

FHRAI asks Nirmala Sitharaman to lower threshold for infrastructure status for hotels

The hotel federation has asked for lowering of the current threshold limit of INR 200 crore to INR 25 crore per hotel for classification as infrastructure for hospitality projects without any additional riders. This, according to FHRAI, will enable hotels to avail term loans at lower rates of interest and also have a longer repayment period.

In a memorandum to the Union Finance Minister, Nirmala Sitharaman, the Federation of Hotel & Restaurant Associations of India (FHRAI) has asked for lowering the threshold Infrastructure status for hospitality projects to make it beneficial for broader segments of the hospitality projects and convention facilities. The federation had included this earlier as an important demand in the pre-budget suggestions to the Finance Ministry, too.

Such a favourable action on the part of the government, the Federation says, will help hotel benefit of 100% deductions under Chapter VI-A of the Income Tax Act, 1961 with respect to profits and gains for new hotels for a period of 10 years. This will lead to many new hotel projects being set up by Companies re-investing their profits in the Hotel Sector apart from fresh investment.

Additionally, the Federation says that by classifying the hospitality sector as a permissible infrastructure activity under Section 54EC of the Income Tax Act, 1961, hotels will be able to raise tax free bonds through notified financial institutions thereby saving on capital gains tax.

Keeping a higher threshold for infrastructure status is not helping the cause of the industry stakeholders, thereby keeping almost 90% of the investors out of the ambit of the threshold, FHRAI claims. Asking for a review of the threshold, FHRAI memorandum said, “It is a well-known fact that out of the total projects proposed in the hospitality sector today, only a minuscule of 10-15 % will pass muster under this criteria. At the outset, it was construed as a step in the right direction. But, in the hindsight, it is not. This INR 200 crore mark is not doing

any good. The government needs to drastically bring this down to promote investment and development of the hospitality sector in the country.”

In the year 2012, the central government provided the infrastructure status to the three-star or higher category hotels outside cities with a population of over one million. Subsequently in 2013, the government granted infrastructure status only to hotels with a project cost of more than INR 200 crore each (excluding land costs), and to the convention centers with a project cost of over INR 300 crore each.