THE FEDERATION OF HOTEL & RESTAURANT ASSOCIATIONS OF INDIA

SUGGESTIONS FROM THE FEDERATION OF HOTEL & RESTAURANT ASSOCIATIONS OF INDIA FOR BUDGET 2019-20

Direct Tax & Policy Recommendations

S.NO	Issue	Recommendation	Justification
1.	**Hospitality projects are highly capital intensive with long break even points and do not enjoy equivalent low-cost long-term funding.**	**Recommendation 1.1:** Declare Infrastructure status for hotels & resorts. Classify hotels & resorts with a capital expenditure of ₹20 crores + (excluding cost of land) as infrastructure under the RBI master list of infrastructure sub sectors, irrespective of their rating and across all towns of India.	India has less than 0. 2 million classified hospitality rooms, as compared with ~ 3 million in China, and ~ 5 million in USA. This has a direct correlation to tourism share. China gets 5 times foreign tourists and almost double domestic tourism visits, while USA get around 7 times foreign tourists and around 30% more domestic tourists than that of India. China to become a world leader in tourism, is also planning to further double its accommodation over the next 10 years to around 6 million hotel rooms through government support mechanisms such as cheaper land and interest subsidy. They are believed to be targeting majority of this in the classified sector and in their tier two and tier three cities. It is important to support accommodation infrastructure in India, which can give a fillip to tourism growth. India has got to move fast to unleash the power of tourism economic multiplier through quality budget accommodation around the country. However, this has huge capital implications. For setting up an additional 0.5 million additional classified rooms at an average cost per room of ~ ₹30 lakhs (excluding the cost

			of land), the total capital could be estimated at around 1.5 lakh crores. With high interest costs, high fixed operating costs and fluctuating occupancies across season, it is important to incentivise the classified accommodation sector for such funding with long term funding which will stimulate investor interest in this sector. Classification for hotels & resorts with a capital expenditure of ₹20 crores + (excluding cost of land) as infrastructure sector will unlock low-cost long-term funds for this sector. This will boost employment and investment related GDP in India.
		Recommendation 1. 2: Unlock tax fee bonds for hospitality projects.	Classify hospitality units and hospitality centred projects under section 54 EC as infrastructure projects for the purpose of raising tax free bonds. India has immense unleveraged tourism potential. To multiply the tourism effects of India, more hotels and resorts and hospitality centered projects are required. A typical 100 room hotel can generate direct employment of around 100 people and indirect employment of up to 3 times more. India requires at least 0.5 million additional hospitality rooms to truly leverage its tourism potential which by the above assumption has the potential to spur large scale additional employment. With hotel & resorts hospitality projects being highly capital intensive and having long gestation periods, projects, multiple

			sources of funding are critical and to keep the cost of funds low. Tax free bonds for hospitality will create a new asset class of funding instruments and will also bring down the weighted average cost of these projects, thus stimulating higher investment, employment, GDP and tax buoyancy.
2.	**Due to the long break even and high capital-intensive nature of the hospitality projects, it is not a preferred financial asset class.**	**Recommendation 2.1:** Provide Profit reinvestment linked income tax exemption.	Introduce income tax exemptions to hospitality companies which plough back 50% of their taxable profits into creating more hotel and resorts capacities. This will boost investment, stimulate demand, employment and will make available additional funding in this highly capital-intensive sector. India has less than 0. 2 million classified hospitality rooms, as compared with ~ 3 million in China, and ~ 5 million in USA. India requires at least 0.5 million additional hospitality rooms to truly leverage its tourism potential which has the potential to spur large scale additional employment. Profit reinvestment linked tax exemption will create a new class of funding instruments and will also bring down the weighted average cost of these projects, thus stimulating higher investment, employment, GDP and tax buoyancy.
		Recommendation 2.2: Amend the valuation norm under Section 56 of the Income Tax Act, 1961.	If any person receives immovable property for inadequate consideration, and the difference between the stamp duty value and actual consideration exceeds

			Rs.50,000, the difference would be subject to tax in the hands of the recipient under the head “Income from other sources” While the provisions of section 56(2)(x) was introduced with an intention to curb tax evasion or aggressive tax planning strategies, however mostly in rural and places with tourist interest the difference between stamp duty value and actual market value are found to be substantially high. Necessary provision may be introduced stating the Valuation done by registered valuer to be considered as most appropriate value to find out “difference” for levying tax on such differential amount U/s 56