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Role of GST in Economic Development: A Tourism and Hospitality Perspective

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ABSTRACT

The tourism sector is one of the key contributors to the total revenue of the Government of India and is one of the sources of employment. So the Government should increase its focus on this sector to upgrade the standard of living for those who purely depend on this sector for their earning and create a platform for talented artisans. Government is on the way to implementing a proper mechanism of GST refunds for foreign tourists to align with section 15 of the IGST Act. Such refunding procedure will boost the incoming foreign tourists into India and promote FDI in the tourism sector. The position of India in International receipts and International tourist arrival in the world has steadily improved in the past two decades, including the period after GST implementation. But FEE obtained from tourism in India has decline during the pandemic period. GST has brought uniformity in tax rates. Experts expect that GST will be beneficial in uplifting the tourism sector to face global competition. The rates of GST in the related areas of tourism should be fixed and maintained low, as any rate hike may hamper the whole industry, mainly the low-income group people as well as tourists' preference.

KEY WORDS

Tourism, GST, Tour Operators, Foreign Exchange Earnings.

INTRODUCTION

Tourism is a multibillion-dollar industry that allows people from developed nations to travel and experience different cultures. Its top players are the major international airlines, hotels, online booking services, and hospitality companies; however, many other companies and individuals participate in this industry. Tourism can offer opportunities and benefits for those involved, including bringing more revenue into the economy and allowing people to learn about different cultures.

The earlier indirect tax levied at both the central and the state level creates issues for the businesses as state tax like VAT could not set off against central taxes like service tax and vice versa. To end up the cascading effect of old taxation and to bring uniformity, GST came into existence on the 1st of July 2017. In GST, most essential goods and services are nil rated or are exempted from GST, while other Goods and services are taxable at 5%, 12%, 18%, and 28%.

The Covid-19 Pandemic has badly affected the global economy, and the travel and tourism sector has been affected. The tour and travel business is back on track after the Corona pandemic.

Acharjee, GST will bring simplicity for consumers and will boost the tourism sector if GST rates are kept and maintained between 10% -15%. But, the requirement of uploading invoices/receipts and monthly filing of returns will be a cumbersome process for the businesses. The non-inclusion of liquor in the GST regime defeats the purpose of GST to bring uniformity.

Perween and Hajam, There is rarely any relationship between Government expenditure patterns and revenue policies in the tourism sector. The tax burden on this sector is higher than the total Government expenditure spent in correspondence to this sector. So the Government should boost this sector by increasing its share of the total Government expenditure.

Gupta and Swami, The GST rates would not affect the demand for holiday tours, as there is only a slight increase in the tax rates compared to the previous tax regime.

Shrivastava, Chhattisgarh faces issues like lack of transportation and accommodation, lack of trained guides, Naxalite area, etc. Make proper publicity and advertisements, give attention to security in tourist places, and organize training programs and educational courses related to tourism. The Government should promote the tourism sector and utilize its full potential to avail the opportunities as it would reduce unemployment and bring prosperity.

Saxena, The rate of GST should be fixed and maintained at a low rate so that the rate hike may not affect the tourism sector adversely. GST has no impact on the level of satisfaction among businesses, the flow of business, and issues of compliance and refund claiming in the tourism industry of Agra. But it has a direct impact on changes in prices in tourism. Businesses in Agra prefer GST over the old taxation system.

Research Methodology

The entire research is based upon the secondary data gathered from:

- Government sites and statistical reports,
- Newspapers and magazines,
- And other related websites

Objectives

The following are the objectives of this Research paper:

1. To analyze the impact of GST on the tourism industry.
2. To study the GST rates applicable to:
 - Restaurants and hotels.

- The passengers when travel is through the railways or airways.
- Tour operators.

Tourism Industry

Figure 1: Tourism Industry



Handicraft

Before the implementation of GST, there was no tax on handicrafts in the majority of states, and only in a few states VAT of 5% was levied. But after the implementation of GST, handicrafts were placed in the tax net of 12 percent. Due to this, handicraft products became expensive. Generally, it involves people from middle or lower-class families, and many of these families are engaged in weaving and handicraft finishing from their generations. At the same time, there is no refund of GST paid by foreign tourists on handicraft products.

The Government is on the way to starting a pilot project soon to refund the Goods and Services Tax (GST) paid by foreign tourists visiting India. It shall benefit those people who are not a citizen of India and has stayed in India for less than six months and can claim this refund. As per experts, many changes are needed for the proper implementation of this scheme, so this will take time, and also, this scheme will boost the tourism sector as well as handicrafts, clothes, etc.

Hotels and Restaurants

In the pre-GST regime, the restaurant services were treated as a composite supply, so VAT was charged on the food component and service tax on the service component.

In the previous regime, hotel rooms with a tariff rate above Rs. 1,000 were liable to a service tax of 15%. Abatement of 40% was allowed on the tariff value, due to which the effective rate of service tax was dragged down to 9%, but its effect was insignificant since the VAT (12-14.5%) and luxury tax also apply. While in the case of restaurants, the abatement of 60% brings down the effective rate of service tax to 6%,

apart from VAT. In the GST regime, in the case of restaurant services, the supply of food items and services is treated as the supply of service only (i.e., service is the main element).

Table 1: GST rates in Hotels and Restaurants from 18/07/2022 onwards

Particulars	GST Rate
Food supplied or catering services by Indian Railways/IRCTC S	5% (without ITC)
Stand alone Restaurants (irrespective of air conditioned or otherwise): <input type="checkbox"/> Dine-In <input type="checkbox"/> Food Parcels or Take away <input type="checkbox"/> Outdoor catering services <input type="checkbox"/> Food Home Delivery	5% (without ITC)
Banquet Hall	18% (with ITC)
Restaurants within hotels <ul style="list-style-type: none"> • Where room tariff is less than Rs 7,500 per unit per day • Where room tariff is more than or equal to Rs 7,500 per unit per day 	5% (without ITC) 18% (with ITC)
Hotel Room let out <input type="checkbox"/> Tariff Up to 7,500 per day <input type="checkbox"/> Tariff >7,500 per day	12% 18%
Miscellaneous service	18% (with ITC)

Table 1 describes the current GST rates applicable to restaurants and d hotels room services.

In case of online food delivery from a restaurant through ECO (such as Zomato, Swiggy), the ECO shall be liable to pay GST at 5%/18% on such restaurant services, depending on the location of the restaurant. Following are the names of some food delivery apps:

Zomato	JustEatr	Voosh
Swiggy	EatSure	Pizza Hut
Travelkhana	Eat.Fit	Tastykhana
Box8	Dunzo	FoodMingo
Fresh Menu	Magicpin	Faaso's

At the early stage of GST the rooms were taxable at the following rate of GST on the basis of their tariff rates:

Table 2: GST rates in Hotels (01/07/2017 to 30/09/2019)

Particulars	GST Rate
Up to Rs. 1000 per day	Nil
Rs 1001 to Rs 2499 per day	12% (with ITC)
Rs 2501 to Rs 4999 per day	18% (with ITC)
Rs 5000 and more	28% (with ITC)

Table 2 depicts that at an early stage of GST, the rate of GST for hotel rooms with a tariff rate below Rs. 1000 per day at a nil rate. But as per Table 1, these low-budget rooms have become taxable at 5%.

In 2019 Government lowered the GST rates for the highest category of room rents and made the rooms falling under the tariff rate from Rs. 1001 to Rs. 7500 per day taxable at 12%, and rooms above the tariff rate of Rs. 7500/day became taxable @ 18%.

But in 2022, the hotel rooms which were covered under a tariff rate of up to Rs.1000 per day and were exempted earlier from GST, were brought under tax ambit and subject to GST at the rate of 12% with effect from 18th July 2022 and this made the tourist's budget holidays expensive.

Also in 2019 to give the tourism industry a breathing space and make restaurant services more cost-effective, the Government reduced the GST rate for both AC and non-AC restaurants to 5% (without ITC) or 18% (with ITC) depending on the location of the restaurant. Earlier, the rate of GST was 12 percent (with ITC) for non-AC restaurants and 18 percent (without ITC) for AC restaurants.

Transport of Passengers

Journey through Train: Before the implementation of GST, a service tax of 15% was levied in case of travel by railway. The Indian Railways was allowed 70% abatement on the value of transport, which made only 30% of the value taxable under service tax. So the effective rate was 15% of 30% of transportation cost, i.e., 4.5%. But after GST implementation, one has to pay a GST of 5% on the full ticket price. However, any passenger in case of travel for business purposes can claim ITC (Input Tax Credit) on such ticket prices. The GST rate that the customer had paid at the time of booking, on cancellation, GST tax will have to be paid on the cancellation charge at the same rate.

Table 3: GST rates on tickets in case journey through train

Tickets	GST Rate	
	Booking	Cancellation
1st class or air-conditioned coach	5%	5%
Other classes	Nil	Nil

Table 3 shows that the GST rate @ 5% applies to 1st class or air-conditioned coach train tickets at the time of train seat booking and at the time of cancellation.

Journey through Air Flight: The GST rates on flights in comparison to service tax has become cheaper in case of Economy class but in case of Business or Premium Economy Class there is no relief under GST, on contrary it has got more expensive.

Table 4: GST rates on tickets in case journey through air flight

Tickets	Rate of GST		Rate of Service Tax
	Booking	Cancellation	
Economy Class	05%		5.6%
Business or Premium Economy Class	12%		8.4%

Figure 2: GST rate in case of Tour operators

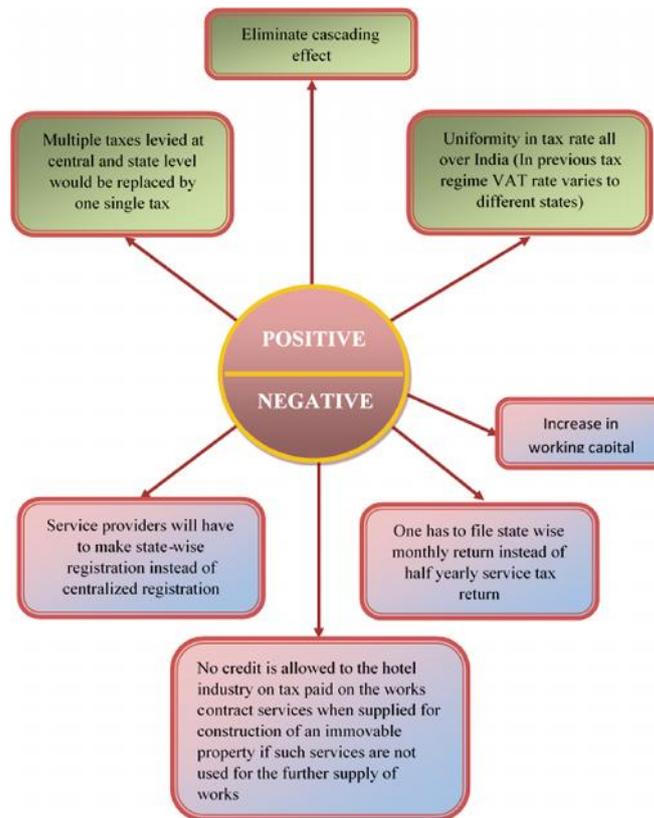


Figure 2 describes the rate of GST applicable to different tour operator services, which varies from 5% to 18%.

Tour Operators: Tour operators are engaged in planning, scheduling, organizing, and arranging tours on behalf of or for tourists. They may provide services of arrangement of accommodation, sightseeing, or other similar services. There are many online companies like make my trip providing complete packages such as lodging, boarding, sightseeing, transportation, and other services to the tourists.

Figure 3: General impact of GST on Tourism Industry



GST has both positive and negative impacts on the tourism industry. Figure 3 figures out some of the effects of GST on the tourism and hospitality sector.

Table 5: Foreign Exchange Earnings (FEEs) and International Tourist Arrivals in India, During 2017 – 2020

Year	FEE from Tourism in India (in Rs. Crore)	Percentage (%) change over the previous year	Monthly average FEE from Tourism in India (in Rs. Crore)
2001	15083	-3.5	1256.92
2002	15064	-0.1	1255.33
2003	20729	37.6	1727.42
2004	27944	34.8	2328.67
2005	33123	18.5	2760.25
2006	39025	17.8	3252.08
2007	44362	13.7	3696.83
2008	51294	15.6	4274.50
2009	53754	4.8	4479.50
2010	66172	23.1	5514.33
2011	83036	25.5	6919.67
2012	95607	15.1	7967.25
2013	107563	12.5	8963.58
2014	120367	11.9	10030.58
2015	134844	12.0	11237.00
2016	154146	14.3	12845.50
2017	177874	15.4	14822.83
2018	194881	9.6	16240.08
2019	211661	8.6	17638.42
2020	50136	-76.3	4178.00

(Source: <https://tourism.gov.in/sites/default/files/2022-09/>

[India%20Tourism%20Statistics%20at%20a%20Glance%202020%20%28Eng%29_1.pdf](https://tourism.gov.in/sites/default/files/2022-09/India%20Tourism%20Statistics%20at%20a%20Glance%202020%20%28Eng%29_1.pdf))

Table 5 shows that the FEE from Tourism in India was highest in 2019 and lowest in 2002. The average monthly FEE from Tourism shows an increasing trend from year to year, but there is a severe downfall in 2020.

Table 6 : Month-wise estimates of Foreign Exchange Earnings (FEEs), in Rs. Crore from Tourism in India (Jan 2017 – December 2021)

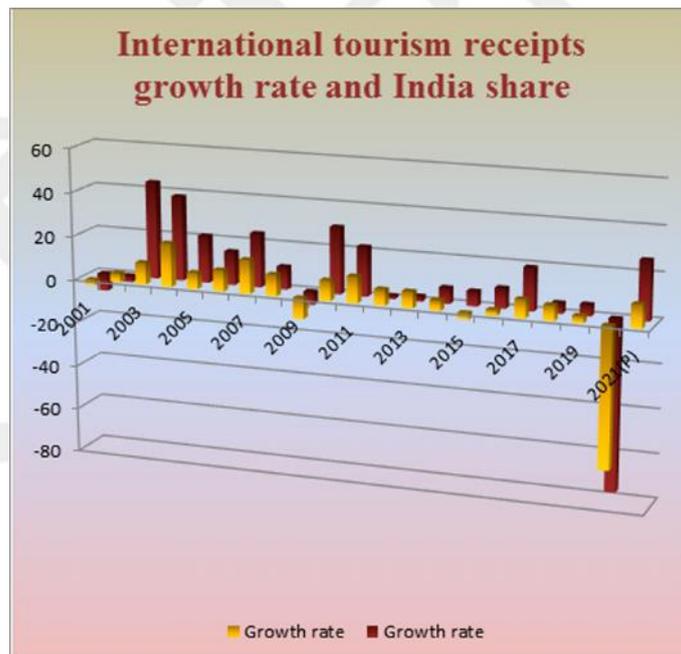
	FEEs from Tourism in India (Rs. Crore)						Percentage (%) change				
	2016	2017	2018	2019	2020	2021	2017/16	2018/16	2019/16	2020/16	2021/16
January	13671	15,799	17,755	18,205	20,200	4700	15.57	29.87	33.17	47.76	-65.62
February	13661	15,353	17,757	17,959	18,241	5477	12.39	29.98	31.46	33.53	-59.91
March	12985	14,667	17,222	16,214	5,830	6642	12.95	32.63	24.87	-55.10	-48.85
April	11495	14,260	15,620	17,134	71	6891	24.05	35.89	49.06	-99.38	-40.05
May	10260	12,255	12,753	13,642	94	1730	19.44	24.30	32.96	-99.08	-83.14
June	10677	12,971	14,398	16,083	208	3157	21.49	34.85	50.63	-98.05	-70.43
July	14285	14,796	16,976	18,205	307	4105	3.58	18.84	27.44	-97.85	-71.26
August	12553	13,811	16,492	17,867	479	5251	10.02	31.38	42.33	-96.18	-58.17
September	11642	13,840	15,150	16,824	686	6549	18.88	30.13	44.51	-94.11	-43.75
October	12100	14,213	14,701	17,057	831	5094	17.46	21.50	40.97	-93.13	-57.90
November	14259	16,528	16,584	19,840	1,413	7022	15.91	16.31	39.14	-90.09	-50.75
December	16558	19,381	19,474	22,631	1,776	8452	17.05	17.61	36.68	-89.27	-48.96
Total (Jan-June)	72,749	85,305	95,505	99,237	44,644	28,597	17.26	31.28	36.41	-38.63	-60.69
Total (Jan-Dec)	154146	177,874	194,882	2,11,661	50,136	65,070	15.39	26.43	37.31	-67.47	15.39
Mean	12845.5	14822.83	16240.17	17638.42	4178	5422.5					
Standard Error	511.3821	534.03	523.94	629.12	2081.64	535.23					
Median	12769	14463.5	16538	17500.5	758.5	5364					
Standard Deviation	1771.48	1849.938	1814.995	2179.351	7211.024	1854.089					

(Source: <https://tourism.gov.in/market-research-and-statistics>)

Table 7: International tourism receipts and India share and rank, 2001-2021

Year	World				Percentage Share of India	Rank of India
	Receipts (US\$ billion)	Growth rate	FEE in India (US\$ billion)	Growth rate		
2001	463.8	-2.4	3.2	-7.8	0.69	36th
2002	481.9	3.9	3.1	-2.8	0.64	37th
2003	529.3	9.8	4.5	43.9	0.84	37th
2004	633.2	19.6	6.2	38.3	0.97	26th
2005	679.6	7.3	7.5	21.4	1.10	22nd
2006	744.0	9.5	8.6	15.2	1.16	22nd
2007	857.0	15.2	10.7	24.3	1.25	22nd
2008	939.0	9.6	11.8	10.3	1.26	22nd
2009	853.0	-9.2	11.1	-5.8	1.31	20th
2010	931.0	9.1	14.5	30.1	1.56	17th
2011	1042.0	11.9	17.7	22.2	1.70	18th
2012	1117.0	7.2	18.0	1.5	1.61	16th
2013	1198.0	7.3	18.4	2.3	1.54	16th
2014	1252.0	4.5	19.7	7.1	1.57	15th
2015	1217.0	-2.8	21.0	6.6	1.73	14th
2016	1247.0	2.5	22.9	9.1	1.84	13th
2017	1349.0	8.2	27.3	19.1	1.84	13th
2018	1439.0	6.7	28.6	4.7	1.99	13th
2019	1483.0	3.1	30.1	5.1	2.02	13th
2020	546.0	-63.3	6.9	-76.9	1.27	12th
2021(P)	602.0	10.3	8.7	26.4	1.46	-

Figure 4: International tourism receipts growth rate



(Source: <https://tourism.gov.in>)

Figure 5: Percentage Share of India in FEE receipt in world



(Source: <https://tourism.gov.in>)

The share of India in world tourism receipt and the rank has improved over the years; currently its rank is 12th. World receipt which was US\$463.8 billion in the year 2001 has increased steadily over the year and in the year 2021 it has reached up to US\$602 billion. Similarly, in case of India which was US\$3.2 billion in the year 2001 has reached to US\$ 8.7 billion in the year 2021.

Table 8: International tourist arrivals in world and India, 2001-2021

Year	World		India		Percentage Share of India	Rank of India	Increase/ decrease in percentage share of India
	Number (in million)	% Change	Number (in million)	% Change			
2001	683.4	0.0	2.5	-4.2	0.37	51 st	-
2002	703.2	2.9	2.4	-6.3	0.34	54 th	-0.03
2003	691.0	-1.7	2.7	14.7	0.40	51 st	0.06
2004	762.0	10.3	3.5	26.7	0.45	44 th	0.05
2005	803.4	5.4	3.9	13.3	0.49	43 rd	0.04
2006	846.6	5.4	4.5	13.5	0.53	44 th	0.04
2007	894.0	5.6	5.1	14.2	0.57	41 st	0.04
2008	917.0	2.6	5.3	3.9	0.58	41 st	0.01
2009	883.0	-3.7	5.2	-2.1	0.59	41 st	0.01
2010	948.0	7.4	5.8	11.8	0.61	42 nd	0.02
2011	994.0	4.9	6.3	9.2	0.63	38 th	0.02
2012	1039.0	4.5	6.6	4.3	0.63	41 st	0
2013	1087.0	4.6	7.0	5.9	0.64	41 st	0.01
2014	1137.0	4.6	13.1	\$	1.15	24 th	0.51
2015	1195.0	5.1	13.8	5.0	1.15	24 th	0
2016	1241.0	3.8	15.0	9.1	1.21	26 th	0.06
2017	1332.0	7.3	16.8	11.8	1.26	26 th	0.05
2018	1413.0	6.1	17.4	3.7	1.23	23 rd	-0.03
2019	1466.0	3.8	17.9	2.8	1.22	25 th	-0.01
2020	405.0	-72.3	6.3	-64.7	1.57	19 th	0.35
2021(P)	427.0	5.3	7.0	10.6	1.64	-	0.07

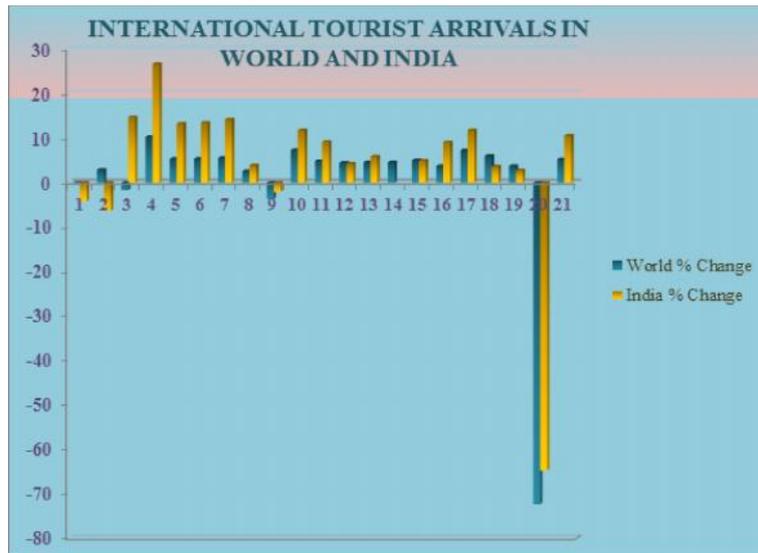
(P): Provisional

\$: Since 2014, adhering to the definition of International Tourist Arrivals, India has started the inclusion of figures of arrivals of Non resident Indians in its figure.

(Source: <https://tourism.gov.in/sites/default/files/2023-01/>

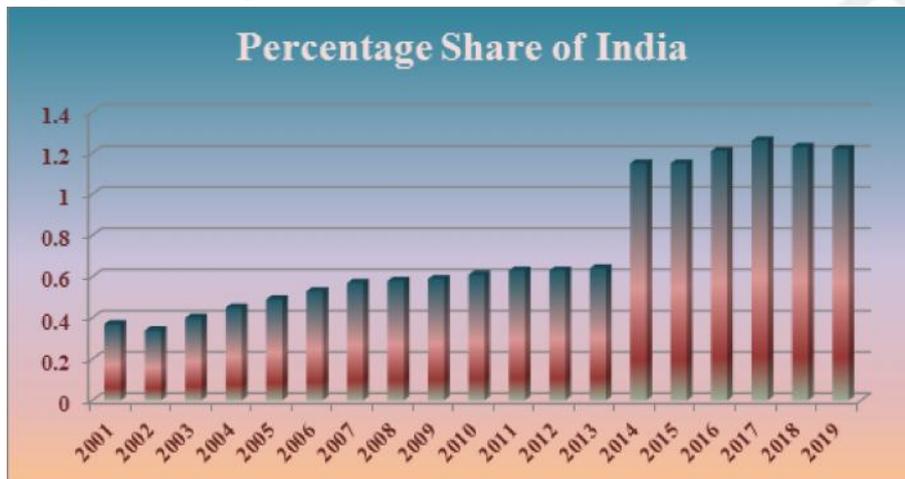
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Figure 6: Percentage Change in International tourist arrivals in world and India



(Source: <https://tourism.gov.in>)

Figure 7: Percentage Share of India in international tourist arrivals in world



The provided figures illustrate India's growing prominence in global tourism. Before the pandemic, India's share and rank in world tourism receipts and international tourist arrivals consistently improved, with Figures 4 and 5 showing a rising trend in receipts and an enhanced global standing, reaching 12th by 2020 in receipts. Similarly, Figures 6 and 7 depict a gradual improvement in international tourist arrivals, partly boosted by including NRI arrivals from 2014, with India's rank improving to 19th by 2020. However, all graphs clearly show a dramatic decline in both receipts and arrivals in 2020, highlighting the severe impact of the pandemic on both India and global tourism.

Findings

- GST rates in the case of both AC/non-AC restaurants have become uniform and brought down to 5%. Earlier, the restaurants do not pass the benefit of ITC to the final consumers, but now the reduction of the rate of GST to 5% (without ITC) is good news for the consumers and the restaurant owners.
- Now the GST rates in the case of hotel rooms with tariff rate below Rs. 7,500 has been fixed at 12%, which has made the budget holidays expensive for the tourists as earlier GST rate up to Rs. 1,000 was nil.
- There is a slight increase from 4.5% to 5% in the rate of GST on tickets for first class and AC coaches.

- The GST rates in flights of Business or Premium Economy Class are higher than service tax rates in the previous tax regime. i.e., 8.4% to 12%. But as per experts, such an increase in the rate of GST is not likely to hurt the traveling of people from this class.
- India's position in international tourist arrival has gradually improved in the recent years.
- COVID-19 has adversely impacted the world tourism including tourism of our nation India.
- The FEE from tourism in India shows an upward trend in the back years, but it was negative in year 2020 and 2021. The FEE from tourism in India in past two decades was highest in the year 2019.
- India's ranking and share in world tourism receipts has steadily improved over the years.

CONCLUSION

The downfall in the GST rate in restaurants has made foods and beverages available to consumers at affordable prices and given the restaurants a breathing space for more expansion. It seems that journeys by train and flight will not get affected due to GST as there is only a slight difference in the tax rate. But on the other hand levy of the GST rate on rooms available at a lower tariff rate creates a burden on the pocket and budget of people with low earnings. The handicrafts, which were earlier not taxable in many states or if taxable then at a low tax rate, have now become taxable at a high rate which will adversely impact small businesses and people related to these businesses, such as weavers and artisans. In such a scenario, if the foreign tourists get refund, then it will be a nice stand and will make way for Indian tourism to develop and face competition on the global platform.

Suggestions

- The GST on low tariff rate, if exempted then it will benefit low-budget tourists and may act as an accelerator for the tourism industry.
- A low rate of GST should be kept and maintained in the relevant areas of tourism and hospitality, which can attract more tourists, as the rate hike may hamper the whole show.
- Government should give importance to tourism and introduce new schemes and projects to uplift the standard of living of people related to tourism.
- Handicrafts should get exempted or taxed at a lower rate or provide more relief and support to this business to develop the handicrafts business and people relating to this area.
- The public should be aware of GST rates so that the public can't get cheated.
- People's interest in India at a global level has increased after the Covid period, foreigners wish to know more about India, its culture, and traditions, so India should use such an opportunity to reach tourism to a different height.
- Government should show more focus to this area to preserve our traditions, precious cultural heritage, folk dance and art, ancient buildings and monuments. It should create platform for

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