SUGGESTIONS FROM THE FEDERATION OF HOTEL & RESTAURANT ASSOCIATIONS OF INDIA FOR BUDGET 2020-21

Direct Tax & Policy Recommendations

S.No.	Issue	Justification
DIRECT TAXES		
1	Treat at par with merchandise exports of hotels & resorts and extend it an export and deemed export status to promote exports of hospitality services.	India's share is less than 1%+ of the Foreign tourists' arrivals and India still has to reclaim its rightful tourism leadership as against its competitive set. The share of China is estimated at 4.5%+, Hong Kong ~ 2%+, Malaysia ~2% & even the city state of Singapore is at 1%+. India has a huge opportunity to correct this. Just from East Asia itself we have a potential of tapping 10% of the short-haul tourism estimated at ~ $300 bn within the region. This strategy has the potential to double our global market share to above 2% and double our foreign exchange earnings to over $50bn. To enable the investments into developing more global markets, it is requested to declare foreign exchange & deemed foreign exchange earnings from hotels & tourism as export earnings. Additionally, it is roughly estimated that each foreign tourist moves across 2.5 Indian states, and stay at hotels & resorts and go through other experiences and spend their foreign currency or their converted foreign exchange. All such hotels & resorts and services which accept payment from such foreign tourists abound be deemed as exports too.
2.	Extend investment linked benefits from section 35 AD to ongoing capex of hotels & resorts to promote high quality brownfield	Hotels & Resorts are highly capital-intensive business which require constant upgradation of civil works, furniture and furnishings and plant and machinery to maintain high quality standards for customers of the hotel & resort properties. The investment cycle of the complete black happens once every three – four years.

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	capex and capacity expansion and thus expand investment and job driven GDP.	The ongoing works take a lot of capital and cash flows and in turn creates large scale employment. However, this capital work, while necessary to maintain standards and safety does not get monetised in terms of revenue benefits and thus hampers much needed cash flows and thus capex reinvestment and thus jobs creation. To ensure constant upgradation to maintain high quality standards of Indian hotels, resorts it is requested to extend investment linked benefits under Section 35 AD (without any linkage to star ratings as these are voluntary) for undertaking ongoing repairs, maintenance and upgradation to its capital block.
3.	Extend double weighted depreciation to heritage hotels and also provide for calculation of its capital black on revalued basis.	Indian Heritage is one of the most unique competitive advantages that Indian tourism has globally. The heritage hotels of India - palaces, converted forts, havelis, attract foreign tourists globally and vital foreign exchange. However, they require very extensive and unique maintenance due to the natural stone and historic architecture. It is thus requested that their very unique upgradation of civil works, furniture and furnishings and plant and machinery which is done to maintain high quality standards, be extended double weighted depreciation benefits. Additionally, due to their unique age and character it is requested that capital block may be taken as per revaluation basis and not on historic book basis.
4.	Evaluate a policy of complete tax & MAT holiday for hotels till they achieve capital break-even point.	Hotels & Resorts are highly specialised Infrastructure which cannot be reused for any other purpose. Capex once invested in this infrastructure has a breakeven period which ranges from 7-10 years and above depending upon the category, the quality, mix and scale of this infrastructure. However, this high breakeven period of between 7-10 years is now getting further prolonged due to the emergence of the short - term rental sharing economy from online portals and thus making it difficult to repay and recover for many. This tourism Infrastructure given its high capex costs, its development is limited to a few enterprises who can raise equity and tap long term debt markets. Additionally, to tap our natural tourism in Indian hinterlands and rural areas, Governments have to sometimes step in to create tourism infrastructure to stimulate demand which then creates incentives for

		private capital to explore the destination. That job is done by hotels in hinterlands and rural areas. It is thus requested that a policy may be evolved which extends a tax and mat holiday for hospitality units till they achieve capital break even to ensure large scale employment in hinterlands and to prevent insolvencies.
5.	Consider waiver of TDS on OTA commission, Food aggregators' service charges & Social Media Advertisements charges and TCS charges.	Commissions and Service Charges charged by the OTAs and Food Aggregators are generally deducted from the payments that to be remitted to the hotels/restaurants on gross basis. Bills are sent at the end of the month or beyond. In most cases, the TDS due on such expenses cannot be deposited within the given time period. Similarly, social media advertisement charges are collected either via Credit Card or by ECS on gross basis. the onus of paying TDS is on the business. Once the payment is done, the amount of TDS so deposited with Govt becomes receivable from these service providers (as they would have collected their respective charges on gross basis). But since one is dealing with portals whose physical infrastructure is often complex, recovery is virtually impossible. While these agencies would enjoy and take credit of the TDS so paid, refunds are not forthcoming. Thus, waiver of TDS is required. Similarly, these service providers deduct TCS on bills raised but if there is no timely deposit of TCS by them, then credit is not allowed. In both the scenarios, business suffers and cost of these services end up increasing by 3-6%
POLICY RECOMMENDATIONS		
6.	Classify hospitality under the RBI Infrastructure lending norm criteria for access to long term funds to enhance quality accommodation supply and therefore stimulate higher global and domestic travel demand.	India currently has an estimated 0.2 million rooms, of which just about 0.1 million are classified rooms and received around 10. 5 mn foreign tourist arrivals in 2018 and ~ 1.6 million domestic visits. As compared to that, China is estimated to have 15 times more hotel room inventory than India and is estimated to have received almost 6 times more foreign tourists, and almost 3 bn + domestic tourist visits, respectively. USA is estimated to have almost 25 times more hotel room inventory than India and is estimated to have received almost 7 times more foreign tourists and almost 2 bn domestic tourist visits respectively. To target a respectable global share in tourism, India needs to enhance its accommodation

		capacity. Assuming doubling or even tripling tourism capacity at an average capex cost per room ranging from 0.3 mn- 0.5 mn (excluding land) and at a debt equity ratio of 2:1, it would mean debt ranging from ₹ 40000 crores upto ₹ 1,33,000 crores over the medium to long term period. India's policy rates are one of the highest as compared to its competitors. High cost of debt in India will have a negative impact on the growth of this sector and thus needs to be addressed. A quick analysis in mid-year showed that Indian interbank rate was around 6.8% as compared to ~ 3.1% in China and around 2.2% in USA. Hotels & Resorts are core tourism infrastructure which create supply and employment which then drives demand for leisure & business tourists. They have a wide scale influence on their local economy. It is estimated that Indian tourism is estimated to employ almost 2. 5 crore jobs directly and almost 4 crores in total which implies that almost 1.5 crore are indirect jobs. It is thus requested to classify hotels & resorts as such to get them access to long term infrastructure funds which will kick start a virtuous tourism cycle in India.
7.	Set up a corpus fund for Industry Status to hospitality infrastructure to ensure their national industry status by compensating states for any losses.	Hotels & Resorts are classified as an industry across some states. However, this definition is not standardised across the country which leads to high operating costs of utility. Typically, it is estimated that more than 90% of the hotel staff is local staff and almost 25% among them to be women which give a big boost to the local area. It is thus requested to classify hotels & resorts as an industry across the country and create a corpus which compensates states from any notional loss. The lower cost of operations spread over a higher payback period will reduce the cost of our supply which will boost demand and through a higher inflow of both foreign and domestic tourists will boost further confidence in capex spending in tourism and will thereby add to structural employment growth across our hinterlands.
8.	Enhance funding limits to raise SEIS rates to 7% for hospitality to enhance the quality of accommodation by providing world class fittings & furnishings &	Hospitality is a highly capital-intensive business which requires constant upgradation of civil works, furniture and furnishings and plant and machinery to maintain high quality standards for customers of the hotel & resort properties. To enable the investments into developing more globally acceptable products and earn higher foreign exchange,

	thus promote forex earnings.	a lot of this capex is imported. It is thus requested to enhance the SEIS limits to 7% for hotels & resorts.
9.	Develop a policy mechanism for establishing a single window for giving multi state multi ministries E - approvals through a single window.	The Hotel and Restaurant Industry have multiple approvals, licenses & permits. These delay the implementation of investments, which the industry estimates to impact the project costs by as high as 20% - 30%. To fast track investments, it is requested to establish a centralised approval system of most common approvals, licenses & permits on an E- approval basis. These should be granted within a pre-defined frame or deemed to be approved. The policy of granting composite licenses should also be examined. A mechanism of a body, HDPB - Hospitality Development & Promotion Board was established under Ministry of Tourism. It is suggested that HDPB be empowered to act as the single point approvel for the sane of hotels and restaurants across the country.
10.	Set up a working group to examine PF, ESIC & workforce compensation practices.	The hospitality sector provides very high employment opportunities which is not gig economy jobs but real jobs. However, labour laws hamper the ease of doing business. These include recent rulings in PF which have increased the payroll costs but at the same time reduced the take home of employees making it difficult for them to sustain, PF structure and rates to be rationalised, non-performance-based compensation pay structures and linked retrenchment and hire criteria and so on. It is thus requested to set up a working group to examine the labour hiring and compensation policies of the hospitality industry to help create mass country wise employment.
11.	Enable SEIS to discharge GST liabilities.	SEIS is a way to set off indirect tax levied to reduce our cost of exports. It was also allowed to discharge service tax liabilities through the scrips. It is thus requested to continue the same by enabling discharge of GST liabilities through the SEIS scrips. Sir, we request you to kindly consider our requests, as above to enable the hospitality industry to play a Pivotal role in nation building through investments, jobs, forex and thus GDP growth.