India Reboot@2020 –Travel & Hospitality Sector Will Be Worst-Hit, Here's How It Can Be Helped Back to Its Feet

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- ***The travel- and hospitality-related sectors are built on the premise of a peaceful world with open borders.***

Disruptions like the Covid-19 pandemic can single-handedly have a disastrous effect.

The travel & hospitality sector globally has been an important economic pillar worth over $9tn (around 11 per cent of global GDP) and providing over 320mn jobs.

In India this sector generated $240 billion (9.2 per cent of India's GDP) and supported 43 million jobs.

India also ranked third among 185 countries in terms of travel & tourism's total contribution to GDP and was also the most digitally advanced traveler nation in terms of digital tools being used for planning, booking and experiencing a journey thanks to a number of Indian Online travel Agencies (OTAs) and startups.

Therefore, this sector creates jobs, drives consumption, earns foreign exchange and invigorates the domestic economy across a range of other sectors including transportation, food, beverage, lifestyle, culture, recreation, religion and sports.

It is fundamentally built on the premise of a peaceful world with open borders and therefore disruptions like the Covid-19 pandemic can single handedly have a disastrous effect.

The World Travel and Tourism Council (WTTC) estimates that the pandemic could cut 50 million jobs worldwide in the travel and tourism industry, and may take up to 10 months for recovery costing the tourism sector $22 billion.

International Air Transport Association (IATA) estimates global revenue loss for the passenger business alone between US$63 to $114 billion.

The sector estimates job losses to the tune of 20 million in India alone.

Before Covid-19, India was busy preparing itself to become a $5 trillion economy and was placing its bets on the Travel and Tourism sector to help achieve this goal.

This sector is part of the **"Make in India"** initiative with focus on initiatives such as cruises, medical, rural, lighthouse and spiritual tourism. Despite such ambitious intentions various onerous regulations on ground can stump the fundamental vehicles needed to realize them: travel agents.

In this hour of need when 20 million jobs are at stake, the political leadership has to come up with some bold innovative initiatives that will help this sector survive today to contribute for tomorrow.

The industry needs support on two fronts:

1. **Immediate sops for the short term and**

2. **Regulatory reliefs that will benefit long term.**

A. The Sops: Since the sector is gasping for breath, the following set of sops will immediately give the much-desired relief:

1. **Six to nine month moratorium on working capital and low- interest, short term loans repayment:** Since the industry is in dire need of money to survive, a six-nine-month moratorium on working capital principle, interest payments on loans and overdrafts without categorizing them as NPAs should be put in place.

2. **Deferment of Statutory liabilities:** Central Statutory Compliances, GST and Advance Tax payments timelines and removal of fees for upcoming licenses/permits renewal/ Excise exemption for the hospitality and travel industry across the states.

3. **GST Sops and relaxations:** Bring aviation turbine fuel, jet fuel under GST, reduction in airport charges and overflight fees, excise duty reduction on jet fuel, GST holiday for Hotels, tour packages and all of reservation services rendered by travel agents etc.

4. **Tax rebate for Domestic Tourism Consumers:** On Aug 15th 2019, PM Modi had urged people to visit at least 15 tourist destinations within India by 2022. A 100 per cent tax rebate for next two fiscal years should be accorded for people booking domestic tourism packages through Indian travel agents (with necessary checks).

5. **Amendments on SEIS/EPCG schemes:** An extension in export obligation fulfillment period by an additional three years beyond six years for all the licenses expiring during current and next two financial years, without attracting any penalty or interest.

6. **Financial support package:** A minimum support package primarily to avoid job layoffs through salary intervention would help this critical sector standup.

B. Regulatory reliefs: This sector is terribly stunted due to certain onerous taxes and regulations that uniquely apply to only those **who are sincerely located and operate with a "permanent establishment" in India.**

1. **Immediate Scrapping of Section 194O for OTAs:** This new section introduced in Union Budget 2020, which seeks to apply TDS of one per cent for OTAs, now deferred till October 2020 would cause irreparable loss to the travel industry with increased compliance burden, working capital crisis and higher costs to the end consumer has to be scrapped.

2. **Immediate Scrapping of five per cent TCS with PAN and 10 per cent TCS without PAN:** Another provision introduced in Union Budget 2020, now deferred till October 2020 would severely cause injury to domestic travel agents.

   This provision would forcibly push all Indian customers away from Indian OTAs to foreign online portals to save immediate cash flow, since no restrictions exist for a traveller to pay through credit card or direct payment to a foreign hotel or to an OTA registered abroad as neither are liable to pay TCS.

   Ideally PAN could be linked to Passport and TCS applied only when PAN is not declared.

3. **Liberalized Remittance Scheme (LRS) requirements:** As per RBI Statement on Developmental and Regulatory Policies on 6th June, 2018 paragraph 18 individuals making remittances under LRS are required to submit PAN to their respective authorized dealer/bank (AD).

   This requirement scares many customers and forces them to move to foreign portals for the same booking thereby making Indian OTAs non-competitive against entities registered abroad to whom` such regulations do not apply.

   The big loophole as mentioned earlier applies here as well. Either foreign players need to be brought under similar compliances else Domestic OTAs should be allowed to charge customers in foreign currency.

4. **Introduce the concept of a Permanent Establishment to enable India presence and create level playing field for Indian travel start-ups and OTAs:** It is recommended that where the activities undertaken by a foreign OTA in this sector are intended to result in regular conclusion of contracts in India to be performed by the foreign entity, such enterprise should be considered to have a taxable presence in India.

   This is another loophole that causes further injury to India based businesses.

   While the budget 2020 seems to have an equalization provision, it has to be practically tested out from an enforcement standpoint.

5. **Multiple GST registrations and compliances:** An India-based OTA which can efficiently operate from a single office is forced to open 37 offices, 37 GST registrations and 37 TCS to offer services across India.

   This results in increased costs, multiple accounts, 111 returns/month and multiple investigations on the same transaction by different states.

   A centralized registration mechanism for OTAs discharging IGST from their centralized location would benefit this sector.

6. **e-invoicing mechanism should not apply to OTAs*:*** This mechanism introduced under GST should not be applicable to this sector as it causes duplication. Since under the GST return

filing system, transactions between a registered supplier and registered recipient are inter-linked and inter-dependent in a way that the recipient would be allowed to claim credit only of those invoices which are uploaded by the supplier on the GSTN portal.

Countries like Germany, Singapore, Australia, US have announced various forms of relief for this sector including bailout packages and extension of financial aid.

It is important that regulations and taxes should not make such critical sectors costly for the end consumer forcing them to look elsewhere thereby injuring local business.

It is also important that while one arm of the government understands and supports a sector well, the other arm should not undo this good work. Therefore, regulatory reliefs, sops and innovative regulatory relaxations are the need of the hour.