracted 6.6 million Foreign Tourists, thus generating INR 1,005 billion in Foreign Exchange. In 2013, this is expected to grow by 8.7% and is anticipated that the country will attract 7.5 million international tourist arrivals.

As per WTTC forecast for 2023, the total visitor exports or inbound tourists will be 13,699,000, thus generating INR 1,892 billion in visitor exports, showing an increase of 5.7 per cent over the ten year period 2013-23.



** Anticipated*

Source: WTTC



Source: Ministry of Tourism- GOI

Foreign Tourist Arrivals and Foreign Exchange Earnings during the years 2003-2012

Year	FTA in Nos.	% change over previous year	Foreign Exchange Earnings in crore	% Change over previous year	Foreign Exchange Earnings (USD Million)
2003	**2,726,214**	14.3	**20,792**	37. 6	**4,463**
2004	**3,457,477**	26.8	**27,944**	34.8	**6,170**
2005	**3,918,610**	13.3	**33,123**	18.5	**7,493**
2006	**4,447,167**	13.5	**39,025**	17.8	**8,634**
2007	**5,081,504**	14.3	**44,360**	13.7	**10,729**
2008	**5,282,603**	4.0	**51,294**	15.6	**11,832**
2009	**5,167,699**	-2.2	**53,700**	4.7	**11,136**
2010	**5,775,692**	11.8	**64,889**	20.8	**14,193**
2011	**6,309,222**	9.2	**77,591**	19. 6	**16,564**
2012	**6,648,318**	5.4	**94,487**	21.8	**17,737**

Due to lack of specific data it is difficult to deduct the imports in the Tourism sector directly. However, it is understood from industry stakeholders/trade experts and published information that the total imports in the sector concerning inbound tourism is approximately 20 per cent of total exports. Hence the net foreign exchange in tourism is to the tune of 80 per cent.

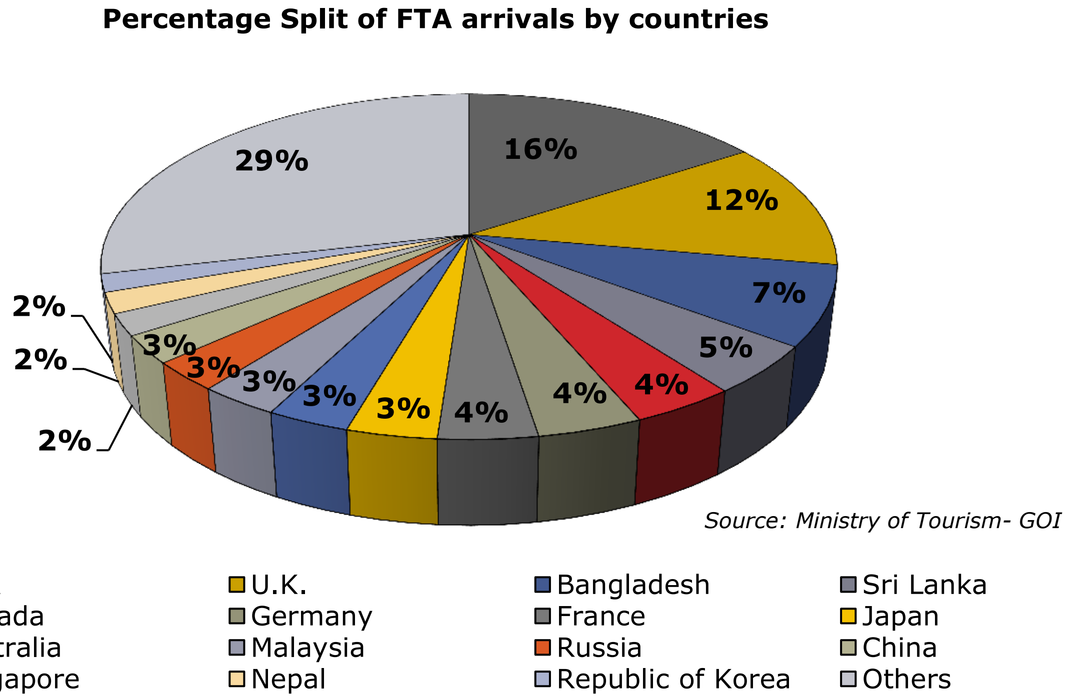
Source: Ministry of Tourism- GOI

8 Visitor Exports by Countries

Inbound Tourism is an important sector of Indian economy and contributes substantially to the country's Foreign Exchange Earnings.

I. Visitor Exports by Top 15 countries

The top 15 countries who have the highest contribution of foreign exchange to the Travel and Tourism Sector is as follows



Visitor Exports or the flow of incoming tourists is a key component of the direct contribution of Travel and Tourism Sector. Tourism is an important sector of Indian economy and contributes substantially in the country's Foreign Exchange Earnings.

Source: Ministry of Tourism- GOI

II. Inbound Tourism by Country

Country	No. of Arrivals (2012)	Percentage Share in total Visitor Exports (2012)
U.S.A	1039,947	15.83
U.K	788,170	12.00
Bangladesh	487,397	7.42
Sri Lanka	296,983	4.52
Canada	256,021	3.90
Germany	254,783	3.88
France	240,674	3.66
Japan	220,015	3.35
Australia	202,105	3.08
Malaysia	195,853	2.98
Russian Federation	177,526	2.70
China (Main)	168,952	2.57
Singapore	131,452	2.00
Nepal	125,375	1.91
Republic of Korea	109,469	1.67
Thailand	105,141	1.60
Italy	98,743	1.50
Afghanistan	95,231	1.45
Netherlands	74,800	1.14
Spain	67,044	1.02
Pakistan	59,846	0.91

Country	No. of Arrivals (2012)	Percentage Share in total Visitor Exports (2012)
Sweden	51,058	0.78
Maldives	50,428	0.77
South Africa	50,161	0.76
Oman	49,759	0.76
Switzerland	48,388	0.74
Israel	47,649	0.73
Belgium	42,604	0.65
U.A.E	41,664	0.63
Iran	40,973	0.62
New Zealand	38,917	0.59
Iraq	38,826	0.59
Austria	38,585	0.59
Nigeria	36,762	0.56
Kenya	34,037	0.52
Philippines	33,323	0.51
Denmark	33,084	0.50
Saudi Arabia	32,127	0.49
China (Taiwan)	31,639	0.48
Myanmar	30,588	0.47
Indonesia	29,559	0.45
Ukraine	29,033	0.44
Poland	25,030	0.38

Country	No. of Arrivals (2012)	Percentage Share in total Visitor Exports (2012)
Mauritius	25,013	0.38
Portugal	24,670	0.38
Ireland	24,546	0.37
Norway	23,569	0.36
Turkey	22,986	0.35
Finland	22,416	0.34
Tanzania	21,862	0.33
Yemen Arab Republic	18,654	0.28
Indonesia	29,559	0.45
Ukraine	29,033	0.44
Poland	25,030	0.38
Mauritius	25,013	0.38
Portugal	24,670	0.38
Ireland	24,546	0.37
Norway	23,569	0.36
Turkey	22,986	0.35
Finland	22,416	0.34
Tanzania	21,862	0.33
Yemen Arab Republic	18,654	0.28
Brazil	18,440	0.28
Bhutan	15,266	0.23

Country	No. of Arrivals (2012)	Percentage Share in total Visitor Exports (2012)
Kazakhstan	11,653	0.18
Vietnam	11,332	0.17
Mexico	11,254	0.17
Czech Republic	11,129	0.17
Egypt	10571	0.16
Bahrain	10045	0.15
Argentina	9831	0.15
Sudan	9626	0.15
Greece	7493	0.11
Hungary	6507	0.10
Others	203805	3.10
Total	**~65,00,000**	**100**

Source: Ministry of Tourism- GOI

9 FDI (Foreign Direct Investment) in Indian Tourism sector

With a view to stimulate FDI in the Travel & Tourism sector, the government has permitted 100 per cent FDI via the automatic route. FDI is channelized for all construction development projects including construction of hotels and resorts, recreational facilities, and city & regional level infrastructure.

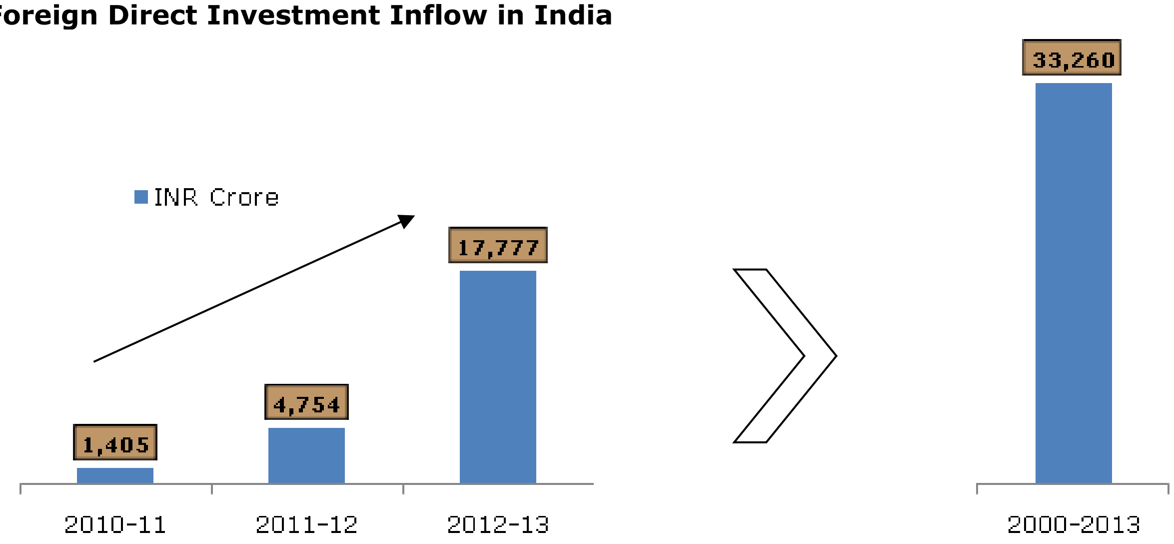
FDI (100 per cent) is allowed in all airport expansion projects subject to the condition that FDI for up gradation of existing airports requires Foreign Investment Promotion Board (FIPB) approval beyond 74 per cent.

A five year tax holiday has been provided to organizations that set up hotels, resorts and convention centres at specific destinations, subject to fulfilment with the agreed conditions. Some international hospitality majors such as Hilton, Accor, Marriott International, Berggruen Hotels, Cabana Hotels, Premier Travel Inn (PTI) and Inter-Continental Hotels group have already executed as well as further announced major venture plans in India in recent years.

The Hotels & Tourism Sector, between April 2000 and December 2013 has seen a total investment of Rs.34,926 crore. The sector has accounted for 3.4% of the total FDI inflows in the country till date.

FDI Inflows during the year 2012-13 at Rs.17,777 crore were the highest ever in any financial year, accounting for 52 per cent of the total FDI Tourism Sector till date.

Foreign Direct Investment Inflow in India



Source: DGFT, Ministry of Commerce -GOI

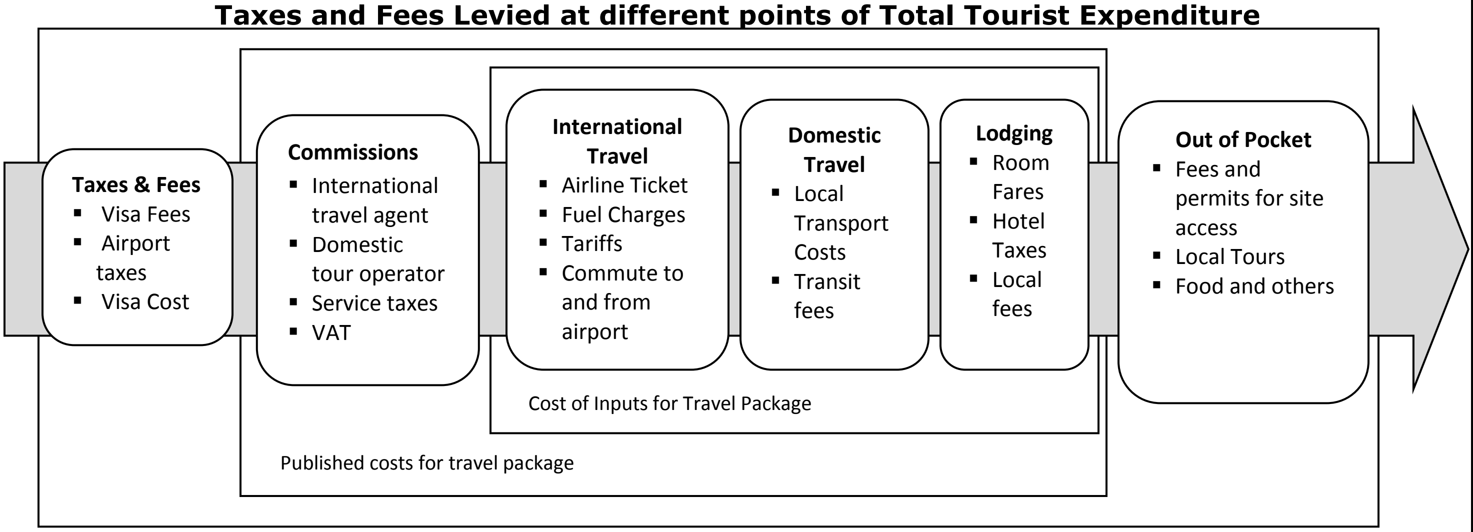
Taxes Levied in the Indian Tourism Sector

10 Defining Tourism for Taxation Purpose

Tourism is a complex industry of numerous sub sectors. It is challenging to define exactly what constitutes a tourism product and how to tax it. Tourism is not a single commodity, but rather a collection of many different goods and services provided by a wide range of suppliers.

The Tourism value chain encompasses a variety of different actors, including hotels, air carriers and transport companies, tour operators, travel agents, rental agencies and countless suppliers from other sectors.

Taxes and Fees Levied at different points of Total Tourist Expenditure



The Key characteristics of the tourism sector which is distinct and needs to be comprehended while assessing the taxation policy in the Tourism sector are:

- Tourism is a highly competitive market in which fixed products (destinations) are selected by mobile consumers with multiple destination choices, a factor that increases the price elasticity of demand. Thus the sector is particularly sensitive to issues related to fiscal incentives and tax competition.

- The outputs of the tourism industry are services, but many inputs are not. Tourism services meet both final demand (consumption by a tourist) and intermediate demand (purchase by a firm).

- Taxing tourism may seem appealing when the bulk of taxes can be placed on constituents, but taxing inbound travel is akin to taxing exports as it erodes competitiveness. The distinction can be blurred between taxes principally paid by tourists as end users and those that mostly affect tourism business, depending on the degree to which taxes are directly passed on to tourists.

11 Indirect Taxes applicable to the Tourism Sector

An indirect tax is a tax collected by an intermediary (such as a hotel in the case of tourism sector) from the tourist who bears the ultimate economic burden of the tax. Indirect taxes are levied on production and sale of commodities and services and small or a large part of the burden of indirect taxes are passed on to the consumers. VAT, service tax, customs duty, tax on rail or bus fare are some examples of indirect taxes. An indirect tax may increase the price of a good so that consumers are actually paying the tax by paying more for the products and services.

Tourism Sector in India is subjected to various indirect taxes both by the centre and the state governments. The Indirect taxes levied on inbound tourists is the same as domestic tourists and may make inbound tourism in India uncompetitive vis-à-vis competing tourism destinations in other countries.

I. The Major Taxes applicable to the Travel & Tourism Sector

Service Tax	VAT	Customs & Excise	Other Taxes
▪ Room Rentals ▪ Restaurant Services ▪ Banquet Services ▪ Convention Services ▪ Rent a Cab Services ▪ Dry Cleaning Services ▪ Health Club/Spa/ Beauty parlor Services ▪ Internet Services ▪ Money Changing Services ▪ Air & Train Tickets	▪ Sale of Food and Beverages in Restaurants ▪ Sale of food under banquet arrangements ▪ Sale of goods from retail shops ▪ In room sale of food (such as in room dining, mini bar etc.)	▪ Customs duty payable on import of capital goods, motor cars etc. ▪ Central Excise on manufacture of Bakery products ▪ State Excise on alcoholic beverages	▪ Luxury Tax on room rentals ▪ Entertainment Tax on casinos, discos, video game parlors etc. ▪ State Entry Tax/Permit ▪ Road tolls ▪ Motor Vehicle tax ▪ UDF & PSF at the Airports

II. Service Tax

Service Tax is a form of indirect tax imposed only on services provided. From the point of view of a layman, providing services means assistance in any work, taking up of any work on behalf of others, any professional assignment or rendering intangible benefits to others. Service has been defined as any activity which has been rendered for consideration and which is carried out by a person for another and which is declared.

The service providers in India except those in the state of Jammu and Kashmir are required to pay a Service Tax under the provisions of the Finance Act of 1994. The provisions related to Service Tax came into effect on 1st July, 1994.

Service tax is charged on all the services provided in the tourism sector across the supply chain by airlines, cab services, hotels, restaurants and other tourism centric activities like money changing services, tourism related adventure sports etc.

- ### Service Tax on key Taxable Services in the Tourism Sector

Restaurant Services			
Nature of Service	**Abatement Provided on the service value**	**Effective Applicable Service Tax Rate**	**CENVAT Credit**
Services provided by Restaurants having Air Conditioning	60%	4.944%	No Cenvat credit available

Hotel Accommodation Services			
Nature of Service	**Abatement Provided on the service value**	**Effective Applicable Service Tax Rate**	**CENVAT Credit**
Hotel Accommodation	40%	7.416%	Credit on service input available. No credit on input of capital goods

Source: Primary research + Secondary research (CBEC)

Other Services provided by Hotels		
Nature of Service	**Abatement Provided on the service value**	**Effective Applicable Service Tax Rate**
Health and Fitness Service (Gym)	0%	12.36%
Beauty and Spa Service	0%	12.36%
Laundry and Cleaning	0%	12.36%
Internet Café Services	0%	12.36%

Cab/Taxi		
Nature of Service	**Abatement Provided on the service value**	**Effective Applicable Service Tax Rate**
Rent a Cab/Taxi	40%	7.416%

Air Travel		
Nature of Service	**Abatement Provided on the service value**	**Effective Applicable Service Tax Rate**
Air Ticket	60%	4.944%
Service Tax Rate Applicable to service related to Air Travel emanating from India		
Date Change or Re booking Fee	60%	4.944%
Up sell/Upgrade Charges	60%	4.944%
Difference in Fare	60%	4.944%
Any charges for FFP (Frequent Flyer) services	60%	4.944%
Ticket Cancellation Charge/Fee	60%	4.944%
Refund Administrative Fee	60%	4.944%
No-Show Fee	60%	4.944%

Source: Primary research + Secondary research (CBEC)

Train Travel		
Nature of Service	**Abatement Provided on the service value**	**Effective Applicable Service Tax Rate**
Train Ticket	70%	3.708%

Convention Centers			
Nature of Service	**Abatement Provided on the service value**	**Effective Service Tax Rate**	**CENVAT Credit**
Bundled service by way of supply of food or any other article of human consumption or any drink, in a premises (including hotel, convention center, club, pandal, shamiana or any other place, specially arranged for organizing a function) together with renting of such premises	30%	8.652%	Cenvat credit of input services and capital goods is available. Cenvat Credit on food items not available

Service Tax on Services provided by Tour Operators/ Travel Agents			
Nature of Service	**Abatement Provided on the service value**	**Effective Service Tax Rate**	**CENVAT Credit**
Accommodation booking service by tour operator	90%	11.124%	No Cenvat Credit available
Air Travel Booking by travel agent		Flat rate on 'basic fare' at 0.6% for domestic booking & 1.2% for international	No restriction on availment of Cenvat credit
Packaged tours by tour operator	75%	3.09%	No Cenvat Credit available

Source: Primary research + Secondary research (CBEC)

III. Central Excise Tax

The tax imposed by the government on the manufacturer or producer on the production of some items is called excise duty. The liability to pay excise duty is always on the manufacturer or producer of goods. The duty being a duty on manufacture of goods, it is normally added to the cost of goods, and is collected by the manufacturer from the buyer of goods.

Transaction	Central Excise Duty Rate
Food preparations prepared or served in a hotel, restaurant or retail outlet	Exempt from central excise duty
Cakes, Pastries & Cookies prepared by the hotel	6.18%
Chocolates prepared by the hotel	12.36%

Source: Primary research + Secondary research (CBEC)

IV. Taxes and charges levied on Air Travel

Besides service tax which is levied on the air ticket, there are other taxes and charges that are applicable to tourists travelling by air.

Tax/Charge	Implementing Agency	Brief Description
Passenger Services Fees	Airports Authority of India (AAI) and private airports at Mumbai, New Delhi, Hyderabad, Mumbai and Kochi.	To cover Security and Facilitation at all AAI airports and private airports.
User Development Fees	AAI and Private Airports at New Delhi, Hyderabad and Bangalore.	To Fund Passenger facilitation at select airports, levied by airports.
Development Fees	Mumbai International Airport Ltd & Delhi International Airport Ltd.	To bridge the funding gap for infrastructure development at Mumbai and New Delhi Airport
Fuel Surcharge	Accrued to the airline	Airline Fuel surcharge

Exemption from levy of Passenger Services fees and User Development fees at the Airports.

The Ministry of Civil Aviation, Government of India has exempted the following categories of persons from levy and collection UDF/PSF

- Children under 2 years of age
- Holders of Diplomatic Passport
- Airline crew on duty including sky marshals & airline crew on board for the particular flight only (this would not include Dead head crew or ground personnel)
- Persons travelling on official duty for United Nations Peace Keeping Missions.
- Transit/transfer passengers (this exemption may be granted to all the passengers transiting up to 24 hours. A passenger is treated in transit only if onward travel journey is within 24 hours from arrival into airport and is part of the same ticket, in case 2 separate tickets are issued it would not be considered as passengers in transit.

i. User Development Fees

Ministry of Civil Aviation/Airports Economic Regulatory Authority of India (AERA) has approved the levy of User Development Fees (UDF) to embarking passengers at the following airports. In respect of tickets issued in foreign currency, the UDF shall be levied in US Dollars.

Airport	User Development Fees (INR)		Agency
	International	Domestic	
Hyderabad*	Rs.1700	Rs.430	Airport Developer
Kolkata	Rs.1000	Rs.400	AAI
Chennai	Rs.667	Rs.166	AAI
Trivandrum	Rs.575	Nil	AAI
Jaipur	Rs.1000	Rs.150	AAI
Ahmedabad	Rs.415	Rs.110	AAI
Amritsar	Rs.910	Rs.150	AAI
Udaipur	Nil	Rs.150	AAI
Trichy	Rs.360	Rs.150	AAI
Vishakhapatnam	Nil	Rs.150	AAI
Mangalore	Rs.825	Rs.150	AAI
Varanasi	Rs.975	Rs.150	AAI

** UDF will no longer be charged from 1 April 2014*

ii. Passenger Service Fee

Passenger Service fee is levied to cover for Security and Facilitation at all AAI airports and private airports at Mumbai, New Delhi, Hyderabad, Mumbai and Kochi.

- INR 207/- (Indian Rupees two hundred seven only) per embarking passenger at International/ Domestic airports including civil enclaves, except at Kolkata & Chennai Airports.
- $5.18 (US$ Five and eighteen cents only) per passenger in respect of the tickets issued against dollar Tariff.

V. Value Added Tax – (VAT)

Under the Indian tax system, the states levy VAT (Value added tax) on the sale of physical goods and commodities.

VAT is a multi-point tax levied and collected on the value added to goods at different stages of sale. It is a method of taxing by stages. The method consists of levying a tax on the value added to a product at each stage of production or distribution.

It is another form of sales tax where taxis collected in stages rather than collection of the tax at the first or last point. VAT, in simple terms, is a multi-point levy on each of the entities in the supply chain with the facility of set-off of input tax i.e. that is, the tax paid at the stage of purchase of goods by a trader and on purchase of raw materials by a manufacturer.

i. Rate of VAT levied on key components of the Tourism Sector

Value Added Tax			
State	Applicable rate of VAT in Percentage		
	Food	Spa & Health Products	Residual Category
Andhra Pradesh	14.50	14.50	14.50
Assam	13.50	13.50	13.50
Arunachal Pradesh	12.50	12.50	12.50
Bihar	13.50	13.50	13.50
Chhattisgarh	14.00	14.00	14.00
Dadra & Nagar Haveli	12.50	12.50	12.50
Daman & Diu	12.50	12.50	12.50
Delhi	12.50	12.50	12.50
Gujarat	12.50	12.50	12.50
Goa	12.50	12.50	12.50

Haryana	12.50	12.50	12.50
Himachal Pradesh	13.75	13.75	13.75
Jammu & Kashmir	13.50	13.50	13.50
Jharkhand	14.00	14.00	14.00
Karnataka	14.95	14.95	14.95
Kerala	14.50	14.50	14.50
Maharashtra	12.50	12.50	12.50
Madhya Pradesh	13.00	13.00	13.00
Manipur	13.50	13.50	13.50
Meghalaya	13.50	13.50	13.50
Mizoram	12.50	12.50	12.50
Nagaland	13.25	13.25	13.25
Orissa	13.50	13.50	13.50
Punjab	12.50	12.50	12.50
Puducherry	12.50	12.50	12.50
Rajasthan	14.00	14.00	14.00
Sikkim	12.50	12.50	12.50
Tamil Nadu	14.50	14.50	14.50
Tripura	14.50	14.50	14.50
Uttar Pradesh	13.50	13.50	13.50

Uttarakhand	13.50	13.50	13.50
West Bengal	14.50	14.50	14.50

ii. Rate of VAT (Value Added Tax) levied on Airline Turbine Fuel (ATF)

VAT on Airline Turbine Fuel (ATF)	
State	**Airline Turbine Fuel**
	Domestic/Bonded
Andhra Pradesh	16%
Arunachal Pradesh	20%
Assam	22%
Bihar	29%
Chhattisgarh	5% or 0%
Delhi	20%
Goa	12%
Gujarat	38%
Haryana	25%
Himachal Pradesh	1%
J&K	25%
Jharkhand	20%
Karnataka	28%
Kerala	25%+15% additional tax +1% SSC on tax

Source: Primary research + Secondary research (Department of Commercial taxes of Indian states)

Madhya Pradesh	5%
Maharashtra	30%
Manipur	20%
Meghalaya	0%
Mizoram	20%
Nagaland	20% + 5% surcharge on tax
Orissa	20%
Punjab	20.50%+10% surcharge on tax
Rajasthan	20%
Sikkim	12.50%
Tamil Nadu	29%
Tripura	22%
Uttar Pradesh	21%
Uttarakhand	20%
West Bengal	25%

Source: Primary research + Secondary research (Department of Commercial taxes of Indian states)

VI. Luxury tax

Luxury tax is applicable to the tourisms sector as it is charged on the hotel room tariff. Tax applied on hotel room tariffs varies significantly from state to state, not just in pure percentage terms but also in the way it is computed.

Some states charge Luxury Tax on the published tariff of the room instead of the actual tariff of the room, which is typically a discounted rate. Elsewhere in the world, the general practice is to apply tax on the actual room tariff. By applying taxes on the published tariff, the end consumer effectively ends up paying more tax on not only the room, but also all related expenses such as commissions to travel agents

State	Highest Rate of Luxury tax	Calculated on
Andhra Pradesh	5%	Published rate
Assam	12%	Published rate
Arunachal Pradesh	0%	N/A
Bihar	10%	Actual tariff
Chhattisgarh	10%	Actual tariff
Delhi	10%	Published rate
Gujarat	6%	Published rate
Goa	10%	Actual tariff
Haryana	10%	Published rate
Himachal Pradesh	10%	Actual tariff
Jammu & Kashmir	0%	N/A
Jharkhand	7%	Published rate
Karnataka	12%	Actual tariff
Kerala	12.5%	Actual tariff

Maharashtra	10%	Actual tariff
Madhya Pradesh	10%	Actual tariff
Manipur	0%	N/A
Meghalaya	20%	Actual tariff
Mizoram	0%	N/A
Nagaland	0%	N/A
Orissa	0%	N/A
Punjab	4%	Actual tariff
Rajasthan	10%	Actual tariff
Sikkim	0%	N/A
Tamil Nadu	12.5%	Published rate
Tripura	10%	Actual tariff
Uttar Pradesh	5%	Actual tariff
Uttarakhand	5%	Actual tariff
West Bengal	10%	Actual tariff

Source: Primary research + Secondary research (Department of Commercial taxes of Indian states)

VII. Entertainment tax

The entertainment industry in India needs to pay taxes in the form of entertainment tax to the government. All financial transactions incurred on entertainment like big private festivals, movie tickets, large commercial shows etc. attract entertainment tax in India.

Entertainment tax is levied by the state governments in India. Some states do not levy an entertainment tax, primarily with an intention to promote the events & entertainment industry in the states. For example, there is no entertainment tax in Rajasthan, Himachal Pradesh, Jammu & Kashmir and Punjab.

i. Entertainment Tax on Amusement Parks

State	Entertainment Tax
Andhra Pradesh	20% (Condition Apply)
Arunachal Pradesh	20 % on the Entry Fee
Assam	Entertainment Tax Exempted for the period of 5 years from the date of commencement of the commercial operation
Delhi	15%
Gujarat	25%
Haryana	10%
Himachal Pradesh	Exempted from Entertainment Tax
Karnataka	Upto Rs.50 Exempted & above Rs. 50/- 5 % on Amusement & Water Park
Kerala	Based on Category fixed by the Govt (Category Below)
Tamil Nadu	10% on Amusement & Water Park
Madhya Pradesh	Exemption for 5 years & then 12 %
Maharashtra	Exemption for 5 years & then 10 % Water Park & 15 % Amusement Park
Punjab	For Investment up to 2 Cr. Exempted for 5 years then 50 %
Uttar Pradesh	25%
Uttarakhand	20%
West Bengal	20%

Source: Indian Association of Amusement Parks & Industries

ii. Entertainment Tax on Film Screenings

State	Entertainment Tax on Gross Ticket Value
Jharkhand	110%
Uttar Pradesh	60%
Maharashtra	45%
Bihar	50%
Haryana	30%
Karnataka	30%
Kerala	30%
West Bengal	30%
Orissa	25%
Delhi	20%
MP	20%
Gujarat	20%
Andhra Pradesh	20% (15% for Telegu films)
Assam	15% for tickets prized less than Rs 20 and 20% for tickets prized anywhere above Rs 20
Tamil Nadu	15% (Tamil Films are not subject to entertainment tax)
Rajasthan	0%
Himachal Pradesh	0%
Jammu and Kashmir	0%
Punjab	0%

iii. Entertainment tax per Cable TV/DTH subscriber per month

Entertainment tax is charged on the television cable/ DTH services per subscriber basis to the government. This impacts the tourism industry as hotels need to pay these taxes even if these services are not used on a continual basis, if the hotel occupancy is low.

State	Rate of Tax Cable TV (INR) per connection	Remarks	Rate of Tax for DTH
Punjab	15000 per year	Nil	10%
Maharashtra	Rs.45	▪ Mahanagar Palika- Rs.45 ▪ Gram Panchayat- Rs.15 ▪ Nagar Parishad- Rs.30	Rs.45/30/15
U.P.	25%	On Gross Collection	25%
Jharkhand	Rs.30 to Rs.50	▪ Rs.30 per connection upto 5 channels ▪ Rs.50 per connection more than 5 channels	10%
Delhi	Rs.20	For Hotels it is Rs.50 per month	Rs.20
Bihar	Rs.15	---	15%
Goa	Rs.15	Officially Gazette Rs.20	Rs.30
Assam	Rs.12–Rs.50	Rs.12 per subscriber, Hotels Rs.50 per TV	Rs.25
M.P.	Rs.10-Rs.20	20% on total collection	20% (Exempted by Supreme Court Order)
Chhattisgarh	Rs.10 to Rs.20	▪ Nil for Town below 10,000 population ▪ Rs.10 for town with population 10,001 to 50,000 ▪ Rs.20 per connection In towns with a population above 50,000	Rs.10/20
Meghalaya	Rs.10	---	
Gujarat	Rs.6	---	Rs.17
Kerala	Rs.5	---	2%
Orissa	Rs.3	---	5%
Sikkim	25%	On Gross Collection	
Uttarkhand	20% of Revenue	---	Rs.25
Andhra Pradesh	6% of turnover of MSO	▪ Rs.3 in Municipal Corporation areas ▪ Rs.100 in villages per cable operator	

West Bengal	MSO@5% of Monthly Gross Receipts	▪ Only those local cable operators who run their own video channels on cable (from April 2010) ▪ Cable Operators @Rs.1500 per annum in Kolkata and @Rs.1000 per annum in other areas	Rs.10
Karnataka	6% Approximately Rs.30 to Rs.60 per subscriber	▪ MSO & DTH operator 6%, ▪ Cable Operators: Bangalore-Rs.6500 per month, Municipal Corp – Rs3000 per month, Village/ Panchayat – Population below 25000 – Rs.1500, Above 50000 -6%	6%
J&K	Rs.10	---	
Tripura	10%	---	
Puducherry	10%	---	
Tamil Nadu	Nil	Nil	30% (Exempted by High Court)
Haryana	Nil	Nil	
Rajasthan	Nil	Nil	
Himachal Pradesh	Nil	Nil	
Nagaland	Nil	Nil	
Mizoram	Nil	Nil	
Manipur	Nil	Nil	
Arunachal Pradesh	Nil	Nil	
Chandigarh	Nil	Nil	

Source: Cable Operators Association of India

iv. Entertainment tax on Events

Entertainment tax is levied on the amounts charged for allowing entry into the place where an entertainment event is held.

Ticket sales are a major revenue source for event organizers. Some state governments charge a very high rate of entertainment tax and hence, it accounts for significant cost in hosting an event. Certain state governments charge entertainment tax at a rate as high as 50% of the value charged for entry into the event, while some state governments also grant exemption from payment of entertainment tax depending on specific nature of events.

While entertainment tax is applicable on entertainment, certain states intend to extend the applicability of this tax to business exhibitions and fairs carried out in those states. This aspect lacks clarity and event organizers / owners of such business exhibitions shall be under risk of demand of entertainment tax on the collections from these events.

While entertainment tax is levied on entertainment events, certain revenues from the events are also made liable to service tax. For e.g. event sponsorship amounts earned are liable to entertainment tax under certain entertainment tax legislations, in addition to the service tax (currently at 12.36%) levied by the central government.

Entertainment Tax on events in major states in India is as follows

State	Tax/ Charge
Bihar	50
Uttar Pradesh	25
Maharashtra	25
Chandigarh	25
Madhya Pradesh	20
Goa	15
Delhi	15
Haryana	Exempt

Source: Primary Research

VIII. Taxes on Tourist Transport Vehicles

i. Motor Vehicle Tax/Road Tax

Motor Vehicle Tax/ Road Tax is levied on the Tourist transport Vehicles in the same manner as for other transport vehicles. The avowed purpose of motor vehicle tax (MVT) is to defray the costs of road maintenance out of the revenue realized from user charges. Besides, motor vehicle taxation is also geared to fulfil other objectives like the reduction of both congestion and pollution.

Existing tax structure for commercial vehicles shows wide variations among States. There are different bases for computation and different rates, leading to differing incidence of taxes per vehicle in different States. The motor Vehicle Tax/ Road Tax charged on Tourist Transport Vehicles is as follows

State	Mode of Payment	Road Tax per annum
Andhra Pradesh	Quarterly	Rs.2,444.4 (Rs.611.10/- per quarter)
Assam	Annual	Rs.8000(Rs.8000/- pa)
Bihar	Annual	Rs.5000(Rs.200 per seat pa)
Chhattisgarh	Quarterly	Rs.10000 (Rs100/- pq per seat)
Delhi	Annual	Rs.3875 (Rs.1915+280/- per passenger beyond 18 passengers
Gujarat	Annual	Rs.3480 (Rs.1200 + Rs.80 per seating + Rs.40 per standing beyond 9)
Haryana	Annual	Rs.13750(Rs.550 per seat subject to a maximum of Rs .35000)
Himachal Pradesh	Annual	Rs.12500(Rs.500 per seat pa)
J&K	Quarterly	Rs.4000(Rs.1000 pq)
Karnataka	Quarterly	Rs.50,000 (Rs.500 per seat pq +Rs.100/- per every standing passenger
Kerala	Quarterly	Rs.60,000 (Rs600 per seat pq)
Madhya Pradesh	Monthly	Rs.63,000 (Rs.160 per seat per month if does not exceed 100 kms, thereafter for each 10 km Rs 10 per seat per month)
Maharashtra	Annual	Rs.1,775 (Rs71/- per seat per annum + Rs. 18/- per standing passenger per annum)
Manipur	Annual	Rs.1,720 (Rs.1000 +80 for every additional passenger beyond 16 passengers)

Meghalaya	Annual	Rs.2500(Rs.100 per seat per annum)
Mizoram	Annual	Rs.2500(Rs.100 per seat excluding two seats)
Orissa	Annual	Rs.18700 (Rs.172 per seat pa + Rs.576/- per seat per annum
Punjab	Annual	Rs.16,250 (Rs.650/- per seat per annum +Rs 576/- per seat pa as additional tax)
Rajasthan	Annual	Rs.10000(0.70% of the cost of the vehicle +SRT of 1.50% of the cost of the vehicle or maximum Rs. 12000
Sikkim	Annual	Rs.3125 (Rs. 125/- per seat per year)
Tamil Nadu	Quarterly	Rs.50000 (Rs.400/per seat per quarter- plus 25% surcharge per seat
Tripura	Annual	Rs. 1,375 (Rs. 425.00 for 8 plus Rs. 50.00 every seat beyond 8 and upto 26)
Uttar Pradesh	Quarterly	Rs.3,060 (Rs. 590 for the first 20 seats and Rs.35 for every additional seat (A) class route)
Uttarakhand	Quarterly	Rs.3,060 (Rs. 590 for the first 20 seats and Rs. 35 for every additional seat (A) class route)
West Bengal	Annual	Rs.3125/-p.a. (Rs.125 per passenger per annum)

Source: Primary + Secondary (Ministry of Road Transport & Highways - Road User Taxes)

ii. Toll Taxes

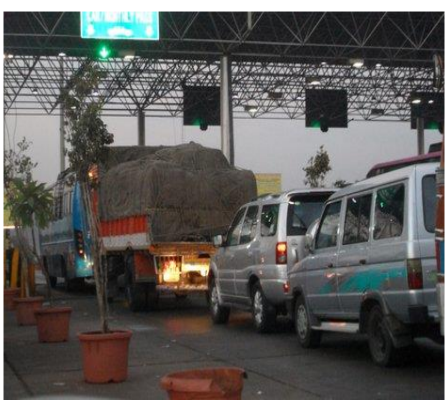
Motor Toll charges or toll taxes are user charges upholding the concept of the "user-pays". Tolls are paid only when a particular facility is used and the tolls paid are meant to cover operating and maintenance costs as well as debt retirement of the facility.

The levy of Toll fee is governed by National Highways Fee (Determination of Rates and Collection) Rules, 2008, the National Highways (collection of fees by any person for the use of section of National Highways/Permanent Bridge/Temporary Bridge on National Highways) Rules, 1997, and the National Highways (Fees for the use of National Highways section and permanent Bridge-Public Funded Project) Rules, 1997.

The base rate of toll fee that is charged is as follows

- The Rate of Fee for use of the section of National Highway, permanent bridge, bypass or tunnel constructed through a public funded project or through a private investment project is equal.
- The Rate of fee for use of the national highways which are four or more lanes is as follows

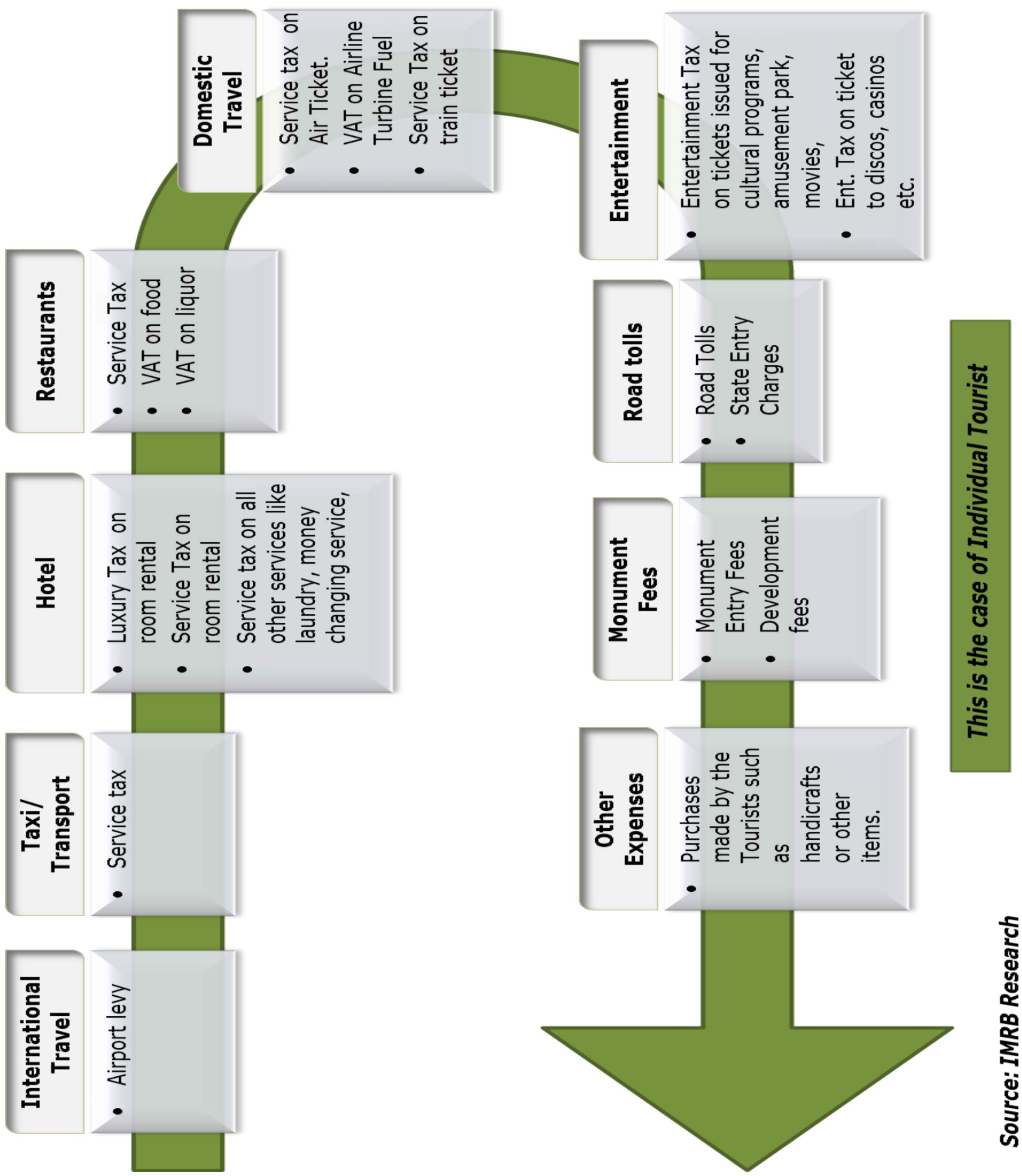
Type of Vehicle	Base Rate of Fee per km. (INR)
Car, Jeep, Van or Light Motor Vehicle	0.65
Light Commercial Vehicle, Light Goods Vehicle or Mini Bus	1.05
Bus or Truck	2.20
Oversized Vehicles (seven or more axles)	4.20



Source: Primary + Secondary (Ministry of Road Transport & Highways - Road User Taxes)

12 Incidence of Taxes on Inbound Tourists

The incidence of Taxes on Inbound Tourists which are levied at various stages or product/ service procurement touch points is depicted in the illustration below.



13 Total Indirect Tax Incidence – An Illustration

The Illustration (for the state of Maharashtra) depicts the numerous taxes and the rates which are levied on the products or services in the Tourism Sector. The Indirect tax build up is constructed considering the average percentage spent by the tourist against each major product or service category. This is just an illustration for one state. Detailed information for each stated is already furnished in chapter 10 of the report.

Service/ Product elements	Rate %	Total Tax on the element %	Avg. % Spent by type of product/ Service	Resultant Tax on the overall Amount spent
Hotel – Room Rental		17.416	40	6.9664
Luxury Tax	10			
Service Tax	7.416			
Hotel –Other Services	12.36	12.3		
Restaurant		17.44 on food & 24.944 of liquor	6 on food, 4 on liquor	2.0444
VAT on food	12.5			
VAT on Liquor	20			
Service tax	4.944			
Transportation		19.416	15	2.9124
Local Cab Service	7.416			
Taxes on transportation (Interstate taxes etc.)	12			
Air Travel		34.944	20	6.9888
*ATF**	30			
Service Tax	4.944			
Miscellaneous Purchase –			5	
Mark Up	3.09		10	0.309
		Total	**100**	**19.221**

14 Indirect Tax Incidence – Comparison with competing countries

The major Indirect Taxes levied on the Tourism Sector in the Competing Destinations are as follows. It is understood that the competing South Asian countries which are experiencing higher Foreign Tourist Arrivals have simpler taxation structure with few or no multiple taxes charged on the same products or service

Tax	India	Malaysia	Thailand	Singapore	China
Sales Tax		a) 5% or 10% on product sales. b) Reduced Sales Tax of 5% is applicable on Food, alcoholic beverages & Tobacco products			
Service Tax	a) 7.416% on room charge. b) 4.94% Food Served in Hotels & Restaurants c) 4.94% on transportation services like Cabs etc. d) 12.36% on all other services e) 4.94% on Air Travel	6% on all Services			
VAT	a) (12-15)% on Food Served in Restaurants & Hotels. b) VAT on Airline Turbine Fuel, varying from (5-30)% c) VAT of 20% on alcohol		10% on all products and services.		a) 11% on Transportation Services b) 13% on Food served in Hotels & Restaurants c) 17% on Hotel & Restaurant services
GST				7% GST rate on all products and services	
Others	a) Luxury Tax on room rental which varies from (5-33)% b) Entertainment Tax on Amusement Parks, Entertainment programs which vary from (12 - 35)%			1% Government Tax on hotels	a) 3%-45% Consumption tax on products consumed in Tourism sector as liquor, cigarettes and other products.

Source: Secondary Research

Tax Benefits available in India vis a vis competing countries

India	Malaysia	Thailand	Singapore	China	Dubai
Section 35AD of the IT Act 1961 – 100% deduction on capital expenditure incurred only for Hotels which are 2 star and above category.	Pioneer Status Scheme –If Fresh or re investments are made, hotels (1-5 star) need to pay tax on 30% of the income	Tourism Infrastructure like Convention halls, exhibition centres, amusement parks etc. are exempted from Income tax for 5-8 years	EDB approved tourism sector projects get investment allowance not exceeding 100% of the capital invested in addition to normal capital allowance	Tourism related infrastructure like airports, public transportation sectors enjoy a 3 year partial exemption from income tax	N/A as there is no corporate income tax in the tourism sector. Also guaranteed no taxation policy for 15 years.
Served from India Scheme	Investment related Tax allowance (ITA) – Allowance of 60% on the qualifying capex	Hotels in 70% of the provinces enjoy a) Income Tax exemption for 8 years and 50% reduction in income tax for 5 yrs. post that b) Double deduction w.r.t. opex like water, electricity for 10 yrs.	Tax deduction on inbound tourism promotion activities		
Market development assistance Scheme	Enhanced Incentives for 4 & 5 star hotels – a) Pioneer status – Income Tax exemption on 100% statutory income b) ITA of 100% on the qualifying capital		Tax deduction on participation in local trade exhibitions		
State level benefits on stamp duty, property taxes & investment linked exemptions on Indirect taxes	Income tax exemptions to Tour operators				
	Double deduction on overseas promotions and approved trade fairs	Tourism Infrastructure like hotels are exempt from import duty on machinery or capital assets			

Direct Tax Benefits **Indirect Tax benefits & other benefits**

Source: India - Foreign Trade Policy of India
Malaysia – Malaysian Industrial Development Authority
Thailand – Thailand Board of Investment
Singapore-Singapore Economic Development Board
Dubai- Investment Corporation of Dubai.

Indirect tax incidence & operating costs in India vis a vis competing countries

Indirect Tax incidence on Inbound Tourism in India vis a vis competing countries					
India	**Malaysia**	**Thailand**	**Singapore**	**China**	**Dubai**
20.1%	8.7%	8.0%	14.7%	4.9%	4.5%

Indirect Tax Incidence on Tourism Exports (Inbound Tourism) verses other sector exports					
Tourism	**IT & ITES**	**Pharma**	**Textiles**	**Chemical**	**Gems & Jewellery**
20.1%	0%				

Avg. Electricity Tariff (USD /KWh) & Avg. Water Tariff (USD/Cubic meter) in India						
Sectors	**Tourism**	**IT & ITES**	**Pharma**	**Gems & Jewellery**	**Textiles**	**Chemical**
Electricity Tariff	0.233	0.137	Low- 0.11 High- 0.128	Low- 0.11 High- 0.128	Low- 0.11 High- 0.128	Low- 0.11 High- 0.128
Water Tariff	1.298	1.298	1.549	1.549	1.549	1.549

Avg. Electricity Tariff (USD /KWh) & Avg. Water Tariff (USD/Cubic meter) in India verses competing countries						
Country	**India**	**Malaysia**	**Thailand**	**China**	**Singapore**	**Dubai**
Electricity Tariff	0.233	0.111	0.07		0.172	0.082
Water Tariff	1.298	0.631	0.418		0.48	0.011

15 Direct Taxes Applicable in India

A Direct tax is a charge, which is imposed directly on the taxpayer and paid directly to the government by the persons or institutions on which it is imposed. A direct tax is one that cannot be shifted by the taxpayer to someone else. The direct taxes which are applicable to the business institutions in India are as under:

I. Corporate Tax

The companies and business organizations in India are taxed on the income from their transactions under the provision of Income Tax Act, 1961. A corporation is deemed to be resident in India if it is incorporated in India or if it's control and management is situated entirely in India. In case of non-resident corporations, tax is levied on the income which is earned from their business transactions in India or any other Indian sources depending on bilateral agreement of that country. The prevailing corporate tax rates in India are as follows:

Domestic Corporate & LLP Income Tax Rates		
	Basic Tax Rate	**Effective Tax Rate with surcharge & ed. cess**
Domestic Corporations / Private Limited Companies*	**30%**	**33.99%** [1]
Domestic Corporations / Public Limited Companies*	**30%**	**33.99%** [1]
Limited Liability Partnership (LLP's)	**30%**	**30.9%** [2]

1. A surcharge of 10% of the income tax is levied, if the taxable income exceeds Rs. 1 million. Educational Cess is also added.
2. An Educational Cess is added to the basic tax rates. Surcharge is not applicable to LLP.

*All companies incorporated in India are deemed as domestic Indian companies for tax purposes, even if owned by foreign companies.

Please note that Foreign Companies that have a PE or Branch/Project Office in India, income is taxed at a basic rate of 40%. An education cess of 3% (on the tax) is payable, yielding effective tax rates of 41.2%

II. Wealth Tax

Wealth tax is levied on non-productive assets whose value exceeds Rs. 3 million. Productive assets like shares, debentures, bank deposits and investments in mutual funds are exempt from wealth tax. The non-productive assets include residential houses, jewelry, bullion, motor cars, aircraft, urban land, etc. Foreign nationals are exempt from wealth tax on non-Indian assets. In arriving at the net taxable wealth, any debt incurred in acquiring specified assets is deductible.

The Current applicable rate at which wealth tax is levied is as follows:

Net Taxable Wealth	Tax Rate
Less than INR 30 Lakhs	0%
More than INR 30 Lakhs	1%

III. Taxes on Immovable Property

The following Direct taxes are applicable on the Immovable Property in India. To incentivize investments in the Tourism Sector, certain states provide lower tax rates based on conditions which have been discussed in chapter 16.

I. Stamp Duty

- Stamp Duty is the tax paid to the State Government during transfer of property from one owner to another.
- Stamp Duty has to be paid on the value of the sale agreement in order to accord legal status to the property purchase transaction.
- Stamp Duty is to be paid on or before the date of registration of the Agreement.
- The rate of stamp duty varies from state to state and ranges from 5%-15% of the value of the purchase.

Rate of Stamp Duty on Immovable Property		
State	**Rate of Stamp Duty**	**Remarks**
Andhra Pradesh	5%	Of value of consideration in instrument or market value whichever is higher.

Assam	8.25%	For Value of Consideration exceeding Rs.1,50,000/-
Bihar	7% + 2% i.e. 9% + additional surcharge @10% of amount of stamp duty	For Value of instrument exceeding Rs.50,000/-
Jharkhand	7% + 2% i.e. 9% + additional surcharge @10% of amount of stamp duty	For Value of instrument exceeding Rs.50,000/-
Goa	8%	For consideration more than Rs.1,000/-
Gujarat	8%+ 25% of duty = 10%	Of the consideration or market value whichever is greater
Haryana	12.5%	Value of Consideration exceeding Rs.1,000/-
Himachal Pradesh	8%	Of consideration
Kerala (properties located within the municipal areas or corporations)	9%	Amount of value of consideration
Madhya Pradesh	8%	Of Market Value
Orissa	14.7%	Of Consideration or Market value whichever is higher
Punjab	6%	Of Consideration
Rajasthan	10%	Of Market value
Tamil Nadu – 1. (Properties within the cities of Chennai & Madurai and the municipal towns of Salem, Coimbatore & Tuiruchapally) 2. If any other property	1.) 8% 2.) 7%	Of Market value
Tripura	5%	Of consideration
Uttar Pradesh	14.5%	Of Consideration of market value whichever is greater
West Bengal	5% + 2% additional duty	Of the Market Value
Union Territory of Delhi	3% stamp duty plus additional 5% duty in form of surcharge under Delhi Municipal Corporate Act. 1957.	Of Consideration

Source: Primary + Secondary

II. Registration Tax

- It is a process of recording the contents of a document with a registering officer (sub registrar)
- Property Documents are registered for the purpose of conservation of evidence, assurance of title, publicity of documents and prevention of fraud.
- The fee for registration currently is fixed for registering the documents which is on an average 1% of the market value/ agreement value.

III. Local Property Tax

- Property tax is the tax charged by the local bodies like municipalities on real estate and land owned by the residents.
- It is the liability of the property owner to pay the property tax in India to the concerned local governing bodies.
- The rates vary according to each governing body and by type of property. ie. Residential or Commercial.

IV. Depreciation Policies on Fixed Assets

Depreciation of an Asset is defined as the allocation of the depreciable amount of an asset over its estimated life. The cost of using long-term operating assets (known as depreciation) is recorded gradually as the assets are used. Depreciation is an allocation of the cost that is calculated using an asset's acquisition cost, it's expected life, and expected residual value.

The incidence of depreciation that can be accounted is defined by the Companies Act 2013. It is dependent on the nature of asset and not specific to any business sector or nature of enterprise.

Hotel Building which is a key asset class, as far as Tourism Sector is concerned is covered under Factory Buildings and allowed for a depreciation allowance of 10 percent. There has been a long standing demand on behalf of the Hotel Associations to avail a 20 percent depreciation allowance as was the case till the year 2001-02.

The Following Table is the Depreciation Rate Chart as per the Part "C" of Schedule II of The Companies Act 2013. The Sections or Asset Classes applicable to the Tourism Sector are highlighted in green. It is understood from the Rate Chart that the Depreciation Allowance provided to other export oriented industries is on a higher side than the key assets in the Tourism Sector like Hotels.

Depreciation Rate Chart Applicable to Tourism & Export Sectors

Nature of Assets	Useful Life	Rate SLM	Rate WDV
1. Buildings			
a) Building (other than factory buildings) RCC Frame Structure	60 years	1.58%	4.87%
b) Building (other than factory buildings) other than RCC Frame Structure	30 years	3.17%	9.50%
c) Factory Buildings	30 years	3.17%	9.50%
d) Fences, Wells, Tube Wells	5 years	19%	45.07%
e) Other (including temporary structure etc.)	3 years	31.67%	63.16%

Source: Secondary – Companies Act 2013

Depreciation Rate Chart Applicable to Tourism & Export Sectors			
Nature of Assets	**Useful Life**	**Rate SLM**	**Rate WDV**
2. Plant and Machinery			
a) General rate applicable to Plant and Machinery not covered under Special Plant and Machinery			
a. Plant and Machinery other than continuous process plant not covered under specific	15 years	6.33%	18.10%
b. Continuous process plant for which no special rate has been prescribed	8 years	11.88%	31.23%
b) Special Plant and Machinery			
a. Plant and Machinery related to production and exhibition of motion picture films			
i. Cinematograph films	13 years	7.31%	20.58%
ii. Projecting equipment for exhibition in films	13 years	7.31%	20.58%
b. Plant and Machinery used in glass			
i. Plant and Machinery except direct fire glass melting furnaces – recuperative furnaces	13 years	7.31%	20.58%
ii. Plant and Machinery except direct fire glass melting furnaces - Moulds	8 years	11.88%	31.23%
iii. Float glass melting furnaces	10 years	9.50%	25.89%
c. Plant and Machinery used in mines and quarries	8 years	11.88%	31.23%
d. Plant and Machinery used in Telecom			
i. Towers	18 years	5.28%	15.33%
ii. Telecom transceivers, switching centers & network equipment	13 years	7.31%	20.58%
iii. Telecom- Ducts, Cables and Optical fibre.	18 years	5.28%	15.33%
iv. Satellites	18 years	5.28%	15.33%

Source: Secondary – Companies Act 2013

Depreciation Rate Chart Applicable to Tourism & Export Sectors			
Nature of Assets	**Useful Life**	**Rate SLM**	**Rate WDV**
e. Plant and Machinery used in exploration, production and refining oil and gas			
i. Refineries	25 years	3.80%	11.29%
ii. Oil and Gas assets	25 years	3.80%	11.29%
iii. Petrochemical Plant	25 years	3.80%	11.29%
iv. Storage tanks and related equipment	25 years	3.80%	11.29%
v. Pipelines	30 years	3.17%	9.50%
vi. Drilling Rig	30 years	3.17%	9.50%
vii. Field Operations – portable boilers, drilling tools, well head tanks etc.	8 years	11.88%	31.23%
viii. Loggers	8 years	11.88%	31.23%
f. Plant and Machinery used in generation, transmission and distribution of power			
i. Thermal/ Gas/ Combined cycle power generation plant	40 years	2.38%	7.22%
ii. Hydro Power generation plant	40 years	2.38%	7.22%
iii. Nuclear power generation plant	40 years	2.38%	7.22%
iv. Transmission Lines, cables etc.	40 years	2.38%	7.22%
v. Wind Power generation plant	22 years	4.32%	12.73%
vi. Electric Distribution plant	35 years	2.71%	8.20%
vii. Gas Storage and distribution plant	30 years	3.17%	9.50%
viii. Water Distribution plant including pipelines	30 years	3.17%	9.50%

Source: Secondary – Companies Act 2013

Depreciation Rate Chart Applicable to Tourism & Export Sectors			
Nature of Assets	**Useful Life**	**Rate SLM**	**Rate WDV**
g. Plant and Machinery used in the manufacture of			
i. Sinter Plant	20 years	4.75%	13.91%
ii. Blast Furnace	20 years	4.75%	13.91%
iii. Coke Ovens	20 years	4.75%	13.91%
iv. Rolling mills in steel plant	20 years	4.75%	13.91%
v. Basic oxygen furnace converter	25 years	3.80%	11.29%
h. Plant and Machinery used in the manufacture of non-ferrous metals			
i. Metal pot line	40 years	2.38%	7.22%
ii. Bauxite crushing and grinding section	40 years	2.38%	7.22%
iii. Digester section	40 years	2.38%	7.22%
iv. Turbine	40 years	2.38%	7.22%
v. Equipments for calcinations	40 years	2.38%	7.22%
vi. Copper Smelter	40 years	2.38%	7.22%
vii. Roll Grinder	40 years	2.38%	7.22%
viii. Soaking Pit	30 years	3.17%	9.50%
ix. Annealing furnace	30 years	3.17%	9.50%
x. Rolling Mills	30 years	3.17%	9.50%
xi. Equipment for Scalping, Slitting	30 years	3.17%	9.50%
xii. Surface Miner, Ripper Dozer etc. used in mines	25 years	3.80%	11.29%
xiii. Copper Refining plant	25 years	3.80%	11.29%

Source: Secondary – Companies Act 2013

Depreciation Rate Chart Applicable to Tourism & Export Sectors			
Nature of Assets	**Useful Life**	**Rate SLM**	**Rate WDV**
i. Plant and Machinery used in the medical and surgical operations			
i. Electrical machinery, X ray, Ultrasound and other devices	13 years	7.31%	20.58%
ii. Other Equipment	15 years	6.33%	18.10%
j. Plant and Machinery used in the manufacture of pharmaceuticals and chemicals			
i. Reactors	20 years	4.75%	13.91%
ii. Distillation Columns	20 years	4.75%	13.91%
iii. Drying Equipment/ Centrifuges and Decanters	20 years	4.75%	13.91%
iv. Vessels/ Storage tanks	20 years	4.75%	13.91%
k. Plant and Machinery used in civil construction			
i. Concreting, Crushing, Piling equipment and road making machines	12 years	7.92%	22.09%
ii. Heavy Lift Equipment			
▪ Cranes with capacity of more than 100 tonnes	20 years	4.75%	13.91%
▪ Cranes with capacity of less than 100 tonnes	15 years	6.33%	18.10%
iii. Transmission Lines, Tunneling Equipment	10 years	9.50%	25.89%
iv. Earth Moving Equipments	9 years	10.56%	28.31%
v. Others including material handling/ pipeline/ welding equipment	12 years	7.92%	22.09%
l. Plant and Machinery used in salt works	15 years	6.33%	18.10%

Source: Secondary – Companies Act 2013

Depreciation Rate Chart Applicable to Tourism & Export Sectors			
Nature of Assets	**Useful Life**	**Rate SLM**	**Rate WDV**
3. Furniture and Fittings			
a) General furniture and fittings	10 years	9.50%	25.89%
b) Furniture and Fittings used in hotels, restaurants and boarding houses, schools, colleges and other educational institutions, libraries, welfare centers, meeting halls, cinema houses, theatres and circuses and furniture and fittings let out on hire for used on occasion of marriage and similar functions	8 years	11.88%	31.23%
4. Motor Vehicles			
a) Motor Cycles, scooters and other mopeds	10 years	9.50%	25.89%
b) Motor buses, motor lorries, motor cars and motor taxies used in business and running them on hire.	6 years	15.83%	39.30%
c) Motor buses, motor lorries, motor cars and motor taxies other than those used in the business of running them on	8 years	11.88%	31.23%
d) Motor tractors, harvesting combines and heavy vehicles	8 years	11.88%	31.23%
e) Electrically operated vehicles including battery powered or fuel cell powered vehicles	8 years	11.88%	31.23%
5. Aircraft or Helicopters	20 years	4.75%	13.91%
6. Railway sidings, locomotives, rolling stocks, tramways and railway used by concerns	15 years	6.33%	18.10%
7. Office equipment	5 years	19%	45.07%
8. Computer and Data processing units			
a) Servers and Networks	6 years	15.83%	39.30%
b) End User Devices like laptops, desktops etc.	3 years	31.67%	63.16%
9. Laboratory equipment	10 years	9.50%	25.89%
10. Electrical Installations and equipment	10 years	9.50%	25.89%
11. Hydraulic Works, Pipelines and Sluices	15 years	6.33%	18.10%

V. Direct Tax Benefits available in India

	Scheme	Tourism	I.T. & ITES	Gems & Jewellery	Textiles	Pharma	Chemicals
Investment Linked Income Tax Benefits	Section 32AC of the IT Act 1961 – Investment allowance @15% of actual cost of new plant & machinery installed.	✗	✗	✓	✓	✓	✓
	Section 35AD of the IT Act 1961 – 100% deduction on capital expenditure incurred	Applicable only to hotels of 2 star or above category	✗	✗	✗	✗	Applicable only for Fertilizers
	Section 80IA of the IT Act 1961 – Deduction upto the extent of 100% profits generated from infrastructure for 10 years	Applicable for Tourism related infrastructure like airports, ports etc.	✗	✗	✗	✗	✗
	Section 80IAB of the IT Act 1961 – Deduction on 100% of the profits & gains for 10 years for SEZ developers	Not available	Yes	Not Observed in the industry			
Export Linked Income Tax Benefits	Section 10AA of the IT Act 1961 – Exemption from income tax i)100% exemption for first 5 years ii) 50% for next 5 years iii) 50% exemption if profits ploughed back.	Practically cannot be implemented for Tourism	✓	✓	✓	✓	✓

	Scheme	Tourism	I.T. & ITES	Gems & Jewellery	Textiles	Pharma	Chemicals
Exemption from tax	LTC given to Employees for travel in India. Exemption u/s 10(5)	Exempt for travel within India once in the block of 4 years	✗	✗	✗	✗	✗
Depreciation Policy in the sector	Depreciation u/s 32 at the rates prescribed.	Depreciation provided is not sufficient considering the time frame for which assets like motor vehicles are used	Rates applicable are same as compared to Tourism sector but the nature of assets carrying higher depreciation rates are more in assets mix.				
	Addition Depreciation u/s 32(iia) @ 20% on plant and machinery	✗	✗	✓	✓	✓	✓
Withholding Tax on Interest paid for ECB	Lower withholding tax on Interest paid on Loan taken by specific sector u/s 194LC	5% withholding on interest for loan taken by Airline Industry.	No Such Relaxation				

Incentives Available to the Tourism Sector in India

16 Incentives Available to the Tourism Sector through Foreign Trade Policy

Some of the export promotion incentives espoused through the Foreign Trade Policy are also applicable to the Tourism Sector. However it is seen that the utility of these incentives/ export promotion schemes are limited considering the dynamics of the industry and the way the schemes are structured. The export promotion schemes that find utility in the tourism sector are as follows

Scheme	Policy Support
Served from India Scheme	▪ Service providers are entitled to duty credit scrip's at the rate of 10 per cent of net free foreign exchange earned during a financial year. ▪ Hotels, travel agents, tour operators or tourist transport operators and companies owning/operating golf resorts having SFIS scrip can import or domestically procure motor cars, SUVs and all purpose vehicles using the same for payment of duties. ▪ These scrips can be used for imports of consumables like food and alcoholic beverages.
Market Development Assistance Scheme	▪ This scheme helps exporters for export promotion activities in foreign countries by assisting the hoteliers, travel agents, tour operators, tourist transport operators, approved by the Ministry of Tourism for undertaking the following tourism promotion activities ▪ Sales cum study tours ▪ Participation in fairs/exhibitions ▪ Publicity through printed material

Source: India's Foreign Trade Policy 2009-2014

17 State Level Incentives Available to the Tourism Sector

States Governments in India have adopted multiple tourism strategies in order to enhance the tourism potential. Various fiscal incentives and investor friendly policies are being adopted by the state governments for development of state infrastructure.

Fiscal Incentives provided and investor friendly policies of the major states are as follows

State	Fiscal Incentives	Policy Support
Himachal Pradesh	▪ 10 years tax holiday for entertainment units. ▪ Deferred payment of luxury tax by hotels and tourism units. ▪ Special incentive package for satellite towns and cyber cities with investment of over USD 21.5 million by NRIs and foreign investors.	▪ Special priority to Tourism sector for grant of power connections. ▪ Single window clearance. ▪ Special marketing funds allocated for marketing the state
Punjab	▪ Land allotment on easy terms for developing hotels on selective basis. ▪ Provision of soft loans for new tourism projects and expansion of existing ones.	▪ Collaboration with UNWTO for technical assistance. ▪ Sikh Circuit Tourism Plan worth INR 2.5 billion ▪ Single window clearance
Haryana	▪ INR 1 billion and above or employing more than 500 persons projects- financial assistance at 50% of tax paid for seven years (five years for investment up to INR 30 million) as Interest Free Loan (IFL) for five years ▪ Five year exemption from electricity duty ▪ Customized incentives- INR 0.3 billion/above projects ▪ Facilitation of land auction and institutional finance	▪ Single window clearance ▪ Task force headed by the Tourism Minister for finalization of tourism proposals ▪ Declaration of Special Controlled Areas from Tourism point of view

<table>
<tr><th>State</th><th>Fiscal Incentives</th><th>Policy Support</th></tr>
<tr><td>Uttarakhand</td><td>Three year 100% entertainment tax exemption; 30% for further five years
Five year 100% exemption for new amusement parks, ropeways
Capital investment subsidy in new project at ceiling of INR 3 million
Five year Rebate/ Deferred payment of luxury tax for new units
20% assistance for investments up to INR 1 million
Land availability on reasonable terms/price or as equity</td><td>Single window clearance
Government rest houses to be utilized for tourism
Provision of beer bar licenses to hotel units with attached restaurant facilities
Establishment of separate funds for tourism development</td></tr>
<tr><td>J&K</td><td>Capital subsidy for taxi operators up to INR 0.7 million
Capital investment subsidy up to INR 10 million for tourism units more than INR 250 million
Investment subsidy for modernization of travel agencies to 50% of project cost
DG subsidy- INR 0.4 million
Timber subsidy for houseboat repairs
Subsidy for adventure equipment up to INR 0.7 million</td><td>Single window clearance
Special area development programme in place for heritage conservation of old Srinagar city</td></tr>
<tr><td>Rajasthan</td><td>Exemptions for new tourism units for seven years: 100% luxury tax, 50% stamp duty, 50% entertainment duty, 50% electrical duty, 50% conversion charges
Interest subsidy to hotel, motel etc.
Low land conversion charges at select areas
Liberal Floor Area Ratio at two
Facilitation of institutional finance</td><td>Single window clearance
Simplification of rules for land allotment & conversion
Expeditious disposal of applications
Usage of government buildings for tourism
Simplified and time bound procedures for hotels for obtaining bar license</td></tr>
</table>

State	Fiscal Incentives	Policy Support
Uttar Pradesh	▪ Five year exemption/deferred payment for luxury, entertainment tax for new ropeways, trade tax for restaurants ▪ Entertainment tax exemption for paying guest scheme units ▪ 100% exemption from stamp duty ▪ Interest free loan for pioneer units ▪ Heritage hotels and capital investment subsidy schemes with a subsidy of 10% ▪ Facilitation of institutional finance and financial assistance to units in hill areas	▪ Single window clearance ▪ Simplified approval procedures ▪ Rationalized luxury tax assessment ▪ Committee formed to solve entrepreneurial issues
Kerala	▪ Industrial Tariff on electricity charges for the first 5 years for Tourism Projects classified as responsible tourist projects. ▪ Investment Subsidy subject to a maximum ceiling limit of Rs 20 lakhs	▪ Fast Track clearance to tourism projects with an investment above Rs.10 crore. ▪ Marketing Assistance for service providers at the domestic as well as international level
Gujarat	▪ Land Bank Policy to identify and earmark land to be provided for tourism projects. ▪ Special incentives are proposed to be provided over 2010-2015 including tax holidays on luxury tax on hotels, reduction in VAT charges on food and beverages and natural gas, reduction in entertainment tax.	▪ Government has entered into a tie up with IL&FS to develop 50 tourism sites and more than INR 20 billion of tourism related infra investments
Maharashtra	▪ Luxury Tax exemption available to new units and also during expansion of new units for a period of 7 & 10 years based on location. ▪ Exemption from Entertainment Tax for a specific period (5,7 or 10 years) based on location and nature of tourism project ▪ Property Tax for Tourism Projects at Residential Tax Rates	▪ Improved Budgetary Support for marketing and promotion purposes.

Madhya Pradesh	▪ Capital Subsidy to new Hotels & Resorts at select tourist destinations. ▪ New Tourism projects exempt from entertainment tax for 10 years. ▪ Caravan buses used for tourist transport purposes are exempt from road tax for a period of 5 years.	▪ Single Window clearance policy. ▪ Special Tourism Zone Policy to Facilitate the development of infrastructure in the tourism zones. ▪ Creation and maintenance of a land bank for tourism projects.
Karnataka	▪ Concession in stamp duties for new tourism projects. ▪ Lower Registration charges for new projects as per the industrial policy. ▪ Investment subsidy between Rs 10 lakhs and Rs 30 lakhs. ▪ 100% exemption of entertainment tax for all newly constructed cinema theaters for 3 years	▪ Policy to make Government land in tourism sectors available to investors in the tourism industry in lieu of equity in the tourism project, thus helping investors to save on upfront cost. ▪ Focus on Public Private Partnerships (PPP) for developing tourism related infrastructure
Andhra Pradesh	▪ Capital Investment subsidy with a maximum ceiling of Rs. 30 lakhs ▪ Reimbursement of Stamp Duty and Transfer Fee ▪ Reimbursement of 25% VAT paid in a financial year as a grant to pay VAT in the following year. ▪ 25% entertainment tax will be ploughed back for entertainment components in theme parks.	▪ Single Window Clearance ▪ Marketing Assistance for service providers at the domestic as well as international level
Orissa	▪ Capital Investment subsidy for all new projects subject to a maximum ceiling of Rs.40 lakhs. ▪ Interest subsidy for all new tourism projects, where the investment is more than Rs. 10 lakhs, subject to a maximum of Rs. 1 Crore. ▪ 50% exemption in stamp duty on purchase of land for tourism projects ▪ Reimbursement of 30% of actual net VAT paid subject to a maximum of Rs.10 lakh per annum	▪ Single Window Clearance ▪ Marketing Assistance for private tourism projects at the domestic as well as international level. ▪ Assistance by the tourism department to obtain clearances and shorten procedural delays to expedite project execution.
West Bengal	▪ Capital Subsidy for new tourism projects subject to a maximum ceiling of Rs.150 lakhs of subsidy.	▪ Government Policy to promote specific tourism products/destinations as

	▪ Interest Subsidy to the extent of 50% of the annual interest liability, subject to a limit of Rs25 Lakhs per year. ▪ Waiver on electricity duty ▪ Refund of 50% of stamp duty and registration fee for tourism projects.	Sunderban, Plantation tourism etc. ▪ Land Bank Policy to identify and earmark land to be provided for tourism projects. ▪ Single Window Clearance

Source: Tourism Policy Document of Various States

Issues/ Challenges faced by the Tourism Sector

18 Taxation related Issues faced by Tourism Sector

Indian tourism is one of the most diverse products on the global scene. India has 26 world heritage sites. It is divided into 25 bio-geographic zones and has wide ranging eco-tourism products. Apart from this it has a 6,000 km coastline and beautiful beaches .India's great ethnic diversity translates into a wide variety of cuisine and culture. It also has a large number of villages, plantations and adventure locations.

The World Economic Forum in its 2013 study of tourism competitiveness rated Indian Tourism competitiveness at a low of 65 amongst 140 countries. In the competitiveness criteria specified, India ranked 21st in the criteria for tourism natural resources. However India was ranked 67th in the ease of business environment and recorded a low rank of 110 globally in the criteria for regulatory framework for tourism and travel.

This suggests that although there is great scope of Tourism sector growth in our country, there may be a need to relook at the prevailing policies applicable to the tourism sector to make it more competitive compared to competing nations especially in Asia.

Some of the policy issues faced by the Indian Tourism sector are as follows:

- **High Incidence & Multitude of Taxes**

One of the fundamental problems plaguing the Indian tourism sector is the high rate of taxes applicable to the tourism industry which have been discussed in detail in the report. There are multiple taxes applicable on the products and services consumed in the tourism sector, levied by the central as well as the state governments.

In a study where tourism related taxes were benchmarked across comparable tourist destinations in Asia, most competitive Indian locations like Mumbai and Delhi ranked as high as 19 and 21 on a scale of 1-52, where rank 1 suggested the location with the lowest tax and 52 suggested the location with highest indirect tax.

Taking into account higher administrative costs of tax collection by Central and State Governments, the net benefit to the economy is smaller and is not compatible with the loss in revenue accruing due to diversion of tourists to lesser-taxed destinations.

- **Multiple Taxation of Service Offerings in case of a Tour Package**

Tour Operators, Tourist transport Operators, travel agents and other stakeholders work through the tourism value chain where multiple partners and sub agents combine their products and services to present it in a combined form of a tour package.

However each component like hotels, restaurants, airlines, cab services etc of the tour package has separate incidence of service tax. While offering a combined package service tax is again levied on value of combined package. This leads to double taxation.

This increases the cost of the services provided to the tourists compared to other competing countries. Even though 75% abatement is provided on service tax in case of tour package, taxation of the gross service amount leads to double taxation and increases the burden for the tourists.

Also if a service provider subcontracts the task of providing the services to some other service provider in the tourism value chain, then the same service is taxed thrice as tax is levied to subcontractors also.

- **Service tax charged on Tour Packages provided by Indian service providers.**

In case a service provider is based in India, and offers to provide services in locations apart from India, then these services come under the purview of service tax. If a tour operator provides services like tour packages for foreign tourists wanting to travel inin non-Indian locations, then service tax levied on for services not provided in India.

This has resulted to be a disincentive for foreign tourists to not book tour packages from operators/ agents based in India. This is a loss of foreign exchange earnings to the country and a major business impact for the tour operators and other service providers.

- **Differential taxes across states which vary frequently**

There are different taxes levied across the states which make compliance difficult. Also there are frequent new amendments concerning tax rates in different states. This is a concern to industry stakeholders as tour packages and its pricing are announced well in advance to seek bookings in the international market.

- **Entertainment tax on cultural programs conducted in hotels**

Ministry of Cultural Affairs spends huge funds to promote Indian culture. However entertainment tax is levied on cultural programs conducted by Hotels and Tour operators especially catering to MICE (Meetings) category.

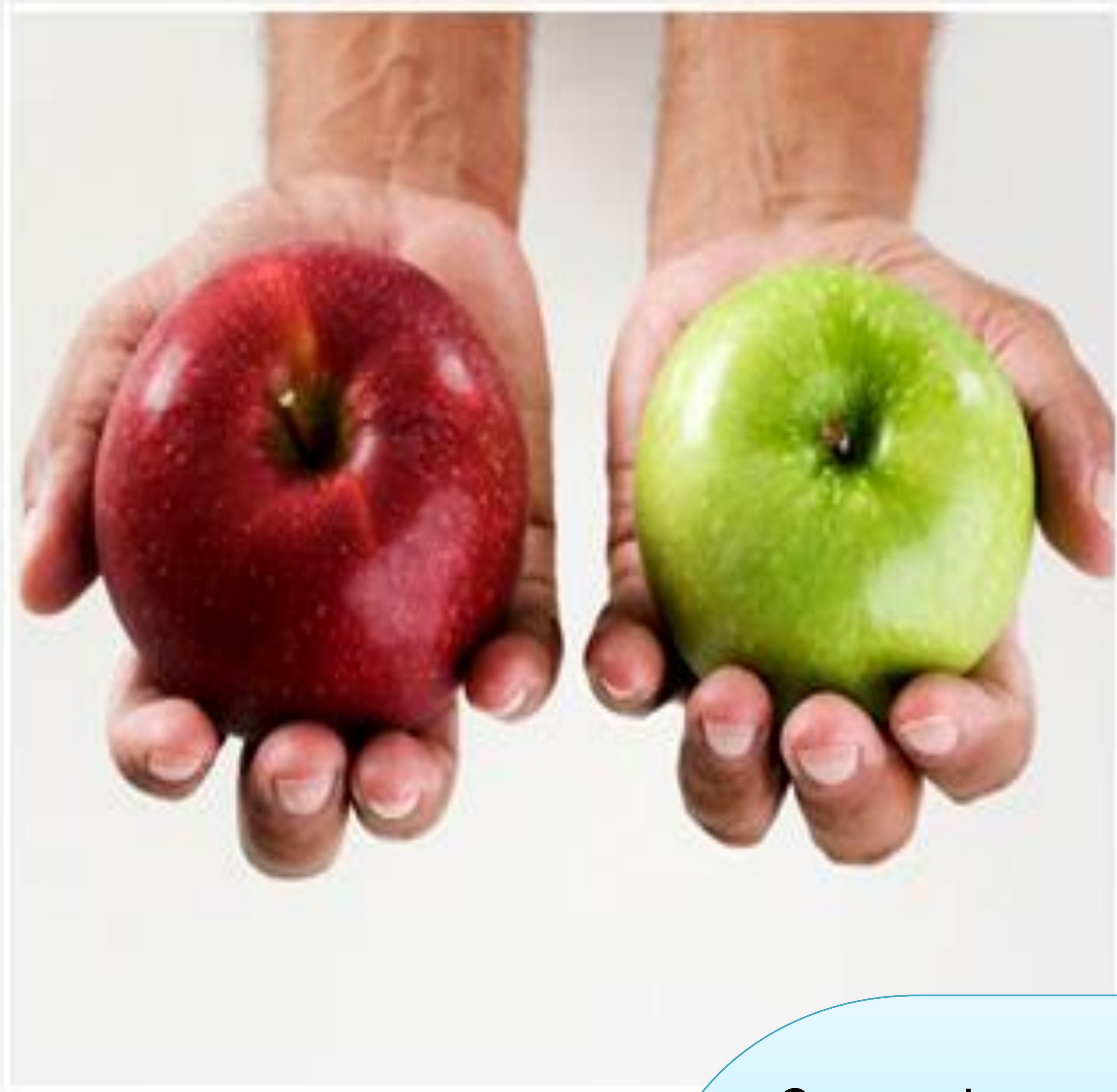
- **State Entry Tax/ Road Tax is based on the vehicle and not on the basis of vehicle utilization.**

State Entry Tax/ Permit in most states are based on the vehicle type, considering that the vehicle is used for full capacity. Tourism sector is influenced by seasonal cycles and hence in few months the vehicles, especially coaches do not run on full capacity. However tax needs to be paid for entire considering maximum usage. This hurts the profitability of the tourist transport operators.

- **Interstate Travel is not Seamless**

The Interstate stoppage and taxes collected are hampering the free movement of tourist traffic that impacts the tourism industry. The vehicles used by tourists are subjected to entry tax by the state governments which are high and varies from state to state. Private cars as well as other modes like trains are not charged this tax.

There exists large number of check points for collection of passenger tax/road tax which causes considerable wastage of time arising from traffic stoppages. Manual processing of tax papers at interstate check posts leads to delays and hampers smooth traffic flows.



Comparison with Export Oriented Sectors

19 Gems & Jewellery Industry

I. Gems and Jewellery Industry in India

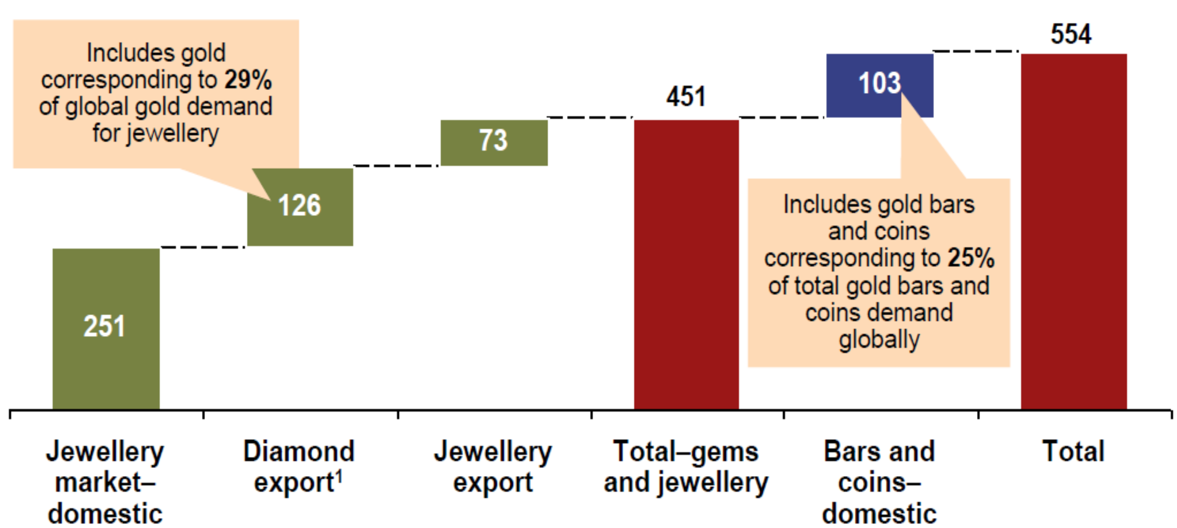
The gems and jewellery industry has an important place in the Indian economy. It is one of the highest contributors to export (Rs. 227,000 Cr in 2012–2013) and provides employment to 2.5 million directly, and contributed Rs. 99,000 Cr as value addition to the economy.

Gold, diamonds and gemstones sub sectors form a part of the Gems and Jewellery Industry in India and together contributes 7 per cent to the GDP (2012-13)

The Gems and Jewellery industry in India caters to both domestic and export demand and have three key markets

- Domestic gems and jewellery market of around INR 251,000 crore as of 2012-13
- Export market for cut and polished diamonds and other gemstones with exports of INR 126,000 crore in 2012-13
- Jewellery Export Market with exports of INR 73,000 crore in 2012-13

Gems & Jewellery Industry in India (2012-13) in Rs. '000 crores

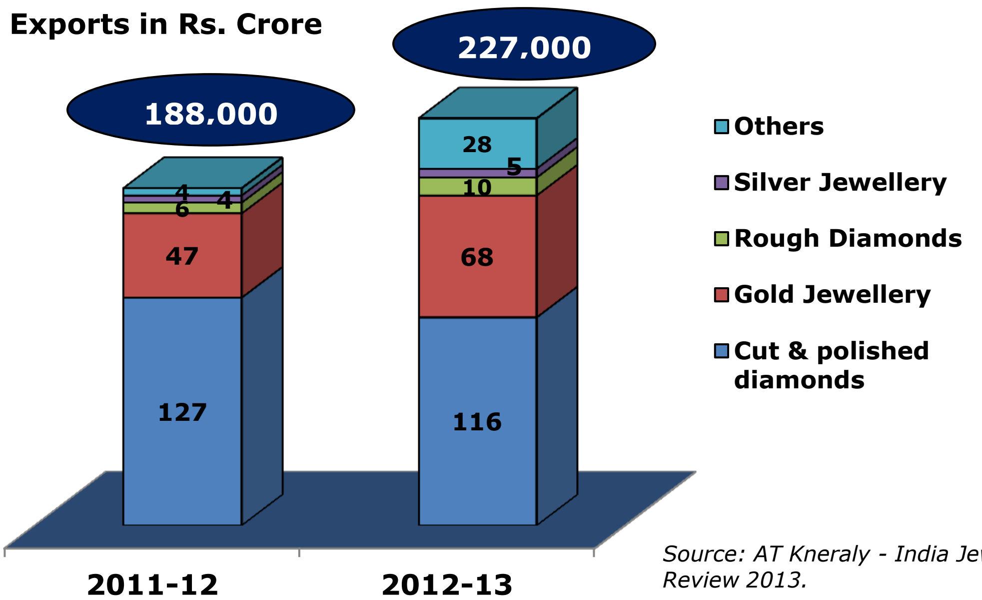


Note:

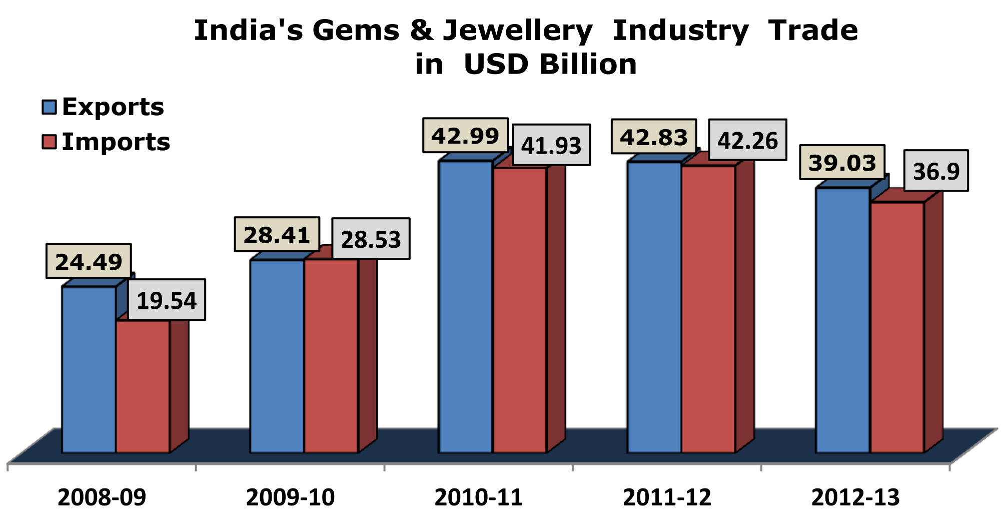
1. Diamond exports include rough diamonds and cut and polished diamonds

II. Gems & Jewellery Industry – Imports & Exports

The Gems and Jewellery industry in India is a major contributor to exports and accounted for 14 per cent of the total exports from India in 2012-13.



Source: AT Kneraly - India Jewellery Review 2013.



Source: Minsitry of Commerce

Value addition occurs through trading, cutting and polishing of diamonds, jewellery manufacture. However the net percentage value addition in exports in this industry is low. The total net exports in 2012-13 was USD 2.13 billion which accounted for 5.45 per cent of the total gross exports from the gems and jewellery sector.

III. Gems & Jewellery Industry –Tax Rates

Tax Rates Applicable to Gold	
Excise Duty on Jewellery	**Customs Duty**
1% on branded Jewellery	10%

Tax Rates Applicable to Diamonds & Gemstones	
Excise Duty on Jewellery	**Customs Duty**
1% on branded Jewellery	0% (2% in case the stone is semi processed)

IV. Gems & Jewellery Industry – Major Export Incentives

Fiscal Incentive Scheme	Product	Policy Support
EPCG (Export Promotion capital Goods)	All	▪ The Benefits of the zero duty EPCG scheme are extended to the industry. ▪ Designing & manufacturing machines are imported especially by diamond industry under this scheme. ▪ The export obligation is to export worth 6 times the duty saved in 6 years.
Duty Remission – Duty Drawback	Gold & Silver	▪ Duty drawback scheme is available to offset the incidence of duties (indirect taxes) paid on the material which are exported. ▪ In the case of Gems & Jewellery sector, it is a scheme to neutralize the incidence of import duty paid on gold and silver imports. ▪ The duty drawback rates are Rs.227.2 per gm. of gold and Rs.3,436 in case of silver.
Duty Exemption – Advance Authorization	Gold/Silver/Platinum	▪ DGFT issues licenses to star trading houses/merchants for duty free import of gold, silver & platinum ▪ This license is valid for 1 year and 6 months. ▪ The license holders can also obtain gold/silver/platinum from nominated agencies in lieu of direct import
Replenishment Authorizations	Gold/Silver/Platinum/ Gemstones	▪ Exporters can obtain Replenishment Authorizations to avail duty free imports of gold/silver/platinum for use as an input in export products. ▪ The import duties paid are replenished/ availed after the export of goods.
Focused Product Scheme	All	▪ To promote export of products which have high export intensity / employment potential, so as to offset infrastructural inefficiencies and other associated costs involved in marketing of these products. ▪ Exports of notified products to all countries are entitled for duty credit scrip equivalent to 2% of the FOB value of exports for each licensing year.
Market Development Assistance	All	▪ This scheme helps exporters for export promotion activities in foreign countries by assisting the exporters financially as well as logistically. ▪ The maximum ceiling on financial assistance provided is Rs.250,000 per event.

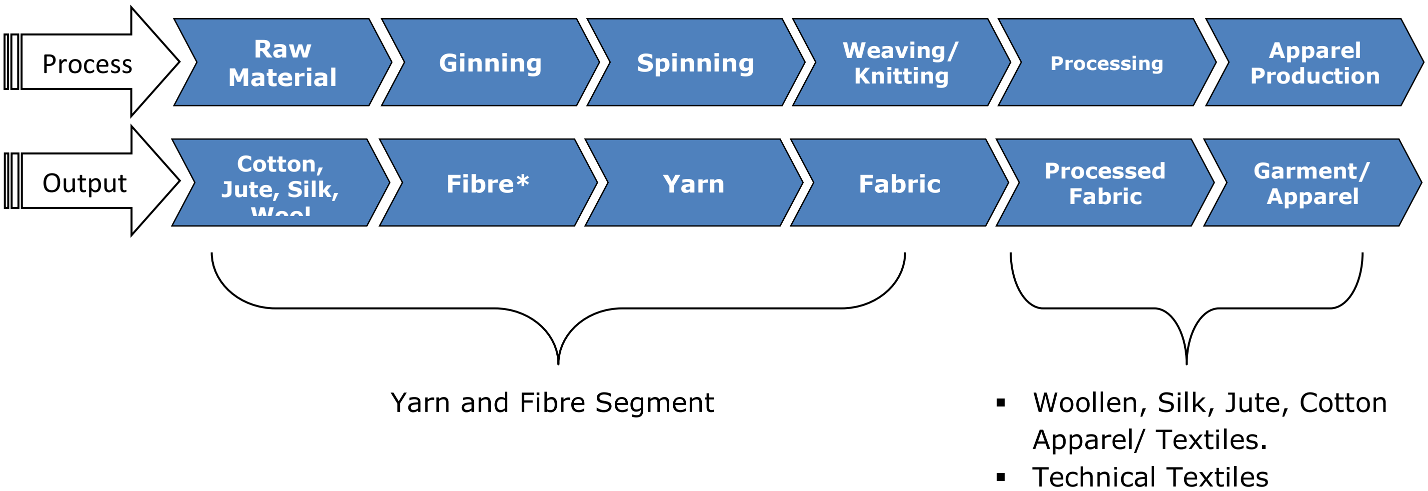
20 Textile & Apparel Industry

I. Textile & Apparel Industry

The Textile and Apparel industry can be broadly divided into two segments

- Yarn and Fibre (Include Natural and man-made)
- Processed fabrics (including woollen textiles, silk textiles, jute textiles, cotton textiles and technical textiles), readymade garments and apparels.

Key Segments of a Textile/ Apparel Industry

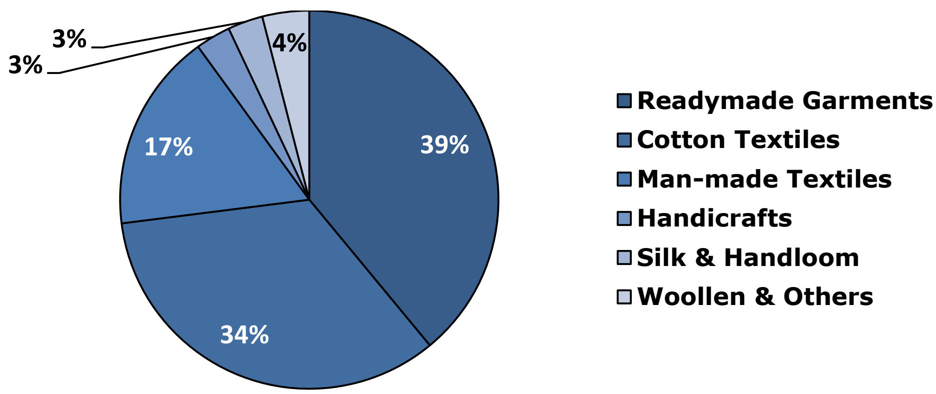


India accounts for about 14 per cent of the world's production of textile fibres and yarns (largest producer of jute, second largest producer of silk and cotton; and third largest in cellulosic fibre) and is the second largest producer of textiles and garments. It contributes 14 per cent to industrial production and 4 per cent to GDP.

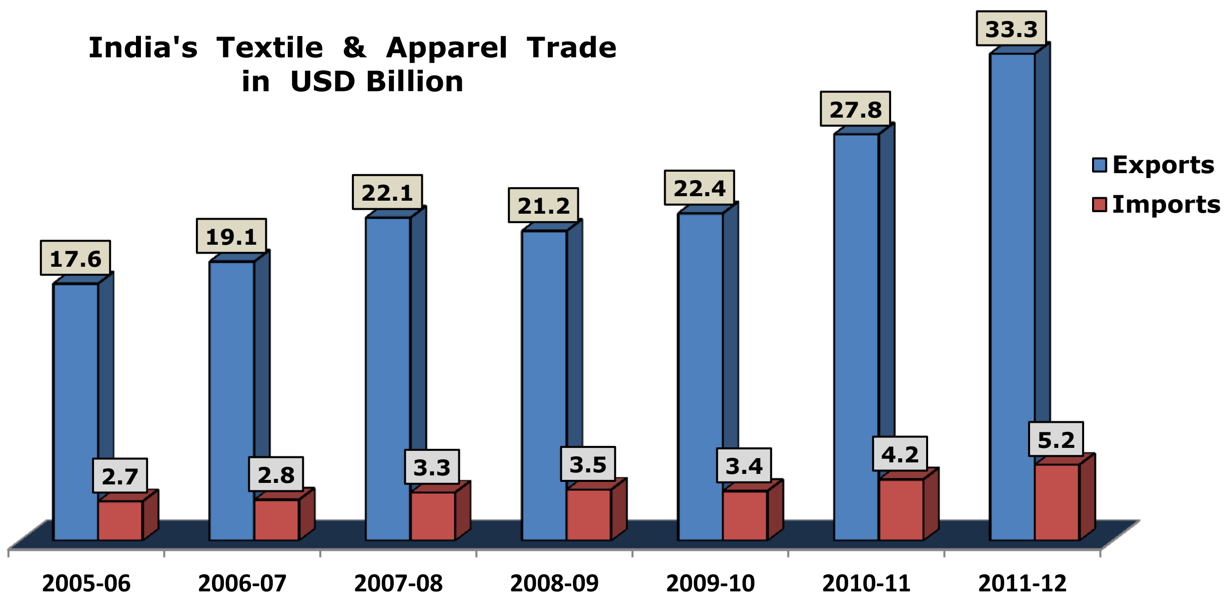
With over 45 million people, the industry is one of the largest sources of employment generation in the country.

II. Textile & Apparel Industry – Imports & Exports

India is a leading Textile & Apparel exporting nation and it has been a core feature of India’s Textile & Apparel Industry. Readymade garments, with a share of 39 per cent were the largest contributor to total textile and apparel exports from India in 2012. Cotton and man-made textiles were the other significant contributors to exports with shares of 34 per cent and 17 per cent, respectively



Exports grew to USD33.3 billion in 2011-12 from USD17.6 billion in 2005-06 implying a CAGR of 11.2 per cent. 2011-12 was a particularly good year for the sector with exports surging at an annual rate of 19.8 per cent. The net exports/ net foreign exchange in 2012-13 earned was USD 28.1 billion. This suggests that the net exports/net foreign exchange earned in the Textile & Apparel Industry is high at 84 per cent of gross exports.



Source: Minsitry of Commerce

III. Textile & Apparel Industry – Tax Rates

Tax Rates Applicable to Cotton Textiles & Apparel		
Duty	**Rate**	**Remarks**
Excise Duty	12%	The duty is 0% on raw silk and silk waste. All other products it is 12%
Additional Excise Duty	8%	-
Basic Customs Duty	10%	The duty is 30% on raw silk, raw flax & True hemp. It is 15% on silk waste. Every other product it is 10%

IV. Textile & Apparel Industry – Major Export Incentives

Fiscal Incentive Scheme	Policy Support
EPCG (Export Promotion capital Goods)	▪ The Benefits of the zero duty EPCG scheme are extended to the industry. ▪ Export Obligation is to export goods worth 6 times the duty saved in 6 years out of which 50% obligation needs to be met in the first 4 years.
TUFS (Technology Up gradation Fund Scheme)	▪ Under this scheme, the exporter can avail 6 per cent interest subsidy on the new machines installed. ▪ Beneficiaries can also claim capacity outlay subsidy of either 10 per cent or 20 per cent based on the type of machinery.

Duty Drawback	▪ Duty drawback scheme is available to offset the incidence of duties (indirect taxes) paid on the material which is exported.
	▪ Duty Drawback rates for major product categories are as follows
	  ▪ Yarn: 3.5%
	  ▪ Fabrics & Home Textiles: 5%-9%
	  ▪ Apparel: 7%- 10%

Focused Product Scheme	▪ To promote export of products which have high export intensity or employment potential, so as to offset infrastructural inefficiencies and other associated costs involved in marketing of these products. ▪ Exports of sector products to all countries are entitled for duty credit scrip equivalent to 2% of the FOB value of exports for each licensing year.
Focused Market Scheme	▪ The Main Objective of the scheme is to offset high freight cost and other externalities to select international markets with a view to enhance our export competitiveness in these countries. ▪ The sector is entitled for Duty Credit Scrip equivalent to 3% of FOB value of exports for each licensing year for exports to countries who are a part of the scheme. ▪ A variant of the scheme provides 4% duty credit upon export to special focused countries.
Interest Subvention	▪ Interest subvention of 2 per cent is offered on interest amount on the pre and post shipment rupee export credit.
Market Development Assistance	▪ This scheme helps exporters for export promotion activities in foreign countries by assisting the exporters financially as well as logistically to attend events and promotional programs. ▪ The maximum ceiling on financial assistance provided is Rs.250,000 per event

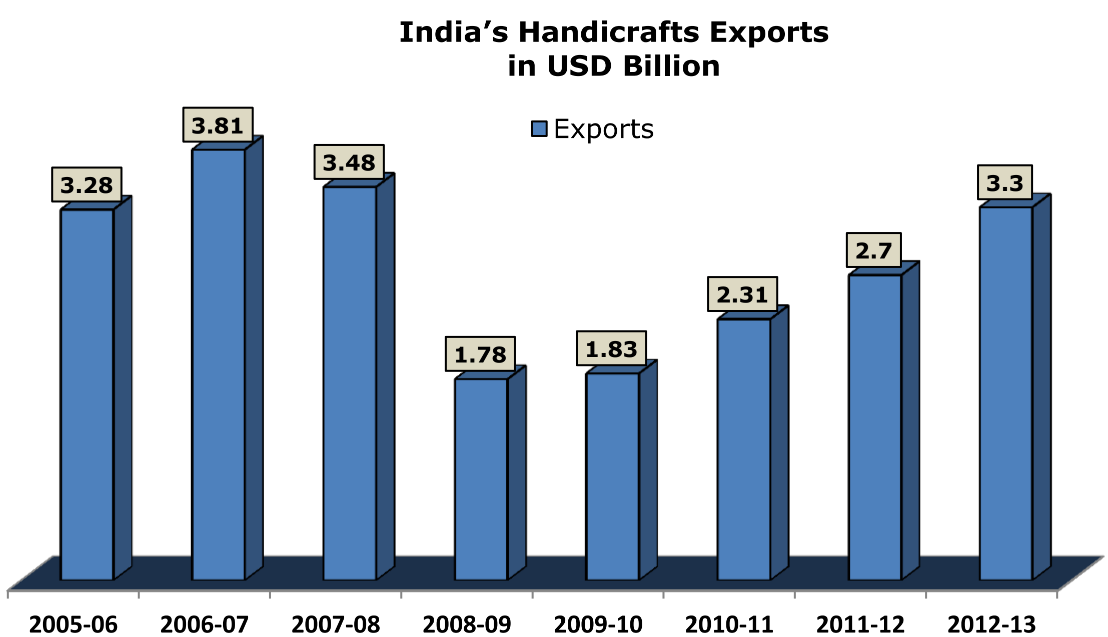
21 Handicrafts Industry

The Handicrafts sector is important for the Indian economy as it is one of the largest employment generators and accounts for a significant share of the country's export basket.

The Indian handicrafts industry is highly labour intensive and decentralized, with majority of the players operating in the unorganised sector. The industry supports 7 million regional artisans and more than 67,000 exporters/export houses promoting regional art and craftsmanship in the domestic as well as global market.

Handicrafts and handcrafted gift items manufactured and exported from India are much sought after and have established an unsurpassable reputation in the international market.

In 2012-13, Indian handicrafts exports stood at USD 3.3. billion, registering a growth of approximately 22 per cent over the previous year. Exports of Indian handicrafts have grown at a rate of around 7 per cent since 2001-02. The imports in this sector in 2012-13 are 35 per cent of the total exports. Handicraft sector generates net positive foreign exchange for the country.



Source: Handicraft Export Promotion Council

V. Handicrafts Industry – Tax Rates

Tax Rates Applicable to Handicraft Industry		
Duty	**Rate**	**Remarks**
Excise Duty	0%	---
Customs Duty	10%	---

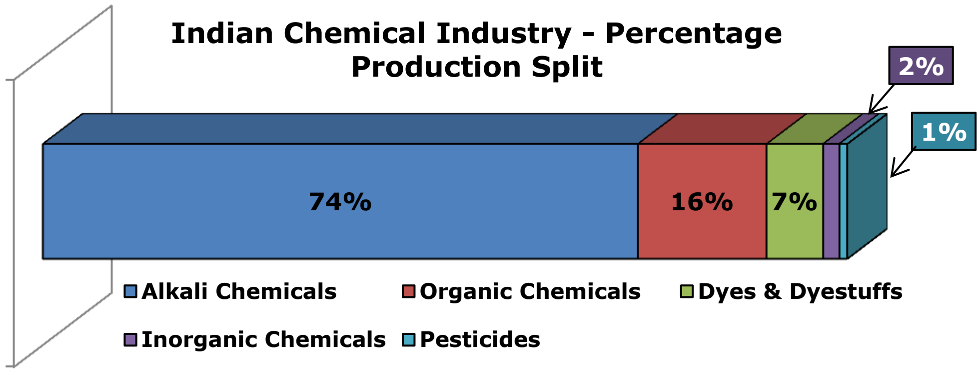
VI. Handicraft Industry – Export Incentives

Fiscal Incentive Scheme	Policy Support
EPCG (Export Promotion capital Goods)	▪ The Benefits of the zero duty EPCG scheme are extended to the industry. ▪ Export Obligation is to export goods worth 6 times the duty saved in 6 years out of which 50% obligation needs to be met in the first 4 years.
Focus Product Scheme	▪ To promote export of products which have high export intensity or employment potential, so as to offset infrastructural inefficiencies and other associated costs involved in marketing of these products. ▪ DGFT provides duty credit scrip ranging from 2% to 7%, which is freely transferable scrip.
Focus Market Scheme	▪ The Main Objective of the scheme is to offset high freight cost and other externalities to select international markets with a view to enhance our export competitiveness in these countries. ▪ The sector is entitled for Duty Credit Scrip equivalent to 3% of FOB value of exports for each licensing year for exports to countries who are a part of the scheme.
Duty Drawback Scheme	▪ The objective of the scheme is to refund the incidence of custom duty, excise duty (additional custom duty), and service tax etc. on export products. ▪ Rate of Duty drawback is between 2% to 12% based on the type of product.
Interest Subvention	▪ Interest subvention of 2 per cent is offered on interest amount on the pre and post shipment rupee export credit.
Duty Free Import Scheme	▪ Exporter can import duty free material that will be used to embellish an export product. ▪ Duty free products of value worth 5% of the export value of goods exporter in the preceding year.
Market Development Assistance	▪ This scheme helps exporters for export promotion activities in foreign countries by assisting the exporters financially as well as logistically to attend events and promotional programs. ▪ The maximum ceiling on financial assistance provided is Rs.250,000 per event

22 Chemical Industry

The Indian chemical industry is one of the most diversified sectors covering approximately 70,000 commercial products. India has the third largest industry in Asia.

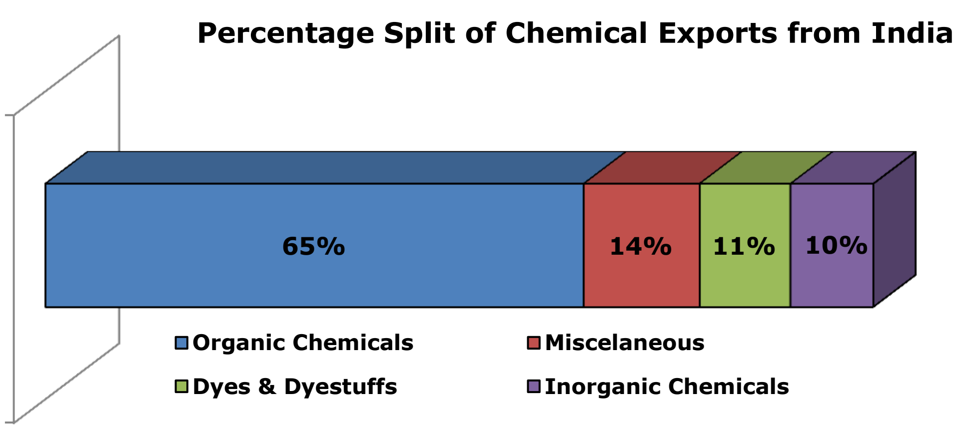
The chemical industry is mainly divided into 5 subsectors as alkali chemicals, organic chemicals, inorganic chemicals, dyes and dyestuffs and pesticides. With 74 per cent of the total production share, Alkali chemicals form the largest segment in the Indian Chemical Industry. In 2011-12, the Chemical Industry contributed 5 per cent to the Indian GDP.



Source: Chemical Export Promotion Council

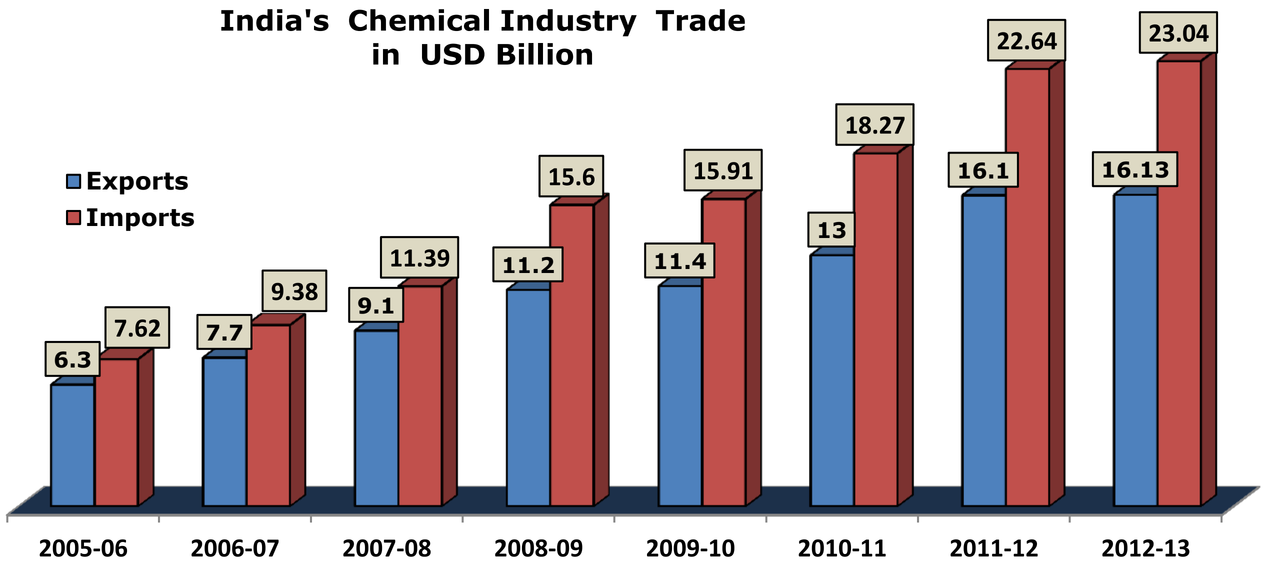
I. Chemical Industry – Imports & Export

The Indian Chemical Industry has a share of 5.3 per cent in the total exports of the country. Exports have grown at a CAGR of 18.7 per cent from USD 3.5 billion in 2002-03 to USD 16.1 billion in 2011-12. Organic Chemicals is the major product which is exported from the sector.



Source: Chemical Export Promotion Council

India is a net importer of chemicals and the sector accounts for 5 per cent of India's total imports in 2012.Hence there is no net foreign exchange earnings for the country from the chemical industry.



Source: Ministry of Commerce, GOI

II. Chemical Industry – Tax Rates

Tax Rates Applicable to Chemical Industry		
	Customs Duty	**Excise Duty**
Organic Chemicals	10%	12%
Inorganic Chemicals	@10%	12%
Dyes & Dye Stuffs	10%	12%
Miscellaneous	10%	#12%

#All except RMC (Ready Mix Concrete)
@ All except the following which is charged at 5% - 1. Fluorine, Chlorine, Bromine & Iodine. 2. Sulphur, sublimed or precipitated 3.Carbon 4.Hydrogen, rare gases and other rare metals 5.Alkali or alkaline earth metals, rare earth metals, mercury.

III. Chemical Industry – Major Export Incentives

Fiscal Incentive Scheme	Policy Support
EPCG (Export Promotion capital Goods)	▪ The Benefits of the zero duty EPCG scheme are extended to the industry. ▪ Export Obligation is to export goods worth 6 times the duty saved in 6 years out of which 50% obligation needs to be met in the first 4 years.
Focus Product Scheme	▪ To promote export of products which have high export intensity or employment potential, so as to offset infrastructural inefficiencies and other associated costs involved in marketing of these products. ▪ DGFT provides duty credit scrip ranging from 2% to 7%, which is freely transferable scrip.
Focus Market Scheme	▪ The Main Objective of the scheme is to offset high freight cost and other externalities to select international markets with a view to enhance our export competitiveness in these countries. ▪ The sector is entitled for Duty Credit Scrip equivalent to 3% of FOB value of exports for each licensing year for exports to countries who are a part of the scheme.
Duty Drawback Scheme	▪ The objective of the scheme is to refund the incidence of custom duty, excise duty (additional custom duty), and service tax etc. on export products. ▪ Rate of Duty drawback is between 1.3 % to 3.8% based on the type of product.
Market Development Assistance	▪ This scheme helps exporters for export promotion activities in foreign countries by assisting the exporters financially as well as logistically to attend events and promotional programs. ▪ The maximum ceiling on financial assistance provided is Rs.250,000 per event

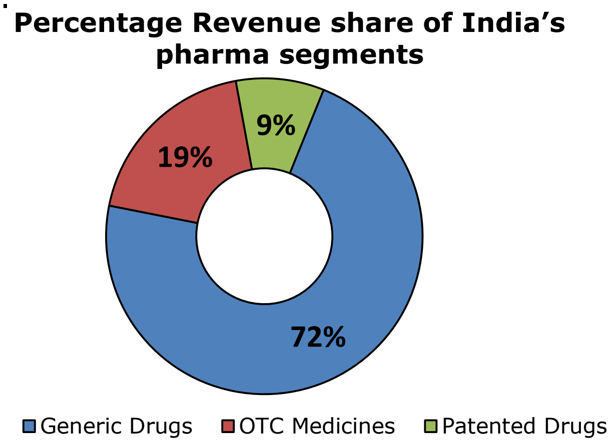
23 Pharmaceutical Industry

India has a robust pharmaceutical industry which accounts for approximately 1.4 per cent of the global pharmaceutical industry in value terms and 10 per cent in terms of volume.

The Indian Pharmaceutical Industry earned revenue of USD 21 billion in 2012-13 and is expected to clock USD 36 billion by 2015-16. The Industry revenues are forecasted to grow at a CAGR of 17.8 per cent from 2008 to 2016.

Generic drugs, with a market share of 72 per cent form the largest segment of the Indian market. Over the Counter (OTC) medicines and patented drugs constitute 19 and 9 per cent respectively.

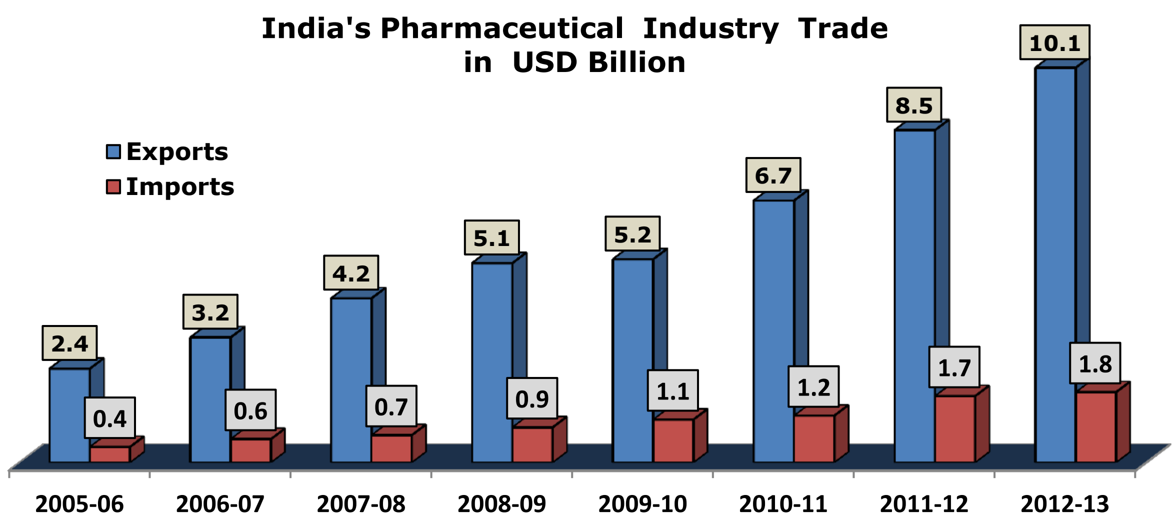
The generics market has immense potential for growth and is expected to grow to USD 26.1 billion by 2016



I. Pharmaceutical Industry – Imports & Export

India is the largest provider of generic medicines across the globe. India's generic drugs account for 20 per cent of global generic drug exports in terms of volume. In terms of value, pharmaceutical products exports have increased at a CAGR of 26.1 per cent to USD10.1 billion in 2013 over the seven year period 2006-2013.

It can be incurred that the net foreign exchange earned in this sector for the year 2013 is to the tune of USD 8.3 billion



Source: Ministry of Commerce, GOI

II. Pharmaceutical Industry – Tax Rates

Tax Rates Applicable to Handicrafts			
	Basic Customs Duty	**Additional Customs Duty**	**Excise Duty**
Drugs & Pharmaceuticals	#10%	6%	6%
API (Active Pharma Ingredients)	10%	6%	12%
Neutraceuticals & Health Supplements	30%	12%	12%

#Specified Drugs, Life Saving drugs, Vaccines and Bulk Drugs for which the Basic Customs Duty rate is 5%. All other Drugs & Pharmaceuticals attract a duty of 10%

III. Pharmaceutical Industry – Export Incentives

Fiscal Incentive Scheme	Policy Support
EPCG (Export Promotion capital Goods)	▪ The Benefits of the zero duty EPCG scheme are extended to the industry. ▪ Export Obligation is to export goods worth 6 times the duty saved in 6 years out of which 50% obligation needs to be met in the first 4 years.
Focus Product Scheme	▪ To promote export of products which have high export intensity or employment potential, so as to offset infrastructural inefficiencies and other associated costs involved in marketing of these products. ▪ DGFT provides duty credit scrip ranging from 2% to 7%, which is freely transferable scrip.
Focus Market Scheme	▪ The Main Objective of the scheme is to offset high freight cost and other externalities to select international markets with a view to enhance our export competitiveness in these countries. ▪ The sector is entitled for Duty Credit Scrip equivalent to 3% of FOB value of exports for each licensing year for exports to countries who are a part of the scheme.

Duty Drawback Scheme	▪ The objective of the scheme is to refund the incidence of custom duty, excise duty (additional custom duty), and service tax etc. on export products. ▪ Rate of Duty drawback is between 1.7 % to 4.9% based on the type of product.
Market Development Assistance	▪ This scheme helps exporters for export promotion activities in foreign countries by assisting the exporters financially as well as logistically to attend events and promotional programs. ▪ The maximum ceiling on financial assistance provided is Rs.250,000 per event

24 Plastics and Plastic products

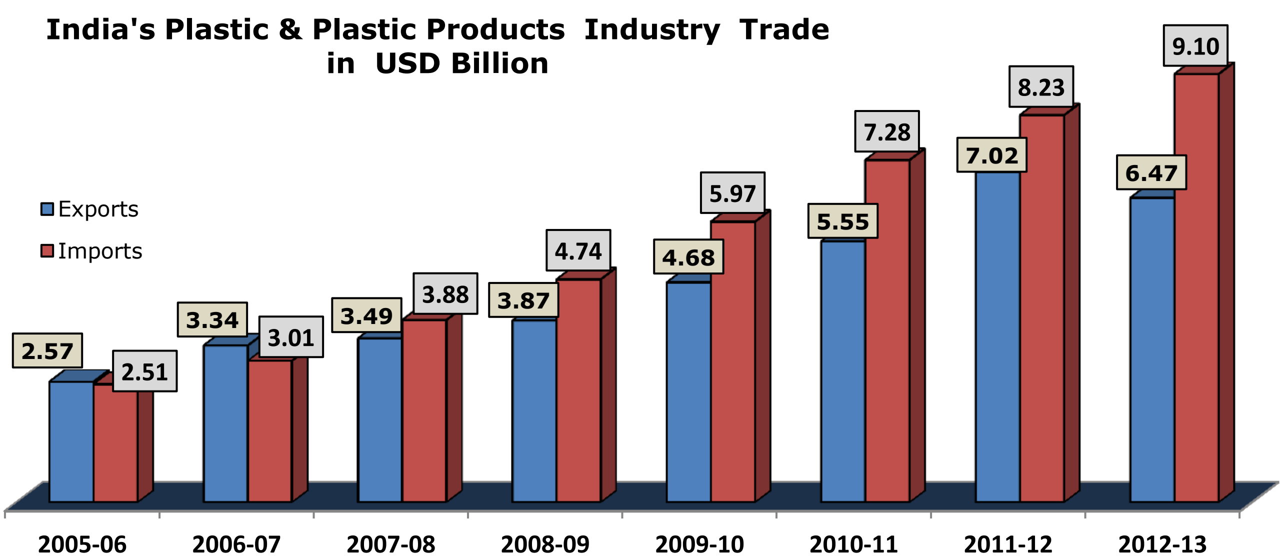
The Indian plastics industry which started off with the introduction of polystyrene has made significant progress and the industry has grown and diversified rapidly. Currently, the Indian plastics industry is spread across the country, employing about 4 million people and over 2,000 exporters. It operates more than 30,000 processing units, of which 85 per cent to 90 per cent are small and medium enterprises (SMEs).

The Indian plastics industry produces a wide range of raw materials, plastic moulded extruded goods, polyester films, laminates, moulded/ soft luggage items, writing instruments, plastic woven sacks and bags, PVC leather cloth and sheeting, packaging, consumer goods, sanitary fittings, electrical accessories, laboratory/ medical surgical ware and travel ware, among other products.

I. Plastic and Plastic Products Industry – Imports & Export

India is one of the most promising exporters of plastics among developing countries. Products from the Indian plastics industry are exported to more than 150 countries. The major trading partners are China, US, UAE, Turkey, Italy, UK, Indonesia, Germany, Vietnam, Bangladesh, Nigeria, Pakistan, South Africa, Brazil, Singapore, Saudi Arabia, Nepal, Egypt, Sri Lanka and Netherlands.

In 2012–13, exports of Indian plastics stood at USD billion, registering a growth of approximately 47 per cent over the previous year. Indian plastics exports have grown at a rate of 19.9 per cent since 2007–08 .However the imports in this sector are huge as most raw materials need to be imported. The imports in this sector stood at 9.10 USD billion. Hence there was no net foreign exchange earned by the Plastics industry in 2012-13.



Source: Ministry of Commerce, GOI

II. Plastics Industry – Tax Rates

Tax Rates Applicable to Plastics Industry			
	Basic Customs Duty	**Excise Duty**	
Plastics & Plastics Industry	10%	12%	
Remarks	----	Duty applicable across Products (HS Code 39 and 54)	

III. Plastics & Plastic products Industry – Export Incentives

Fiscal Incentive Scheme	Policy Support
EPCG (Export Promotion capital Goods)	▪ The Benefits of the zero duty EPCG scheme are extended to the industry. ▪ Export Obligation is to export goods worth 6 times the duty saved in 6 years out of which 50% obligation needs to be met in the first 4 years.
Focus Product Scheme	▪ To promote export of products which have high export intensity or employment potential, so as to offset infrastructural inefficiencies and other associated costs involved in marketing of these products. ▪ DGFT provides duty credit scrip ranging from 2% to 7%, which is freely transferable scrip.
Duty Drawback Scheme	▪ The objective of the scheme is to refund the incidence of custom duty, excise duty (additional custom duty), and service tax etc. on export products. ▪ Rate of Duty drawback is between 1.7 % to 4.9% based on the type of product.
Market Development Assistance	▪ This scheme helps exporters for export promotion activities in foreign countries by assisting the exporters financially as well as logistically to attend events and promotional programs. ▪ The maximum ceiling on financial assistance provided is Rs.250,000 per event

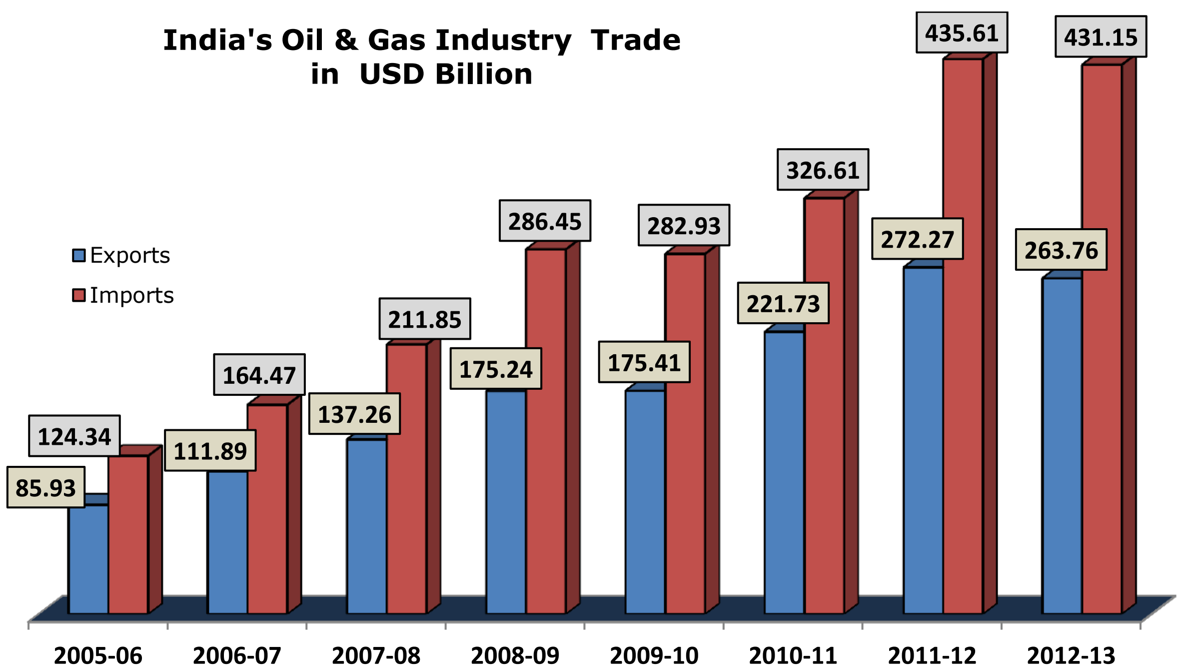
25 Oil & Gas Industry

The Indian Oil and Gas sector is a promising sector as there are huge untapped potential basins and also many large offshore blocks which are unexplored. India's total hydrocarbon reserves are projected to be around 2 billion metric tonnes of Oil Equivalent (bmtoe). Also, the reserves-to-production ratio for the country works out to be 25 years with the current oil production level of around 815,000 barrels per day (bpd) and estimated reserves of 1.2 billion metric tonne (bmt).

The Crude oil production output as of 2012-13 is 3.18 million metric tonnes (mmt), or 751,700 bpd, according to data released by the oil ministry. India's refining capacity is 215.066 million tonnes per annum (mtpa) and is ranked fourth in the world. This figure is projected to increase to 232.3 mtpa by the end of FY14 and 310.9 mtpa by the end of FY17. India is also a net exporter of petroleum products such as petrol, diesel, jet fuel and naphtha.

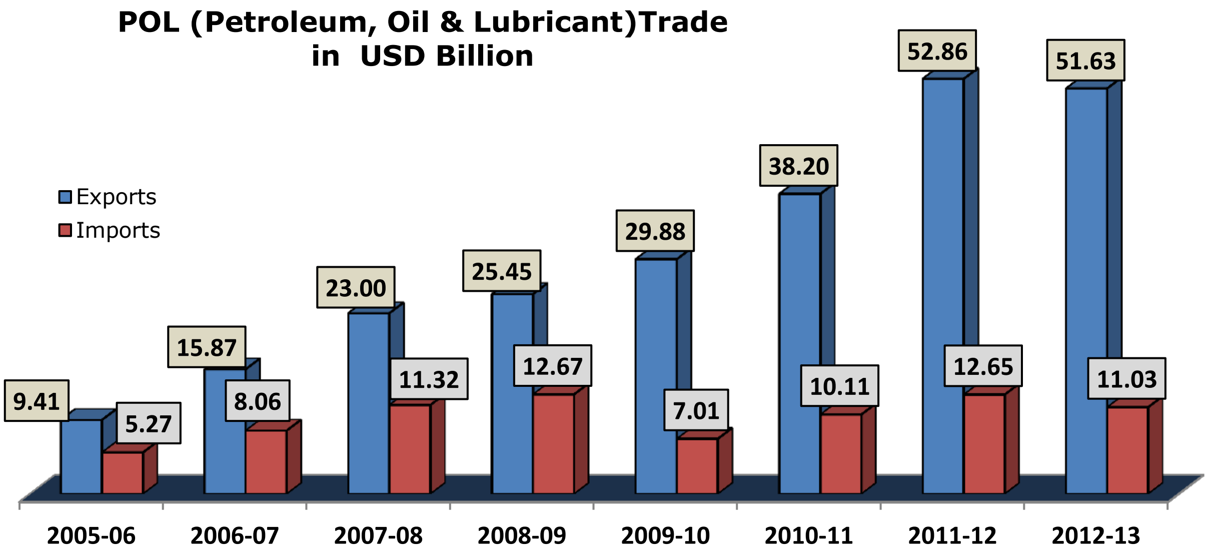
I. Oil & Gas Industry – Imports & Export

The Oil and Gas sector is a net importing sector as India imports crude oil to meet its demand. Crude Oil forms the majority of the imports in this sector.



Source: Ministry of Commerce, GOI

However the country is a net exporter of POL (Petroleum, Oil & Lubricants) products such as petrol, diesel, jet fuel and naphtha. POL exports contributed to 19.57 per cent of the total Indian exports in 2012-13.



Source: Ministry of Commerce, GOI

II. Oil & Gas Industry – Indirect Tax Rates

Tax Rates Applicable on the products

Product	Basic Cenvat Duty	Basic Customs Duty	Additional Customs Duty/CVD
Crude Petroleum	Nil+Rs.4500 per MT as cess and Rs.50 per MT as NCCD	Nil+Rs.50 per MT as NCCD	Nil
Motor Spirit	Rs.1.20 per ltr.	2.50%	Rs.1.20 per ltr. + Rs.6 per ltr. SAD
Branded Motor Spirit	Rs.7.50 per ltr.	2.50%	Rs.1.20 per ltr. + Rs.6 per ltr. SAD
Naphtha (Non Fertilizer)	14%	5%	14%
Naphtha (Fertilizer)	Nil	Nil	Nil
Kerosene (Non PDS)	14%	5%	14%
High Speed Diesel	Rs.1.46 per ltr.	2.50%	Rs.1.46 per ltr.

Branded High Speed Diesel	Rs.3.75 per ltr.	2.50%	
Furnace Oil	14%	5%	14%
LPG –Non Domestic	8%	5%	8%
LNG	Nil	5%	Nil
Compressed Natural Gas	14%	5%	14%

Source: Planning Commission

III. Oil & Gas Industry – Major Export Incentives

Fiscal Incentive Scheme	Policy Support
EPCG (Export Promotion capital Goods)	▪ The Benefits of the zero duty EPCG scheme are extended to the industry. ▪ Export Obligation is to export goods worth 6 times the duty saved in 6 years out of which 50% obligation needs to be met in the first 4 years.
Focus Product Scheme	▪ To promote export of products which have high export intensity or employment potential, so as to offset infrastructural inefficiencies and other associated costs involved in marketing of these products. ▪ DGFT provides duty credit scrip ranging from 2% to 7%, which is freely transferable scrip.
Duty Drawback Scheme	▪ The objective of the scheme is to refund the incidence of custom duty, excise duty (additional custom duty), and service tax etc. on export products. ▪ Rate of Duty drawback is between 1.3 % to 3.5% based on the type of product.
Market Development Assistance	▪ This scheme helps exporters for export promotion activities in foreign countries by assisting the exporters financially as well as logistically to attend events and promotional programs. ▪ The maximum ceiling on financial assistance provided is Rs.250,000 per event

26 IT & ITES Industry

Indian IT and ITeS industry is divided into four major segments – IT services, business process management (BPM), software products & engineering services and hardware.

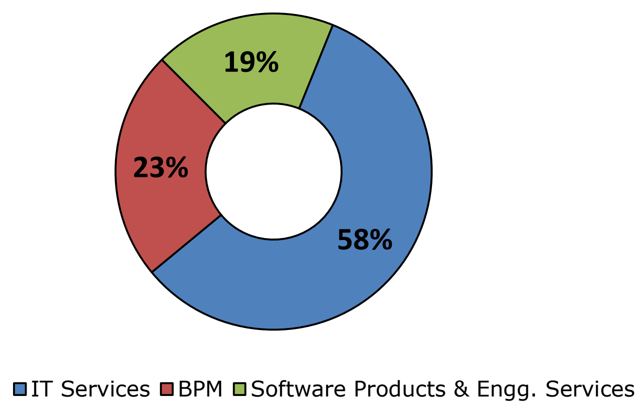
The Indian IT and ITES industry generated USD 108 billion in revenue during 2012-13 compared to USD 100 billion in 2011-12, registering a growth rate of 7.4 per cent. The IT services sector accounted for the largest share of the IT and ITeS industry, with a total revenue generation of USD 56.3 billion during 2012-13, followed by BPM sector at USD 20.9 billion. The sizes of the software products & engineering services and Hardware Business were USD 17.9 billion and USD 13.3 billion respectively in 2012-13.

The contribution of the IT & ITES sector to India's GDP has been consistently increasing over the last 15 years. It stood at 8 percent in 2012-13 compared to 1.2 per cent in 1997-98.

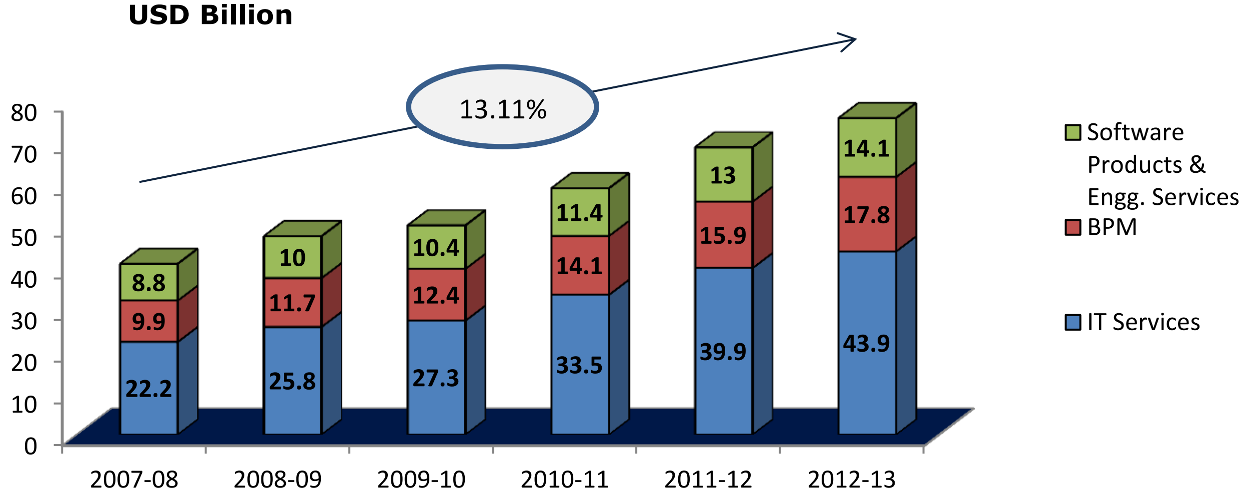
I. IT & ITES –Export

Total Exports from the IT & ITES sector is estimated at USD76 Billion in 2012-13. This translates to a growth (CAGR) of 13.1 per cent during the period 2008-2013 which is noteworthy considering the weak global economic scenario that prevailed during this period.

Sector Wise Breakup of Export Revenue 2012-13



Growth in Export Revenue USD Billion



Source: Nasscom, Electronics & Software Export Promotion Council

II. IT & ITES- Indirect Taxes Applicable

The indirect taxes applicable on the software products and services are as follows

Applicability of Indirect Taxes on Transactions in the IT/ITES sector			
Transaction	**Service Tax**	**Customs Duty**	**Excise Duty**
Distribution of Software in electronic form	Yes (12.36%)	N/A	No
Customization of Platform Software (eg. ERP Customization etc.)	Yes (12.36%)	N/A	N/A
Software loaded into a hardware and offered as a solution	No	Yes (10%)	No
Software as a service	Yes (12.36%)	No	No

Source: Nasscom, Services Export Promotion Council

III. IT & ITES –Major Export Incentives

Fiscal Incentive Scheme	Policy Support
EPCG (Export Promotion capital Goods)	▪ The Benefits of the zero duty EPCG scheme are extended to the industry. ▪ Export Obligation is to export goods worth 6 times the duty saved in 6 years out of which 50% obligation needs to be met in the first 4 years. ▪ This scheme is used for imports of software or hardware to be used in the I.T. industry.
Market Development Assistance	▪ This scheme helps exporters for export promotion activities in foreign countries by assisting the exporters financially as well as logistically to attend events and promotional programs. ▪ The maximum ceiling on financial assistance provided is Rs.250,000 per event
Exemption from Service Tax	▪ All software & ITES service exports are exempt from service tax.
STP (Software Technology Park Scheme)	▪ The STP scheme is scheme for the development and export of computer software & services. ▪ This scheme was specially implemented to promote IT & Software Exports from India. ▪ The scheme benefits & highlights are as follows: ➢ *Approvals under Single Window Clearance* ➢ *100% Foreign Equity is permitted*

	➢ *All imports of Hardware & Software in the STP units are completely duty free, including imports of second hand capital goods.* ➢ *Capital Goods purchased from Domestic tariff area are entitled for benefits like exemption of excise duty & reimbursement of central sales tax (CST)* ➢ *Re-Import of Capital Goods is permitted.* ➢ *100% Depreciation on Capital goods over a period of 5 years.*

IT /ITES sector is also amongst the major beneficiary from the SEZ (Special Economic Zones) Policy which is explained in the following chapter.

27 Tax Comparison between Tourism & Other Export Oriented Sectors

I. Indirect Taxes applicable to Tourism & Export Sectors

	Tourism	Gems & Jewelry	Textile & Apparel	Chemical	Pharma	Plastics & Plastic products	Petro-Chemicals	Handi crafts	I.T./ I.T.E.S	Remarks
Service Tax	a) 7.416% on room charge b) 4.94% Food Served in Hotels & Restaurants c) 4.94% on transportation services like Cabs etc. d) 12.36% on all other services e) 4.94% on Air Travel	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**Nil**	▪ **Service tax is not applicable for product exports.** ▪ **Service Tax is indicated Nil against IT & ITES as tax paid is refunded back to the exporters.**
Value Added Tax	a) (12-15)% on Food Served in Restaurants & Hotels. b) VAT on Airline Turbine Fuel, varying from (5-30)% c) VAT of 20% on alcohol	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**N/A**	▪ **VAT is applicable to the Tourism Sector.** ▪ **However for Export sector VAT is refunded to the exporters.**
Luxury Tax	a) Luxury Tax on room rental which varies from (5-33)% across states	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	▪ **Luxury Tax is not applicable to exports**
Entertainment Tax	a) Entertainment Tax on Amusement Parks, Entertainment programs which vary from (12 -35)% across states	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	▪ **Entertainment tax is not applicable on any product or service exports**
Central Excise Duty	a) Excise duty on various products such as confectionary between 6.18% -12.36%	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	▪ **Central Excise Duty on product exports is refunded back to the exporters.**

II. Direct Taxes applicable to Tourism & Export Sectors

Direct Tax rates which have been discussed in detail in Section of the Report are the same across all sectors.

	Tourism	Gems & Jewelry	Textile & Apparel	Chemical	Pharma	Plastics & Plastic products	Petro-Chemicals	Handi crafts	I.T./ I.T.E.S
Corporate Tax	✓	✓	✓	✓	✓	✓	✓	✓	✓
Wealth Tax	✓	✓	✓	✓	✓	✓	✓	✓	✓
Property Tax	✓	✓	✓	✓	✓	✓	✓	✓	✓
Stamp Duty	✓	✓	✓	✓	✓	✓	✓	✓	✓
Registration Tax	✓	✓	✓	✓	✓	✓	✓	✓	✓
Local Property Tax	✓	✓	✓	✓	✓	✓	✓	✓	✓

III. Observations

In order to make export / foreign exchange earning sectors more competitive, the basic premise of the Indian Government has been that taxes should not be exported. It is however observed that the Tourism sector despite earning huge foreign exchange continues to pay various taxes to the Government unlike other Foreign exchange earning sectors.

Exports made by all sectors do not attract any tax from the Government. Apart from various export promotion/market promotion incentives provided by the Government of India, the export sectors are also eligible for refund of any taxes/duties paid while procuring raw materials/ intermediaries for export production through Cenvat, Duty Drawback Scheme, Advanced License Schemes, EPCG Schemes etc. Necessary illustrations have already been given in the earlier sections.

In case import duties being levied on import of raw materials and capital goods for export production it would be as follows for various sectors.

Products	Basic Customs Duty	Educational Cess on Basic Customs Duty	Counter vailing Duty (CVD)	Add. Customs Duty
Gems & Jewelry				
Gold	10%	3%	12%	---
Diamonds & Gemstones	10%	3%	---	---
Textiles & Apparels	10%	3%	12%	---
Handicrafts	10%	3%	12%	4%
Chemicals				
Organic, Inorganic, Dyes & Dye Stuff, Miscellaneous Chemicals	10%	3%	12%	4%
Pharmaceuticals				
Drugs & Pharmaceuticals	10%	3%	6%	---
API (Active Pharma Ingredients)	10%	3%	6%	---
Neutraceuticals & Health Supplements	30%	3%	6%	---
Plastics & Plastics Products	10%	3%	12%	4%
Petroleum Products	Various	3%	14%	---

Source: Primary + Secondary – (DGC&S)

But exporters, as mentioned earlier, get the refund of import duties through drawback route. But in reality they take the advantage of importing duty free raw materials and intermediaries through advance license scheme.

Contrary to the above scenario, it is clear that Tourism Sector in India, which also generates substantial foreign exchange for the country through Inbound Tourism and tantamount to exports, is taxed heavily barring few export promotion schemes like SFIS & MDA. In addition to that there are multiple taxes levied on the same product or service offered, which is also explained in detail in earlier sections.

The Foreign Tourist needs to pay all the taxes which are applied at the domestic level and in some cases more than Domestic Tourists (e.g. Monument Fees). This is eroding the competitiveness of India as a Tourist Destination. The major Competing Tourist Destinations like Malaysia, Singapore & Thailand have lower tax rates than India on services and products that are provided in the Tourism Sector.

28 Special Economic Zones and Export Oriented Units

I. Export Benefits under Special Economic Zones Policy

Exporters can also benefit from the Special Economic Zones policy. The fiscal concessions and duty benefits allowed to Special Economic Zones (SEZs) are inbuilt into the SEZs Act, 2005 and Rules thereunder. These exemptions are uniformly applicable to all SEZs and are in the nature of incentives for export and are consistent with the principles that guide export promotion initiatives of the Government in general. The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs are as under.

1. Duty free import/domestic procurement of goods for development, operation and maintenance of SEZs and SEZ units
2. 100 per cent Income Tax exemption on export income for SEZ units under section 10AA of the Income Tax Act for first 5 years, 50 per cent for the next 5 years thereafter and 50 per cent of the ploughed back export profit for the next 5 years.
3. Exemption from Central Sales Tax.
4. Exemption from Service Tax.
5. Exemption from VAT and other levies as extended by the respective state governments

II. Export Oriented Units under Export Oriented Unit Scheme

Exporters can also benefit from the Export Oriented Unit scheme. Under the Export oriented units scheme which was introduced in 1980, the exporter has various benefits as

1. Duty free imports of capital goods & raw material for export production.
2. Duty free imports of second hand capital goods without any age limit.
3. Exemption from central excise duty on Capital Goods & Raw Material brought from the domestic tariff area for export production.
4. Domestic Tariff Area sale can be allowed up to 75% of FOB value of Export of the previous year. The limit changes for certain industries.
5. Inter Unit Transfer of Duty Free Capital Goods.

29 Contribution to GDP, Employment Generation & Foreign Exchange Earnings – Sector Wise Comparison (2012-13)

	Tourism	IT & ITES	Pharma	Gems & Jewellery	Textile & Apparel	Chemicals
Foreign Exchange Earnings *(USD Billion)*	**18.3**	76	10.1	39.03	33.3	16.13
Net Foreign Exchange Earnings *(%) of FEE*	**^80-85**	99	82	5.5	84	Negative
Direct Employment generated *(million jobs)*	**28.8**	3	0.45	2.5	35	2.5
Indirect Employment generated *(million jobs)*	**38.2**	10			47	
Total Employment generated *(million jobs)*	**67**	13			82	
Sector contribution to GDP (%)	**6.88**	8	1.7	7	4	3.5
FDI (Foreign Direct Investment) (2012-13) *(USD Billion)*	**3.26**	0.49	1.12	0.05	0.096	0.29
FDI (Foreign Direct Investment) (2000-2013) *(USD Billion)*	**6.75**	11.91	11.32	0.42	1.26	9.24

ICOR	Agriculture & allied	Mining & Quarrying	Manufacturing	Trade, Hotels & restaurants
10thPlan	4.05	6.64	6.2	1.13
11th Plan	6.58	15.25	8.68	2
12th Plan	5.32	10.95	7.44	1.56

Source : Planning Commission, Government of India

Data Sources	
IT	DEITY, Government of India
Pharma	Department Of Industrial Policy & Promotion
Gems & Jewellery	GJEPC India & FICCI
Chemical	Planning Commission & Chemical Export Promotion Council
Tourism	Ministry of Tourism, Government of India
Textiles & Apparel	Ministry of Textiles, Government of India & Textile Export Promotion Council

- Direct Employment generated in the Tourism Sector is one of the highest amongst export oriented sectors.
- Foreign Exchange retained by the sector is superseded only by Textile, Pharma & I.T./I.T.E.S amongst export oriented sectors.

*Please note that Net Foreign Exchange Earnings for Tourism & Handicrafts at 80-85% and 65% respectively have been arrived based on expert interviews due to lack of availability of data in public domain

Sector Performance & Incentives provided

	Tourism	Gems & Jewelry	Textile & Apparel	Chemical	Pharma	Plastics & Plastic products	Petro-Chemicals	Handicrafts	I.T./I.T.E.S
Foreign Exchange Earned (in US $ Billion)	18.3	39.03	33.3	16.13	10.1	9.10	51. 63	3.3	76
Net Foreign Exchange Earned (in US $ Billion)	~15.0	2.13	28.1	- 6.91	8.3	2. 63	40. 6	~2.15	76
Net Foreign Exchange Earned (In terms of % of Foreign Exchange Earned)	~80-85	~5.5	~84	Negative	~82	~29	~79	~65	~99
Major Export Promotion Incentive Schemes									
EPCG		✓	✓	✓	✓	✓	✓	✓	✓
SFIS	✓								
MDA	✓	✓	✓	✓	✓	✓	✓	✓	✓
Duty Drawback		✓	✓	✓	✓	✓	✓	✓	
FPS		✓	✓		✓	✓	✓	✓	
FMS		✓	✓		✓			✓	
Interest Subvention			✓					✓	
Other Major Applicable Scheme Availed			TUFS					DFIS	1. STPI 2. SEZ Incentives

* **1**. Please note that Net Foreign Exchange Earnings for **Tourism & Handicrafts at 80-85% and 65%** respectively have been arrived based on expert interviews due to lack of availability of data in public domain. **2**. 100% of the Forex is retained in I.T./I.T.E.S sector.

Sources: WTTC, Export Promotion Councils, Planning Commission, Respective Ministries, Govt. of India, Nasscom

Key performance indicators –Tourism sector in India vis a vis other Competing Countries

	India	Malaysia	Thailand	China	UAE**	Singapore
Foreign Exchange Earnings *(USD Billion)*	18.3	21.9	45.4	52.2	22.0	19.7
Net Foreign Exchange Earnings *(%) of FEE*	^80-85					
Direct Employment generated *('000 jobs)*	28800	881	2563	22780	292	147
Indirect Employment generated *(million jobs)*	38200	977	3449	41633	205	148
Total Employment generated *(million jobs)*	67000	1858	6012	64412	497	296
Sector contribution to total employment (%)	12.3	14.1	15.4	8.4	9.1	8.7
Direct contribution to GDP (%)	2.2	7.2	9	2.6	4	5.3
Indirect Contribution to GDP(%)	4.68	8.9	11.2	6.6	4.4	5.6
Total Contribution to GDP(%)	6.88	16.1	20.2	9.2	8.4	10.9
GDP of the Tourism sector (Direct + Indirect) (USD Billion)	125.7	50.3	78.1	850.0	117.4	31.6
Capital Investment in USD billion	33.1	6.6	7.5	117	5.7	12.9
Capital Investment as % of GDP	6.3	7.7	7	2.9	6.15	19.7
Sector Exports as a % of Total Exports	4.1	8.4	16	2.15	5.8	3.55

Sources: India – Ministry of Tourism; Competing Countries -WTTC

30 Why Tourism Matters

The importance of Tourism sector to the global economy is huge. In 2012 the total contribution comprised 9 per cent of global GDP (USD 6.6 trillion) and generated over 260 million jobs, which account to 1 in 12 of the world's total jobs. The Industry outperformed the entire wider economy in 2012, growing faster than other notable industries such as manufacturing, financial services and retail.

As growth in Tourism Sector has cascading positive economic impacts on other industries, the importance of Tourism as a tool for economic development is enormous. For example the sector contributed to 10 per cent of all new jobs created in 2012.

In 2012, a record one billion tourists crossed international borders in a single year. The International Tourism Receipts for 2012 was USD 1075 billion. The Total spend by inbound tourists in Asia Pacific was USD 323 billion. This shows an enormous potential that needs to be tapped.

Source: World Travel & Tourism Council

Indian Scenario

The total International tourism receipts received by India in the same year were USD 17.7 billion, which was 0.71 per cent of the global receipts and 5.4 per cent of the international receipts received in Asia.

It is evident that India is not able to convert its natural and economic advantages into competitive advantage for the tourism Industry, owing to several factors like high and complex tourism tax policy compared to other competing countries, weak regulatory and policy framework, poor infrastructure in many locations of strategic importance for the tourism industry.

Recommendations

31 Recommendations

It is observed that Inbound Tourism is a global phenomenon. It is an economic activity that involves a billion customers and more than trillion dollars of money spent on travel and allied activities. Although Tourism is an important economic activity in India, the share in global market is extremely small and insignificant.

Therefore the industry needs a policy push in order to become more competitive and attractive for the foreign tourists. Some of the below policy initiative in connection with taxes, export promotion incentives and general measures may need to be incorporated in the Tourism Policy of India to unleash the true potential of tourism sector in India.

Direct Tax Recommendations

Recommendation 1

Section 32AC of the Income Tax Act 1961, provides for Investment linked deduction of a sum equal to fifteen percent of the actual cost of new assets acquired or installed by companies.

This benefit is currently applicable to all companies who are involved in the business of manufacturing or production of goods and who have made capital investments in acquiring or installing assets whose actual cost exceeds Rs.25 crores.

Case for the Tourism sector in India

Key stakeholders of the tourism sector like Hotels, Resorts, Tourist lodges, Banquet Halls, Convention & Exhibition centres etc. require large scale investments for setting up of new facilities or for expansion /modernization /upgradation of existing facilities in order to remain competitive in the market place and attract tourists. These investments also consist of significant amount of expenditure, account for nearly at least 25% of the total project cost, towards acquiring capital assets/equipment which is as under:

- Like manufacturing units good hotels/resorts/Tourists lodges/Banquet Halls/Convention & Exhibition Centres , which generate large scale direct & indirect employment, let alone foreign exchange earnings, also need to install capital equipment like Boilers, Air Handling Units (ACs/ Chillers/ Cooling Towers), Heaters etc.
- It is well known that reserves of Fossil Fuels, like coal, oil, natural gas, are unlikely to last for infinite period. Experts are of the opinion that fossil fuel reserves, particularly coal which are available in plenty in India, will be replenished within next 45-50 years. Moreover, with increased exploitation of these fossil fuels, there are many associated environmental effects like land pollution and air pollution which in turn affect both animal and plant life.

Therefore there is an urgent need to have lesser & lesser reliance on fossil fuel based energies (non-renewables). Realizing this Government of India, in line with the global trend, has also been promoting the generation & usage of renewable based energies like solar, wind, biomass etc through various policy initiatives like Jawaharlal Nehru National Solar Mission or National Solar Mission which encourage generation /installation and usage of grid connected solar/off-grid solar power.

Moreover, conventional energy shortage are also forcing users to emphasize more on energy efficiencies and saving.

It is observed that many hotels/resorts/Tourists lodges/Banquet Halls/Convention & Exhibition Centres etc. are installing off-grid solar energy systems as well as going for Green Building concept by installing solar panels and energy saving systems (especially equipment for control & monitoring of energy consumption)

- Similarly "Security" has become a major issue in hotels/resorts/Tourists lodges/Banquet Halls/Convention & Exhibition Centres etc. for safety of tourists & guests. In order to have proper security arrangement these facilities nowadays install equipment like CCTV, video surveillance camera, X-ray machines, boom barriers/boom gate etc

- Last but not the least is the need for water conservation due to shortage of potable water and controlling pollution to save imbalance in ecological system. It is observed many hotels/resorts/Tourists lodges/Banquet Halls/Convention & Exhibition Centres etc. are installing water treatment plant (for simple filtration/softening as well as RO – reverse osmosis) and sewerage treatment plant (for reuse of water) thereby providing safe water for drinking & cooking as well as help maintaining clean environment.

As mentioned earlier purchase & installation of the above mentioned capital assets & equipment account for at least 25% of the total project costs. But hotels/resorts/Tourists lodges/Banquet Halls/Convention & Exhibition Centres etc are not getting any benefit at the time of creating a new facility or for expansion like any manufacturing unit.

Recommendations

It is suggested that for setting up of Tourism Infrastructure like hotels/resorts/Tourists lodges/Banquet Halls/Convention & Exhibition Centres, equipment/assets like boiler, air handling units (ACs/Chiller/ Colling Towers), heaters, solar panels and energy saving systems (especially equipment for control & monitoring of energy consumption), CCTV, video surveillance camera, X-ray machines, boom barriers/boom gate, Wi-Fi access for maintaining security, Water & Sewerage treatment plants etc required for such modern infrastructure, should be classified as Plant and Machinery so that benefits of Section 32AC can be availed by the sector with threshold minimum investment limit to be lowered to Rs. 5 crores which is appropriate considering the nature of Tourism sector investments.

Recommendation 2

Section 35AD of the Income Tax Act 1961, provides for 100 per cent investment linked deduction on any capital expenditure incurred by companies engaged in specified business.

Benefits are provided to the specified business which includes two star or higher category of Hotels in the Tourism sector.

Case for the Tourism sector in India: India has 0.1 percent of the global hotel room capacity and a global market share of 0.6 percent of total inbound tourists, whereas China has 10% of the global hotel room capacity and 11% of the global Tourism market share. So room inventory is clearly less compared to the prevailing demand. Creation of additional rooms is need of the hour to attract more tourists. .

Need of the Hour – Creation of additional capacities of budget rooms

Apart from 2 stars and above category hotels, India needs smaller & lower category facilities to cater to the rising demand for inbound and domestic tourists. Similarly more Guesthouses, Dharamshalas, Motels, Wellness centres etc are also required in various tourist destinations all over India to attract & accommodate "budget & affordable segment" tourists from all over the world and from within the country to visit various tourist destinations.

Government of India has also recognized the need of creating such facilities to attract more "budget & affordable segment" tourists in India and consequently has taken various policy initiatives towards this direction.

- Government of India has taken initiatives to develop basic infrastructure facilities in various tourist circuits like Buddhist Circuit, Religious Circuit, North-East Circuit etc. In its recent policy pronouncement Government of India has allocated Rs 500 crore for (a) National Heritage City Development & Augmentation Yojana (HRIDAY) for conserving and preserving heritage sites like Mathura, Amritsar, Gaya, Kanchipuram, Vellankini, Ajmer etc. (b) National Mission on Pilgrimage Rejuvenation and Spiritual Augmentation Drive (PRASAD) to develop pilgrimage & spiritual sites viz Sarnath-Varanasi- Gaya in Buddhist circuit. These two schemes aim in creation and maintenance of various world class tourists amenities & infrastructural facilities besides beautification in an inclusive and integrated manner with focus on cleanliness, livelihoods, skills, safety, security, accessibility and faster service delivery.
- These circuits/sites covered under HRIDAY & PRASAD attract or have the potential to attract ordinary inbound/domestic tourists. For example Buddhist Circuit especially Bodhgaya has the highest inbound tourist footfall from countries like Thailand, Myanmar, Srilanka, Bhutan, Tibet, Vietnam, Cambodia who are like ordinary Indian tourists.

- However, these places like many other tourist destinations in India also do not have good budget hotel/Hostel/wellness facilities besides complete absence of basic healthcare amenities which act as deterrent in attracting tourists in large numbers.

- Therefore, there is an urgent need to create such affordable and smaller & lower category hotel facilities besides Guesthouses/ Tourist Hostels, Dharamshalas, Motels, Wellness centres, Medical centres all across the tourists destinations in India including those covered under HRIDAY and PRASAD.

But entrepreneurs, who create such facilities, are small in nature and need to be incentivised so that more capital investment takes place in this segment of the market. Creation of such facilities more in numbers will not only attract "budget & affordable segment" tourists (both inbound & domestic) but will also have huge cascading effect on employment generation and augment the livelihood of local communities. It will also facilitate Government's effort of widening the tax base.

However, Business entities which are primarily involved in running these facilities are not getting the benefits provided under section 35AD of the Income Tax Act 1961. Extending the benefit under 35AD will encourage smaller entities in tourism sector to invest more in creation of smaller category of hotels/guesthouses/ Dharamshalas/ Tourist Hostels/Motels/Wellness Facilities/Medical facilities and other associated infrastructure like installation of houseboats/adventure & leisure tourism facilities.

Recommendations

Therefore, it is suggested that the benefits already provided through section 35AD should also be extended to all the business concern who are making capital investments in setting up of smaller category of hotels/ guesthouses/ Dharamshalas/ Tourist Hostels/ Motels/ Wellness Facilities/ Medical facilities (less than 2 stars or equivalent category) and other associated infrastructure like installation of houseboats/adventure & leisure tourism facilities i.e. to entire tourism industry.

Recommendation 3

Weighted deduction to be allowed for Tourism marketing & promotion activities of Brand India.

India has rich geographic diversity, numerous heritage monuments, different cultural fairs and festivals which need to be adequately promoted so that India is able to convert its geographical diversity and cultural heritage into a competitive advantage for the Tourism sector in India.

Inspite of the geographical diversity as well as rich cultural heritage which are our strengths, India has a share of only 0.6% of the global tourism market. Therefore to create an image of "Brand India", more marketing and promotional efforts need to be made in future on international front.

- Presently, the marketing is mainly undertaken by the Government of India through Embassies and Business fairs which involves a huge expenditure made by the Government through its Market Development Assistance Scheme. It is understood that Promotions and Marketing for attracting inbound tourists takes away substantial budget of the inbound tour operators as well as other industry constituents for Participation in fairs/exhibitions /BSMs/Sales-cum study tour/ Printing of publicity literatures etc . The purpose of such exercise is to promote "Brand India"
- Therefore strengthening "Brand India" image is very crucial for creating positive image of India which will in turn will create awareness among the inbound tourists about India as a tourism friendly country. This has a synergy even with the recently launched "Make in India" initiative by the Prime Minister of India with an aim to give the Indian economy a global recognition.

- But there is no special incentive to promote "Brand India" for the tour operators and other stakeholders. Thus the activity is not undertaken in the manner as what is optimally required to unleash the potential of the tourism sector in India.

Interestingly, realizing the need to promote the Country's brand in international arena, competing nations like Singapore, Malaysia etc. has already put a greater thrust in Brand Building exercise and provide income tax benefits against promotion of the country for Tourism activities. The benefits are as under:

Malaysia	Singapore
1. **Double Deduction on overseas promotions :** Hotels and Tour Operators get a double deduction on the expenditure incurred for promotional activities overseas such as expenditure incurred on publicity and advertisements, promotional collateral for overseas customers, market research undertaken in other country, travel to other countries for participation in trade fair, conferences and forums etc. 2. **Double Deduction on Approved Trade Fair:** Companies are also eligible for a double deduction on expenditure incurred in participating in an approved International trade fair in Malaysia.	1. **Double Deduction on overseas promotions :** Hotels and Tour Operators get a double deduction on the expenditure incurred for promotional activities overseas such as expenditure incurred on publicity and advertisements, promotional collateral for overseas customers, market research undertaken in other country, travel to other countries for participation in trade fair, conferences and forums etc. 2. **Double Deduction on Approved Trade Fair:** Companies are also eligible for a double deduction on expenditure incurred in participating in an approved International trade fair in Singapore.

Recommendation

It is suggested that weighted deduction of 200%, in line with R & D sectors in India, for expenditure incurred towards marketing & promotional activities like (a) participation in trade fairs/events abroad, organizing Buyer Seller Meet (BSMs) and sending trade delegation abroad or (b) similar activities undertaken within India to promote exclusively inbound tourism should be allowed of the qualifying expenses incurred in line with the competing countries.

This may also result in net saving to Government of India. Today, the Government through Ministry of Tourism is pending a lot of money on promoting Brand India abroad. Private sector is not participating in this venture. If the weighted deduction of 200% is given to private sector, the loss of Revenue to Government is to the extent of 30% i.e. tax rate in India. But, on the other hand, there will be 100% saving in the expenditure incurred by the Government to the extent borne by Private Sector through PPP model. There will be net saving of 70% of the expenditure to the Government.

<u>Recommendation 4 – Establishment of Special Tourism Zones in India</u>

Section 80IAB of the Income Tax Act 1961, provides for 100 per cent deduction on profits and gains for 10 years by an undertaking engaged in the development of Special Economic Zones.

Case for the Tourism sector in India

Currently there is no Special Tourism Zone in India. But States like Madhya Pradesh, Kerala, etc. have proposed Special Tourism Zones that would serve to provide stimulus to the Tourism sector in the region and capitalize on the potential of the place. These tourism zones may not be an integrated area like Special Economic Zones, but be a region or location considered as a Special Tourism Zone based on the geographic, cultural or heritage tourism potential of the region. State governments have proposed to provide several benefits to these special tourism zones, which will lead to rise in tourism.

Proposed benefits for Madhya Pradesh and Kerala are as under:

- Madhya Pradesh:

  As per state Tourism policy there are many regions in the State have huge tourism potential. The State Tourism Development Council shall identify and notify such regions as "Special Tourism Zones (STZ)". The State Government shall develop infrastructure in such zones through convergence. Tourism Projects in the STZ shall be eligible for the following exemptions:-

  1. Exemption from Registration Fee and Stamp Duty on sale and purchase of land for tourism projects. The same shall be refunded by the Department of Tourism after the commencement of the project.
  2. Full exemption from Luxury and Entertainment Tax.

3. Discount up to 75% on prevailing license fee for FL-2/3 Liquor License and the condition of minimum guarantee shall be waived off.
4. Exemption from Diversion Premium and rent.
5. 100% Exemption from Motor Vehicle Tax for those vehicle which are being used by the tourists staying in the special tourist zone, for 5 years for a maximum of three vehicles (out of which two should be of 5-seater capacity and one of 12-seater capacity) owned by the project.
6. Full exemption from Luxury & Entertainment Tax (point 2 above) and Discount on Liquor License Fee (point 3 above) exemption shall be applicable for a period of 10 years from the date of operation of the project .

- Kerala

Conservation and Preservation of Areas - ACT 2005: *Special Tourism Zone*

1. The Government may, by notification in the Gazette, declare any area which have or likely to have the importance of tourism within the State as 'Special Tourism Zone' for the conservation, preservation and integrated planned development of such area.

2. No developmental activity including construction in a Special Tourism Zone shall be carried except in accordance with such guidelines as may be issued by the Committee.

These Special Tourism Zones will have all required infrastructure to attract tourists like Hotels, Shopping Malls, Cinema Halls, Convention Centres, Amusement Parks, Resorts, Outdoor and Indoor game facilities, Pubs & Casinos, facilities to showcase India's cultural diversities and traditions, food courts for various Indian, Chinese, French and continental cuisines, etc . It is understood that Hambantota (next to Galle) in southern Sri Lanka is being developed in similar line. Macao is another successful example.

However, as mentioned earlier, no such Special Tourism Zone currently does exist in India. State Governments like MP and Kerala, which have recognized the need for such tourism infrastructure, have offered benefits only to the units/entities to be located within the proposed Special Tourism Zones. There has been no provision for any incentives/benefits for developers who will create such infrastructure and are unlikely to invest their money unless benefits are offered to them too.

Therefore, in order to attract such huge investments for creating such facilities adequate incentives must be given to the developer of such Zones so that they are attracted to invest their money.

Recommendations

It is suggested that the section 80IAB be extended to the Special Tourism Zones that are proposed to come up in India. This benefit will incentivise capital investments in the proposed zones thus making the concept of Special Tourism Zones a success and may provide stiff competition to competing countries like Thailand, Malaysia, Singapore, Sri Lanka, UAE etc for attracting inbound tourists.

Recommendation 5

Lower Withholding Tax on Interest paid to foreign Bank or Financial Institution for Loan taken in Tourism Sector

Today, capital investment is very important for tourism sector especially in Hotels, Convention Centres, Amusement Parks, etc. Investment in any sector is mix of Equity and Debt. The hotels sector is on negative list for Indian Banks and more & more hotels are looking for foreign currency loans (ECB) which is easier and cheaper to get. But, the withholding tax rate on interest @ 20% is very high in India. In order to boost the investment in tourism industry in the form of Debt through ECB, the withholding tax rate should be reduced to 5%. The same benefit is already extended to Airline Sector since last 2 years.

Illustration

The rate of interest in India is 12-16 % p.a. depending on the risk of lending bank. The Indian tourism business can avail the loan facility from foreign banks and Financial Institutions at much cheaper rate (i.e. around 7-8% p.a.). The withholding tax rate on interest in India @20% is very high and may supersede the tax rate applicable to these foreign banks in their home country.

Let us assume that the loan taken by Indian Company is Rs. 100 cr at the interest rate of 5% p.a.. The interest due at the end of the year is Rs. 5 Cr.

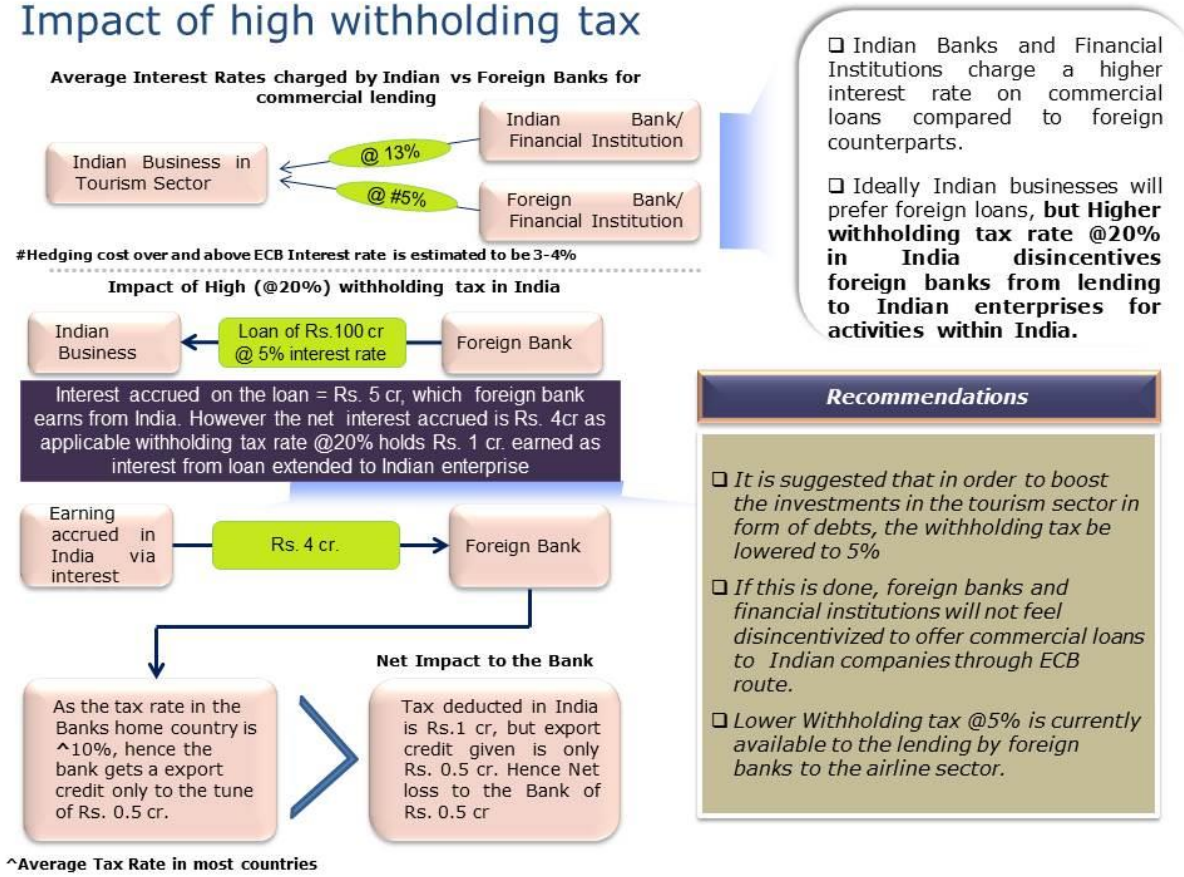
In India

Total Interest payable to foreign Bank = Rs. 5 cr
Less Withholding tax in India @ 20% = Rs. 1 cr
Net amount payable to foreign bank = Rs. 4 cr

In Foreign Country (Home Country of Foreign bank & the rate of Tax is 10%)

Income taxable in the hand of Bank = Rs. 5 cr
Income tax payable @ 10% = Rs. 0.5 cr
Less Foreign Tax Credit = Rs. 0.5 cr
Net tax liability = NIL

Tax Deducted in India is Rs. 1 cr but the credit given is only Rs 0.5 cr. Hence, there is a loss of Rs. 0.5 cr to foreign bank. Because of this loss, foreign banks are not willing to lend money to Indian companies.



Recommendations

It is suggested that the benefit of lower withholding tax of 5% on interest paid on loan taken in foreign currency should be extended to tourism sector to boost the investment in this sector.

Other Recommendations

Recommendation 6

Deduction in respect of profits and gains from Taxable Income for business of hotels, convention centres and other tourism specific infrastructure

There has been steady growth in the Indian tourism sector over the last 10 years. Inbound tourism as well as Foreign exchange earnings from the tourism sector in India is anticipated to grow substantially over the next 10 years.

It is well understood that the growth opportunities in travel & tourism sector cannot be realised without the development of the hospitality sector like setting up of more hotels of various categories, convention centres, amusement parks etc. It is seen across countries that higher share in global tourism market is directly correlated to the global share of hotel rooms capacities held by countries and creation of other hospitality related infrastructures like convention centres/amusement park etc to sustain and grow tourism within a country.

In India there is a dire need to create tourism infrastructure, especially hotels and convention centres which will not only support tourism growth, but also provide employment on a large scale.

If such deduction is extended to the sector, it would serve as an incentive for investments in hotels and other tourism infrastructures in India which in turn will lead to higher footfall of inbound tourists leading to greater amount of foreign exchange earnings as well as employment generation.

Recommendation:

It is thus recommended that Profits & gains from tourism sector infrastructure like Hotels, convention centres, amusement parks etc should be allowed to be deducted in full while computing the taxable income of the business units.

Recommendation 7

Foreign Exchange earnings linked deduction on profits for Income tax computation

Tourism sector in India ranks amongst the top foreign exchange earning sectors in the country. The foreign exchange retention at 80-85 percent of the total foreign exchange in the tourism sector is understood to be amongst the highest compared to other major exporting sectors.

The nature of tourism business is such that stakeholders like Hotels, Tour Operators etc. cannot provide all services from a single integrated location like Special Economic Zones for other foreign exchange earning sectors (manufacturing as well as services) like I.T/ ITES, Pharmaceuticals etc.

As there are no foreign exchange earnings (visitor exports) linked benefits to the Tourism sector, it is at a disadvantage compared to other export sectors in India and other competing nations. Absence of such benefits is a disincentive for investments as well as building efficiency in the Indian tourism sector.

Recommendation

It is suggested that the business concerns within the Tourism sector should be provided foreign exchange earnings linked exemption or deduction on income tax. The foreign exchange earnings linked income tax exemption benefits can be structured on similar lines as what is provided under section 10AA of the Income Tax Act 1961 for business units within the Special Economic Zones.

Indirect Tax Recommendations

Recommendation 1

Scripts Generated through SFIS scheme should be allowed to set-off service tax liability

Presently, the benefit of Served from India Scheme (SFIS)is available in Customs Act. Entities earning foreign exchange in tourism sector can avail duty benefit at the time of importing goods i.e. no import duty is payable by them.

It is suggested that the benefit of this scheme should be allowed to tourism sector specially hotels, amusement parks, convention centres, etc to use the scripts generated by them for services provided to foreigners against the end service tax liability. This will be a great benefit to tourism industry and will promote investment in this industry.

Recommendation 2

Exemption of Service Tax from Heritage Hotels and Heritage Trains.

India is the country of rich heritage and many heritage buildings are converted into hotels and resorts. These types of hotels are always in great demand by the foreigners. Similarly there are heritage trains like The Fairy Queen, Maha Parinirvan Express, Palace of Wheels etc which are very popular among inbound tourists but the cost of service is substantially increased due to service tax.

Therefore, redevelopment, maintenance & revitalization of Heritage properties/monuments/Cities/Trains etc is of utmost importance to promote Heritage Tourism. Government of India has also recognized the need for such activities and it has recently announced Heritage City Development & Augmentation Yojana (HRIDAY) project which is meant for heritage conservation and beautification of heritage sites/properties/cities in an inclusive and integrated manner.

But the costs of availing services of such properties like hotels and trains are already very high which dissuade tourists from taking these services. Levy of service tax over and above the actual cost of services add additional burden to tourists. It is suggested that the service tax should be exempted on this category of hotels and trains to make it more affordable.

Recommendation 3

Exemption of Service Tax on room tariff to be increased.

Presently, the service tax exemption is available for hotels have room tariff upto Rs. 1,000 only. Practically, the hotels having room tariffs less than Rs.1000 are Dharmsalas and One star hotels. As mentioned earlier India needs to build mote budget hotels/ 2 & 3 stars hotels as most tourists prefer the same in international market. This can be observed from European market as well.

Even, National Heritage City Development & Augmentation Yojana (HRIDAY) which is meant for heritage conservation and beautification of heritage sites/properties/cities in an inclusive and integrated manner and proposes to conserve & preserve heritage sites like Mathura, Amritsar, Gaya, Kanchipuram, Vellankini, Ajmer etc encourages in setting up more budget/2-3 star category hotels for increasing room inventory in affordable segment.

In order, therefore, to promote budget/2-3 star hotels, it is suggested that the service tax exemption limit of Rs. 1,000 (present) of room tariff should be increased to Rs. 4,000.

<u>Recommendation 4</u>

Service Tax to be exempted for the units to be set up within Special Tourism Zones

Units/Business Entities within Special Economic Zones or EOUs in Domestic Tariff Area (DTA) enjoy indirect tax benefits. These units do not pay any indirect tax like excise duties, service tax or any tax for procurement of raw materials (either through imports or from domestic market).

Recommendations

It is suggested that units within the proposed Special Tourism Zones may also get exemption from all indirect taxes like any units with SEZs.

<u>Recommendation 5</u>

Relaxation from Service Tax to Tour Operators from Double Taxation

Tour Operators are paying taxes on the tour packages offered by them. They are also receiving commissions from the Airlines for booking the tickets in group. On the commission amount also, they have to pay service tax. For example, a tour operator books 10 tickets from any airline at Rs. 50,000 per person and getting a commission of Rs. 5,000 per ticket sole. The said operator is liable to pay Service Tax on Rs. 5,000 per ticket received from the air line as commission. After incorporating the cost, the operator prepares the tour package of Rs. 90,000 per person including Air Fare. On the entire Rs. 90,000, tour operator again pays service tax. In this way, tour operator pays service tax twice, firstly on the commission received from airlines and then again on the total tour package which also includes Air Fare which tantamount to double taxation.

Recommendations

It is suggested that the service tax paid by the Tour Operators on commission received from Airline in case of package tours should be allowed as CENVAT credit while discharging the service tax liability on package tours.

Recommendation 6

Exemption from Service Tax if the main event is exempt like CWG, Cricket Matches, etc.

In many case, the government notifies that service tax is exempt in special events like CWG Games, Cricket world Cup Matches, International Sports events, etc. But, the incidental activities like hotel stay, rent a cab, etc are not exempted. This results in increase of cost which discourages the foreigners to come to India. In this way, there is the loss of foreign exchange.

Recommendations

It is suggested that the service tax should be exempted on all the incidental activities or services like hotel stay, rent a cab, tour operators, etc if the main event is exempted by the Government from the ambit of service tax. This will promote tourism in India and fetch huge foreign exchange into Indian Economy. This will generate additional employment to India youth as well.

32 Anticipated Growth Rate in the Inbound Tourism Sector.

During the course of the Research, It was understood from Industry Stakeholders and Sector Experts that the role of the Government in the growth of the Tourism Sector is paramount in India. Apart from the taxation related concerns that have been highlighted in the Recommendations section, the stakeholders also felt that the Government should focus to implement certain initiatives that will help the Inbound Tourism sector in India.

- E-Visa on Arrival
- Improve Road and Rail Connectivity across India.
- Development of certain Tourism Belts/ Circuits like Buddhist Circuit etc. which has humungous untapped potential.
- Development of New Airports in the Country in order to enhance connectivity.

In the wake of the recommendations and suggestions being implemented by the Government, the Inbound Tourists coming to India will see a growth and the Foreign Tourist Arrivals are anticipated to increase at a CAGR (Cumulative Average Growth Rate) of approximately 12 per cent over the next 5 years (2013-2018) to 11.9 million Foreign Tourists Arrivals in 2018.