



**SUGGESTIONS FROM THE FEDERATION OF HOTEL & RESTAURANT  
ASSOCIATIONS OF INDIA FOR UNION BUDGET 2023-24**

**TAX RECOMMENDATIONS**

S No.	Matter / Issue / Concern	Recommendation	Rationale
1	<b>Relaxations in Section 115JB- minimum Alternate Tax</b>	Allow MAT waiver for 2 years from April 2023- March 2025.	This will help in reducing the tax burden and will provide marginal relief to the hospitality sector.
2	<b>Extend investment linked benefits under Section 35 AD for brownfield hospitality projects also</b>	<p>Extending investment linked benefits from section 35 AD to ongoing capex of hotels &amp; resorts shall immensely benefit high quality brownfield capex and capacity expansion and thus accelerate investment and employments in the sector.</p> <p>Presently this benefit under Section 35 AD is applicable to new hotels for 2 star and above category only.</p>	<p>Hotels &amp; 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 &amp; resort properties. The investment cycle of the complete black happens once every three – four years.</p> <p>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</p>

			<p>does not get monetized in terms of revenue benefits and thus hampers much needed cash flows and thus capex reinvestment and thus jobs creation.</p> <p>To ensure constant upgradation to maintain high quality standards of Indian hotels &amp; resorts it is requested to extend investment linked benefits under Section 35 AD (without any linkage to star ratings as these are voluntary) for upgradation to its capital block.</p>
3	<b>Request to modify the Leave Travel Allowance (LTA) rules</b>	Amount spent on hotel stay may be allowed to be considered as LTA expense.	<p>The current rules allow to claim LTA only for travel fare or tickets within India. Expense incurred for accommodation/on hotel stays are not eligible for exemption.</p> <p>To incentivize domestic tourism and as well as to support hotel sector's revival, government may consider to modify the rules to include deduction of other expenses like hotel stay.</p>
4	<b>Treat the payments made by foreigners in rupees in hotels as foreign exchange earned for the purpose of EPCG scheme</b>	<p>Foreigners coming to India and staying and spending in hotels should be deemed as foreign exchange earned by hotels for the purpose of EPCG Scheme.</p> <p>Treat this at par with merchandise exports of hotels &amp; resorts and extend it an export and deemed export status to promote exports of hospitality services.</p>	<p>To enable the investments into developing more global markets, it is requested to declare foreign exchange &amp; deemed foreign exchange earnings from hotels &amp; tourism as export earnings.</p> <p>Additionally, it is roughly estimated that each foreign tourist moves across Indian states, and stay at hotels &amp; resorts and go through other experiences and spend their foreign currency or their converted foreign exchange. All such hotels &amp; resorts and services which accept payment from such foreign tourists abound be deemed as exports too.</p>

<b>5</b>	<b>Allow - Set-off of Business losses upto 12 years under Section 72</b>	In view of the monumental losses occurred to the hospitality industry, it is requested to allow to carry forward of business for up to 12 years instead of eight financial years, presently.	<p>With long gestations periods, the hotel industry suffers losses in the initial years of its operation. Hotel normally carry forward these business losses with an expectation to set off the same in the coming years.</p> <p>But the Covid pandemic had severally impacted profitability of hotels in India and the industry would largely report business losses for the next few years.</p> <p>Allowing to extend the period to carry forward the business losses would indeed enable the hotels to have better cash flows and mitigate the losses happened in the initial years.</p>
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## **POLICY RECOMMENDATIONS**

<b>S No.</b>	<b>Matter / Issue / Concern</b>	<b>Recommendation</b>	<b>Rationale</b>
<b>1</b>	<b>Increase the ECLGS loan term for the hospitality sector for the maximum period</b>	Enhance the repayment period of ECLGS to 10 years or as per the loan repayment period of the principal loan, whichever is longer	<p>The 6-year period of loan repayment is too less for the hospitality sector to reap the desired benefits of otherwise a well-intended scheme. Most of the beneficiaries of the scheme had already mortgaged their properties as surety for the Principal Loan and if the ECLGS loan is not in sync with the earlier loan, that would lead to default of payments and high volume of NPAs in the sector.</p> <p>Therefore, in order to make the ECLG Scheme fruitful and effective, it is</p>

			imperative that the tenure of loan term is increased to at least 10 years or in accordance to the loan repayment period of the 'Principal Loan', whichever is longer, in the interest of hospitality sector.
2	<b>Waiver of secondary condition with regard to average Foreign Exchange Earnings under EPCG scheme retrospectively from FY 2007-08 onwards</b>	<p>a) Grant Relaxation in average export obligation by adjusting the preceding 3 years annual average performance for all years commencing from financial year 2008/09.</p> <p>b) Allow to offset any shortfall in the average EO in any year by using the excess export done above export obligation for fulfilment of an EPCG license.</p>	<p>From 2004-2007, the Hospitality industry enjoyed its golden years in terms of revenue performance while earning substantial foreign exchange but ever since then its revival to that past glory looks very remote. It was during this time that the service industry was exempted from maintaining Annual Average Performance conditions vide Para 5.7.6 of Chapter 5 of Exim Policy 2002-07.</p> <p>However, in the year 2007-08, DGFT in the new Exim Policy introduced an additional condition which not only meant that over and above the primary condition, the industry will have to earn 6-8 times of the FEE within the respective block period and also saddled with a secondary condition of maintaining a 3 years average past performance continuously over &amp; above the specific EO and the average has to be maintained for the entire block of 8/6 years till the redemption of license.</p>

			<p>Unfortunately post the introduction of the secondary condition, the hospitality industry has suffered a huge decline and thereby reduction in the FOREX due to which the industry has not been in any position to fulfil the secondary condition of maintaining the 3 years average past performance.</p>
3	<p><b>Continuation of EPCG Scheme, service export benefits and grant export status to the hospitality industry</b></p>	<p>a) In view of the volatile economic environment created due to Covid pandemic, the government is requested to continue the current benefits for the hospitality industry under the EPCG Scheme for another 10 years.</p> <p>b) Grant export status to hospitality sector to accelerate growth of the sector</p>	<p>The EPCG Scheme allow import of capital goods for pre-production, production and post production at zero customs duty and subject to fulfilment of specific export obligation equivalent to 6 times of duties and taxes saved on capital goods to be fulfilled in 6 years from the date of issue of authorization. This scheme has helped the hospitality sector in India immensely to emerge as a strong player in the global tourism market, by procuring equipments as per international standards and quality.</p> <p>However, the capability of the domestic market to cater the specific requirements of the hospitality sector is in its nascent stage in comparison to the requirements of the hospitality sector, where the clientele is largely from the global market which is highly competitive. Therefore, it is imperative to continue the EPCG Scheme to enable the hospitality sector remain competitive in a global market scenario, for some more years.</p>

			Granting of Export Status to hospitality Industry with tax incentives and benefits would enable the sector to be more competitive and help the sector to jumpstart its growth to the next orbit.
4	<b>Granting Infrastructure Status to the hospitality industry</b>	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.	Currently hotels built with an investment of Rs.200 crores or more have been accorded infrastructure status. This threshold has to be brought down to Rs.10.00 crores per hotel to give fillip to budget segment in hotel industry. This will enable hotels to avail term loans at lower rates of interest and also have a longer repayment period.
5	<b>Industry status and allied benefits to the hospitality industry</b>	It is requested to classify the hospitality sector as an industry across the country and create a corpus which compensates states from any notional loss.	<p>Though industry status has been accorded to hotels by many state Governments, the incentives and privileges associated with an industry are never conferred to the industry.</p> <p>Granting industry status to hospitality industry pan India and set up a corpus fund to incentivize all states to align their policies and set off any losses that may occur due to its implementation.</p> <p>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.</p>

6	<b>Placing Tourism &amp; Hospitality on the Concurrent list of the Constitution</b>	Placing Tourism in the Concurrent List of the Indian Constitution for effective legislation to make tourism into a national agenda.	<p>If tourism, &amp; hospitality is declared as an industry by the center and put on concurrent list it will also incentivize all states to align their policies.</p> <p>It will ensure better coordination between the centre and state for fund allocation and implementation for projects and programs aimed for the holistic development of tourism sector in the country.</p>
7	<b>Uniform GST @ 12 % on all Hotels</b>	We suggest one flat GST slab at @ 12 % all times to all hotels in the country	<p>G.S.T. rates for hospitality in India are one of the highest in the world. This makes both domestic and inbound tourism in India very expensive. India is facing tough competition from neighbouring destinations especially due to the higher rate of GST in India and other factors which make the total tourism package expensive to India.</p> <p>The system of GST shifting to different slabs in the same hotel on different dates – under / over 7500 room rate – creates compliance issues. It also spills over to F &amp; B</p>