

Budget 2025: Hospitality Players Seek Infra Status, Input Tax Credit

The hospitality sector is advocating for reforms, including the granting of infrastructure status and the rationalisation of taxes, ahead of the Union Budget, which is set to be tabled in the Parliament on Feb. 1.

Hoteliers say that reforms such as the long-pending infrastructure status will help drive investment in the industry, which is projected to clock a revenue growth of 7-9% in the financial year ending March 2025 and about 6-8% in the next financial year over the high base of last year driven by sustained domestic leisure travel, demand from conferences, exhibitions, weddings, and business travel, among other factors. Rising operating costs, however, may hurt their margins, prompting restaurant owners to remain hopeful about the reinstatement of the input tax credit—a request they have been making for the past seven years.

"Infrastructure status should be granted for hotels across all categories and convention centres built at a project cost of Rs 10 crore and above in order to give a fillip to the budget segment," according to Pradeep Shetty, vice president, Federation of Hotel & Restaurant Associations of India.

In 2013, the Department of Economic Affairs granted infrastructure status to the hotel and hospitality sector, but this was limited to hotel projects costing Rs 200 crore or more (excluding land) and convention centres costing Rs 300 crore, primarily for 3-star or higher hotels outside cities with populations over 1 million, he said. Most hotel projects in India, however, typically range from Rs 10 to Rs 50 crore, making the criteria restrictive. Additionally, only 53 cities exceed the 1 million population threshold, leaving many historically significant and tourism-rich locations disadvantaged by this policy, argued Shetty.

FHRAI, in its submission to the tourism ministry, suggested that the infrastructure status should be awarded irrespective of a city's population.

The industry believes that the obtaining of infrastructure status will enable access to long-term loans at cheaper interest rates, allowing the construction of infrastructure needed to meet the surging demand.

GST Rationalisation, Input Tax Credit

Another key suggestion from restaurateurs is the restoration of input tax credit under the GST regime.

In addition to the current 5% slab without ITC, a new GST slab between 12% and 18% with ITC should be introduced for restaurants not in hotels with room tariffs over Rs 7,500, the National Restaurant Association of India has recommended to the finance ministry in a submission dated Jan. 1. NRAI represents about five lakh restaurants across India.

"The absence of ITC significantly reduces operating margins and increases project costs, slowing down expansion plans," argued NRAI President Sagar Daryani. "Also, the new notification of the reverse charge mechanism on GST has taken up the costs for small restaurateurs who are renting out the place from unregistered dealers, thereby reducing margins significantly. This needs a relook or immediate allowance of ITC."

To make travel more cost-friendly, the FHRAI has proposed that the GST rates for restaurants within hotels should be separated from room tariffs.

"Indirect tax rates for hospitality in India are some of the highest in the world, and this makes both domestic and inbound tourism in India very expensive," said Shetty. "As India faces tough competition from neighbouring countries, particularly due to its higher GST rates that contribute to tourists' overall expenses, the government must consider delinking the GST rates for restaurants within hotels from room tariffs."

Equitable E-commerce Policy

The restaurant industry has also urged the government to introduce a "fair and equitable" e-commerce policy, citing concerns over competition and growth due to the current practices of online food delivery platforms.

"Balanced policies and regulations are required to enable a level playing field where platforms can continue to innovate while restaurants, delivery partners, and consumers are protected from potentially exploitative practices," according to NRAI. "There are apprehensions about potential overreach through exclusionary tactics, misuse of data advantage, and restaurant profit erosion due to high commissions," it added.

An industry status to the food services sector will further encourage enterprise as well as entrepreneurship, NRAI stated. "This will bring in multiple benefits through central or state industrial policies, including easier finance, special schemes, subsidies, and fast-track clearance processes."

India's Rs 5.7 lakh crore food services industry, which creates millions of jobs and contributes to around 2% of GDP, is also battling for a single-governing ministry like many other sectors. "A dedicated ministry or a department would help push the agenda for faster growth of the industry while also addressing the challenges being faced by it," NRAI suggested. Currently, its operations fall under the jurisdiction of multiple ministries, including the Ministry of Health and Family Welfare (FSSAI), the Ministry of Commerce and Industry (DPIIT), the Ministry of Finance, the Ministry of Consumer Affairs, and the Ministry of Tourism, among others.