

Service tax blow for on line travel players

Domestic hotel and tour aggregators such as OYO Rooms, Ease My Trip and Make My Trip were expecting tax relief in the Budget to be presented on February 1. But the mood has turned sombre, with the finance ministry deciding to impose service tax on what they receive from customers and not just the commission earned from hotels and others.

In a quiet move, the Central Board of Excise and Customs has amended the service tax rules to clarify this because there was ambiguity on the point. The changed rules came into effect on January 22.

The aggregators said their associations had taken up the matter with the ministry because this step would make them uncompetitive vis-à-vis international tour and travel players such as Travelocity, Expedia and Priceline.com, which do not pay service tax in India.

The rates of service tax depend on whether aggregators offer tour packages, hotel rooms, hotel rooms with food, etc.

The current practice is that most customers pay the entire amount to aggregators because the latter give discounts in various forms.

Explaining the rules, Naveen Wadhwa of Taxmann said if a customer paid Rs.1,200 to Make My Trip, the sum would be taxed. Now, if there is a commission of Rs.300 to Make My Trip and Rs.900 goes to the hotel providing the room, aggregators want the tax on Rs.300.

However, if a customer split up his bill and paid Rs.900 to the hotel directly and Rs.300 to the aggregator, the aggregator would pay the tax on Rs.300, Wadhwa said. But, most often this is not the practice. In this case, the hotel will also not be taxed because there is an exemption for room rent lower than Rs.1,000.

The issue came in to focus when Make My Trip Vice-President (Finance) M K Pillai was arrested for alleged tax evasion last year, and the matter is sub-judice in the Supreme Court. In the case of tour packages, there will be an abatement (proportioned ducted from the bill) of 40 percent, which means the service tax will be nine percent. If only hotel rooms are provided, there will be no abatement and the tax is 15 percent. If hotel rooms and food are provided, there will be an abatement of 60 percent in the food bill, which means the service tax will be six percent on food charges.

Nishant Pitti, chief executive officer and founder of Ease My Trip, said: “The buying cost for our customers has been raised by nine percent. We are passing this on to customers. In this environment we will not be competitive vis-à-vis foreign online service providers.” Pitti said hotels billed aggregators the entire amount, which included the service tax.

He said customers would find foreign players more attractive than their Indian counter parts.

The Travel Agents Federation of India and Travel Agents Association of India have taken up the matter with the finance ministry, according to Pitti.

(Business Standard)