AN ANALYSIS ON STATE GOVERNMENT’S INCENTIVE FRAMEWORK FOR TOURISM DEVELOPMENT IN KARNATAKA

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ABSTRACT

In order to position Karnataka as a visible global brand in tourism for visitors as well as investors Govt. of Karnataka has devised various incentive schemes to encourage development of relevant infrastructure through partnerships between private sector, Government and the community. Strategic intervention areas have been identified with a view to support local entrepreneurship and assist in creating livelihood options for all sections of the society in a non-discriminatory manner. But there are many bottleneck which an entrepreneur faces when it comes to availing the benefits provided by the government. Hence a proper understanding of various incentive schemes are very important to make full use of the benefits which are available to the primary service provider of Tourism.

Keywords: Financial incentives, Tourism development, concessions and subsidies for Tourism

I. Introduction

Karnataka is home to several forts, architectural marvels and is blessed with a rich cultural heritage. Other diverse visitor attractions include pilgrim sites, coastal landscape and wildlife / national parks. The state also offers a variety of tourism products that cater to the demand from different visitor segments, such as, eco-tourism, wellness tourism and adventure tourism. Over the years, Karnataka has emerged as one of the most sought after tourism destinations in the country and also created a space for itself in the international tourism circuit. As of 2013, the State was ranked as the fourth preferred destination among domestic tourists and ranked third with regard to attracting investments in the tourism sector.

A strong incentive framework to propel the development of Tourism in Karnataka is the need of the hour. Since majority of Tourism infrastructure depends on utilization of public resources and also high cost of setting up the business in tourism has proven to be a major obstacle for the primary service provider across the state. Also a positive shift in attitudes of the government from regulation and control to decentralization and empowerment at local levels; from patronage to building partnerships and form alliances with diverse stakeholders in the sector. Hence a thorough understanding of the state government’s incentive framework helps in proper utilization of the benefits extended to the existing and aspiring tourist service providers across the state.

1.1 Purpose of the study

The purpose of this study is to analyse different incentives schemes which are provided by the government of Karnataka for Tourism development. The study also takes into consideration the gap between the need and the existing schemes. Accessibility and utilization potential of the schemes by small and medium enterprises are also taken into consideration. The reach of the incentive schemes to the individual service providers such as tourist guides, artists etc. are also analysed. Different regions in Karnataka which are taken into consideration for incentive schemes by the state government is also analysed in the study.

1.2 Objective of the study

- To analyse various incentive provided by state govt. for Tourism development
- To understand the rationale behind the benefits extended to the primary service providers of Tourism
- To find out the areas in Tourism to which govt. has given priority for development
To determine the effectiveness of incentive scheme with respect to the accessibility and utilization potential by Small and medium enterprises

1.3 Research Methodology

Literature survey pertaining to the topic and its related concepts has been done. Secondary data inclusive of quantitative and qualitative data as well collected from various sources including books, research papers, newspapers, magazines, and websites is used for the purpose of study.

1.4 Literature review

Tourism development is a highly capital intensive process with most of the attractions falling under the purview of public resource either controlled by state tourism boards or central governmental authorities. To encourage the rapid growth and development in Tourism it is very important to follow the Public Private Partnership (PPP) model, by partnering up with the private players new infrastructure can be built and an industry standard quality can be maintained across various services offered in Tourism. But the biggest bottleneck in attracting the private players is the lack of proper incentive schemes available for the entrepreneurs. The communication regarding all the available incentives needs to be comprehensively carried out so as to make it known to the interested parties who are willing to join hands in promoting the growth and development of Tourism in Karnataka.

II. Tourism Infrastructure, Products and Services

Potential for Tourism in Karnataka is yet to be fully realised and the need for incentives for Tourism Infrastructure, Products and services needs to be addressed under any incentive framework. It is very important to facilitate the development of accommodation for all customer segments through hotels, resorts, home stays and youth hostels. Alternative means such as home stays at tourist destinations to provide tourists a homely, friendly and a hospitable environment that exposes them to the local culture needs to be encouraged. Also use of heritage buildings as hotels for providing accommodation facilities to tourists can revitalize the historical monuments across Karnataka. Tourist Destinations and Wayside Amenities like development of wayside amenities at intervals of about 50 km along connecting roads leading to major tourist destinations. Wayside amenities especially benefitting local communities needs to be encouraged. Retail for local produce, handicrafts will be encouraged, wherever possible. Initiatives for physical manifestation of brand perceptions will be supported; for instance, silk in Mysuru, wooden toys in Channapatna, etc. Amenities including parking at the entrance of major tourist destinations will be encouraged to regulate vehicular movement, with special access for differently-abled persons.

Mega Projects and Entertainment Products such as as golf courses, cruise tourism, large entertainment studios, entertainment parks (small, medium and large), cable cars, tourism trains, film city, etc to cater to different user segments needs to be promoted. World-class and state of the art exhibition and convention centres should be encouraged through appropriate Public Private Partnership (PPP) framework in Bengaluru, Mysuru and other strategic locations in the state. Earmarking of Heritage zones around the sites of Hampi, Pattadakal, Badami, Aihole, Bidar, Vijayapura, etc. and development should be supported in accordance with the master plans prepared for such locations.

With respect to Transport and Aviation efforts needs to be made on entry points into the State; improve direct access to different destinations across the State for international, inter-State and intra-State visitors; encourage development of new route and expand existing airport capacity. Development of low cost terminals along with the use of smaller aircrafts, airfields/ air strips would be encouraged. Tie-ups with flying clubs is very important to provide access to smaller aircrafts and airfields that may be underutilized across the state.

III. Karnataka Govt’s Incentive Framework

In order to address the need for growth and development of Tourism in Karnataka, state govt. has devised various incentive schemes. To implement the strategic interventions and undertake various activities the state government is maintaining an informational structure with Tourism Infrastructure Company and Karnataka Tourism Trade (Facilitation and Regulation) Bill.

Concessions & Investment Subsidies

The Government proposes to offer concessions and investment subsidies to eligible entities willing to develop Tourism Projects in the State. The concessions granted are in the form of rebates/ exemptions on applicable taxes, charges, duties, etc. Investment subsidies granted under the Policy are in the form of subsidies for investment made in tourism projects and tourism related services.

Tourism Projects are classified under following categories

<table>
<thead>
<tr>
<th>Sl.no</th>
<th>Type of Project</th>
<th>Investment in Fixed asset valuation lower limit (Rs.)</th>
<th>Investment Fixed asset valuation lower limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mega Projects</td>
<td>100</td>
<td>500</td>
</tr>
<tr>
<td>2</td>
<td>Ultra Mega Projects</td>
<td>500</td>
<td>1000</td>
</tr>
<tr>
<td>3</td>
<td>Super Mega Projects</td>
<td>Above 1000</td>
<td>1000</td>
</tr>
</tbody>
</table>
Types of concession available
The Government of Karnataka offers the following concessions for developing Tourism Projects in the State

I. Exemption on Stamp Duty

<table>
<thead>
<tr>
<th>Categories</th>
<th>Regions</th>
<th>% of exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 &amp; 2</td>
<td>Focus Tourism Destinations (FTD), Hyderabad Karnataka Region (HKR)</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>Talukas Tier-III</td>
<td>75%</td>
</tr>
<tr>
<td>4</td>
<td>Talukas Tier-II</td>
<td>50%</td>
</tr>
</tbody>
</table>

Note: No exemption on stamp duty with respect to development of Tourism Projects within the jurisdiction of the Bruhat Bengaluru Mahanagara Palike (BBMP).

II. Reimbursement of Land
The payment of land conversion fee for converting the land from agriculture use to non-agricultural use for development of Tourism Projects shall be reimbursed.

III. Transfer of Land on Lease Basis
For development of tourism infrastructure projects, government land could be leased to the private developer/entrepreneur for a period of 30 years, renewable by another 30 years (through appropriate lease/development agreements) and shall be decided by the Department of Tourism/agency concerned on a case to case basis.

IV. Interest Free Loan
For Mega Projects, Ultra Mega Projects and Super Mega Projects, loan to the extent of 100% of Value Added Tax shall be sanctioned as interest free loan from the date of commencement of commercial operations. The interest subsidy is limited to either the period of the loan or loan limit whichever is reached earlier and no carry forward is permitted.

V. Exemptions of Taxes
Following are the tax exemptions under various categories
- Exemption on Entry Tax
- Reimbursement of Entertainment Tax
- Exemption on Luxury Tax
- Exemption on Motor Vehicle Tax
- Development Rights for Heritage Buildings (DRHB)

VI. Rating of Tourism Products and Services
All tourism products developed in the state shall be certified by an Accreditation Agency, to ensure delivery of quality services to tourists at acceptable standards.

VII. Concessions for Homestay
The following concessions shall be applicable for certified home stays in the state, subject to compliance with the guidelines:
- Exemption from Luxury Tax on actual room charges of Rs.5000 and below per day.
- Payment of electricity and water charges at domestic tariffs.
- Property tax rates as prescribed for residential purposes.

VIII. Recognition for Corporate Homes
Department of Tourism is encouraging corporate homes in tourist destinations of the state by recognising, approving and providing accreditation to such corporate homes that comply with the guidelines issued by the Department.

IV. Finding of the study
After a thorough analysis of the Karnataka state government’s incentive framework for development of Tourism, following are the finding of the study
- Projects with fixed investment assets of worth Rs.100 crore are taken as the starting point of allocating the benefits discounting the small and medium enterprises.
- There is no dedicated incentive scheme by the DOT for Tourism Startups operating in Karnataka
- Tourism destinations in Tier-II cities and talukas with high potential are not given any special incentives for development.
- Absence of provision for incentives under technology based solutions like virtual tour guide, consolidation of secondary service providers under global distribution system

V. Conclusion
The government of Karnataka has made a good effort in addressing the need for incentivising the Public Private Partnership (PPP) model for development of Tourism in the state. Various schemes ranging from reimbursement of land, exemptions of taxes to recognition for Corporate Homes have been made available to the entrepreneurs who are willing to take up ventures in state tourism landscape. Even though with the available incentives there is a huge gap in the requirement for several developmental projects in Karnataka Tourism. One of the reason for this is lack of proper encouragement for small and medium business enterprises and the absence of incentives schemes for technology based solutions. This has also proven a major drawback in rapidly mobilizing the manpower needed to professionally run the services offered in tourism. A well thought out incentive framework addressing all the stakeholders in tourism can contribute to a larger extent in developing tourism in the state. The present incentive framework is inadequate in addressing the current requirement to propel the growth of Tourism in Karnataka.

Reference