

# Analysing the impact of 5% GST on online bus bookings



# Contents

Purpose and objective	2
Objectives	2
Methodology adopted	3
Introduction	4
Overview of tax regimes for online and offline ticket bookings	5
Government's rationale behind levy of 5% GST	6
Need for alignment of taxation policy with vision of digital India and ease of doing business (EoDB)	6
Tax impact: Impact on online ticketing industry, consumer behaviour, and decision-making	7
Recommendations	9

# Purpose and objective

This whitepaper intends to comprehensively analyse and assess the recent amendments in the tax regime for bus ticket bookings, specifically focusing on the introduction of a 5% GST on online bookings for non-air-conditioned buses. The paper explores the implications of this tax shift on customers and e-commerce operators facilitating bus ticket sales. Additionally, it seeks to provide insights into the overall impact on the bus travel industry and the evolving dynamics between online and offline ticketing channels.

## Objectives



Assess the government's rationale behind the levy of 5% GST



Analyse the need to align the taxation policy with the vision of digital India



Impact of this levy on the online ticketing industry, consumer behaviour and decision-making



Recommendations based on analysis are presented in this paper

# Methodology adopted



## Discussions with e-commerce operators

Engaging with key e-commerce operators involved in bus ticket sales is crucial to understanding the operational challenges and economic implications of the tax changes. In-depth interviews and focus group discussions were conducted with representatives from prominent online platforms, such as Chalo, Red Bus, IXIGO, etc., facilitating bus ticket transactions. Insights will be sought regarding the operational and financial adjustments made by these operators in response to the imposed 5% GST on non-air-conditioned bus tickets. This qualitative approach aims to uncover industry-specific challenges, strategic adaptations, and the overall impact on the business ecosystem.



## Views of users

User perspectives constitute a vital aspect of this study. A structured questionnaire will be designed to collect insights from 1,400 bus app users across the top 8 metro cities in India, namely Delhi, Mumbai, Kolkata, Chennai, Bengaluru, Hyderabad, Ahmedabad, and Pune. The survey will employ a random stratified sampling technique, ensuring representation across the cities. The questionnaire will focus on understanding user awareness, sentiments, and preferences regarding the tax changes, providing valuable insights into the customer experience and expectations.



## Consultation with tax experts

Engaging with tax experts is essential for a nuanced analysis of the regulatory landscape and potential policy implications. Interviews and consultations will be conducted with professionals well-versed in tax laws, particularly those related to the transportation sector. The aim is to gain expert opinions on the practical implications of the tax amendments, potential policy adjustments, and recommendations for achieving a balanced and equitable tax structure. This qualitative approach will contribute valuable insights into the broader economic and policy dimensions affected by the recent tax changes.



# Introduction

## Context

India boasts of the world's second-largest road network, reflecting a commitment to establishing a robust transportation infrastructure. With a total length exceeding 63.31 lakh kilometers, the expansive network encompasses national highways, state highways, district roads, and rural arteries, facilitating vital connections across the nation. This extensive web of roads serves as the backbone of India's connectivity, ensuring the linkage of urban centres with rural hinterlands and fostering economic activities across diverse regions. According to the National Sample Survey Office (NSSO) of the Indian Ministry of Statistics and Program Implementation, buses are India's most popular means of transport.

As of 2023, India has one of the world's most extensive active Internet user bases, which is around 76 crore, while overall Internet penetration is 52%. It is also noteworthy that complementing and fuelling Internet penetration is the smartphone adoption in India. As of 2023, smartphone penetration in India stands at 71%, which is expected to reach 96% by 2040.

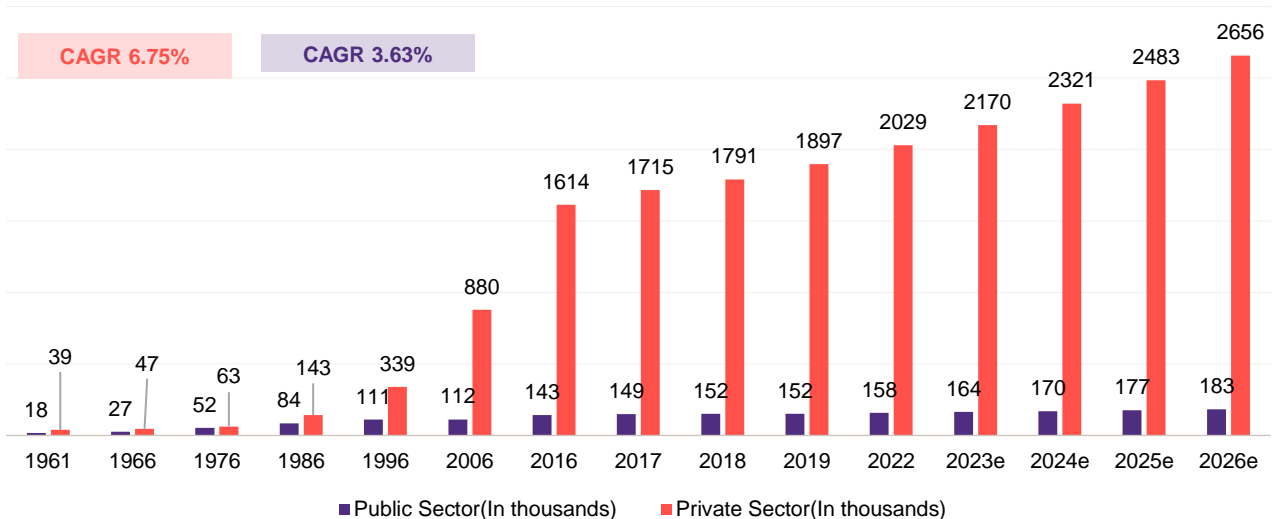
With online travel booking systems growing significantly, India's increasing demand for sustainable and safe collective travel options has been defined as a key proof of the success of companies entering the market. The global online bus ticket service market size is expected to grow consistently over the next few years, with India emerging as one of the fastest-growing economies in the world in this sector.

The analysis of the bus sector indicates that the stage carriage bus industry in India is anticipated to reach a valuation of INR 104,000 crore by 2026, exhibiting a CAGR of 6.15% for state transport undertakings (STUs) and 7.19% for private buses. The top five states with the highest total addressable market (TAM) from state-run buses are projected to be Maharashtra, Karnataka, Tamil Nadu, Andhra Pradesh, and Uttar Pradesh. Similarly, the top five states with the highest TAM for privately operated buses are expected to be Uttar Pradesh, Maharashtra, Rajasthan, Punjab, and Haryana

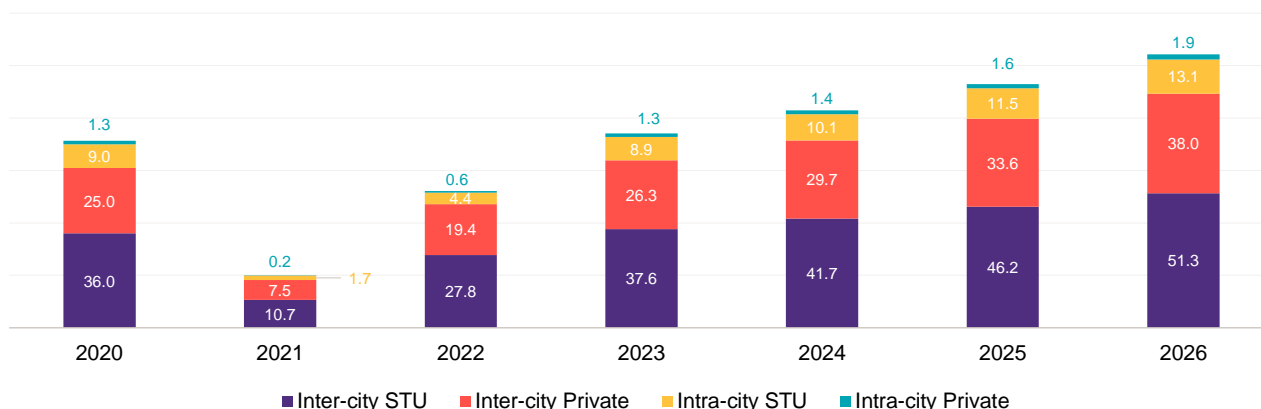
The advent of technology has been a driving force behind the industry's evolution. From traditional ticketing systems to the seamless convenience of online booking platforms, technological advancements have redefined the passenger experience. The integration of GPS tracking, real-time updates, and mobile applications has streamlined operations for service providers and empowered travellers with unprecedented access to information.

Online bus bookings have played a significant role in increasing the popularity of buses as a mode of transport in India, as they bring convenience. It allows users to book tickets from the comfort of their homes or offices, eliminating the need to stand in long queues.

### Growth in number of private and public buses



**Expected TAM over the years | Source: Ministry of Road Transport and Highways, GT Analysis(in INR 000'crore)**



## Overview of tax regimes for online and offline ticket bookings

Historically, passenger transportation services via non-air-conditioned contract carriages and stage carriages (i.e., buses) enjoyed GST exemption as per Entry No. 15(b) and 15(c) of Notification No. 12/2017 - Central Tax (Rate) dated 28 June 2017<sup>1</sup>. This exemption was a commendable initiative to promote the accessibility and affordability of bus travel for the public. However, recent amendments introduced through Notification No. 17/2021 - Central Tax (Rate) and Notification No. 16/2021 - Central Tax (Rate), both dated 18 Nov 2021, have introduced a shift in the tax landscape for the bus transportation sector. The amendment stated that:

**“Provided that nothing contained in items (b) and (c) above shall apply to services supplied through an electronic commerce operator and notified under sub-section (5) of Section 9 of the Central Goods and Services Tax Act, 2017 (12 of 2017).”**

The amendment mentioned above has had far-reaching implications for e-commerce operators engaged in selling bus tickets, placing them at a perceived disadvantage compared to offline bus ticket counters and State Road Transport Corporations’ (SRTC) websites.

**Specifically, the amendments have levied a 5% GST burden on e-commerce operators facilitating the sale of non-air-conditioned bus tickets.** This contrasts with the previous exemption and introduces a notable distinction between the tax treatment of online and offline bus ticket transactions. The **impact of these changes is particularly significant** for e-commerce platforms that play a pivotal role in connecting passengers with non-AC bus services. This 5% GST burden may be viewed as a departure from the earlier tax-neutral environment.

These amendments have prompted a re-evaluation of the tax dynamics within the bus transportation sector, creating a differentiation between online and offline ticketing channels. This shift raises considerations for both e-commerce operators and consumers as they navigate the implications of the revised GST framework on the cost dynamics of non-AC bus travel booked through online platforms.

<sup>1</sup> <https://gstcouncil.gov.in/sites/default/files/All-rate-notification/Notification12-CGST.pdf>



## Government's rationale behind levy of 5% GST

The introduction of Section 9(5) in the Central Goods and Services Tax (CGST) Act, 2017, marked a significant shift in the taxation paradigm for e-commerce operators (ECOs) in India. Intended initially to merely shift the liability of tax payment from suppliers to ECOs, the implementation of Section 9(5) evolved into a charging section with implications on various services, including passenger transport services for non-AC buses.

**Section 9 (5) of the CGST Act is a special case focusing on e-commerce operators. For service-oriented businesses operating through an e-commerce operator, such as restaurant services, including cloud kitchens, housekeeping and accommodation services, and motor cabs, the liability of tax falls on the e-commerce operator.**

**It deals with the taxability of supply of services – output tax of which shall be paid by an e-commerce operator, even though an e-commerce operator is not the actual supplier. An e-commerce operator is liable to comply with GST provisions as if he is the supplier of services and liable to pay tax.**

Initially, Section 9(5) focused on the liability shift – making ECOs accountable for collecting GST from suppliers. The rationale behind this was that large-scale e-commerce operators, being substantial entities, should bear the responsibility of tax payments. However, the implementation of this provision gradually transformed into a charging section, leading to unforeseen consequences on various services, including non-AC bus bookings.

Before the implementation of Section 9(5), suppliers of non-AC bus services enjoyed exemption from GST if their turnover was below INR 20 lakhs. This exemption aligned with the government's efforts to ease the tax burden on small businesses. However, with the involvement of ECOs in the transaction, the exemption was circumvented, and tax liability was shifted to ECOs. According to Notification No. 17/2017 - Central Tax (Rate) dated 28 June 2017, suppliers were not required to register if their turnover was below INR 20 lakhs, as ECOs were made liable to pay tax under the reverse charge mechanism. This exemption, designed to benefit small businesses, inadvertently resulted in a scenario where ECOs ended up paying tax even when suppliers remained exempt. The imposition of 5% GST on online booking of non-AC buses created a disparity in taxation. Large bus operators with a significant turnover, selling non-AC bus services without the involvement of ECOs, continued to enjoy complete exemption from GST. In contrast, smaller bus operators, utilising ECOs for online sales, were obligated to charge and pay GST.

## Need for alignment of taxation policy with vision of digital India and ease of doing business (EoDB)

The dynamic landscape of Digital India, the e-Kranti framework, and the Digidhan mission play pivotal roles in transforming governance and promoting a robust digital payments ecosystem. However, recent tax amendments, notably a 5% GST on non-air-conditioned bus tickets booked online, pose challenges to aligning taxation policies with the overarching goals of digital India and the Digi Dhan Mission.

### Digital India

The Digital India initiative, spearheaded by the government of India, is a comprehensive programme aimed at transforming the country into a digitally empowered society and knowledge economy. Launched with the vision to bridge the digital divide and empower citizens with access to digital services, Digital India focuses on three key areas: digital infrastructure as a utility to every citizen, governance, and services on demand, as well as digital empowerment of citizens. Through initiatives like BharatNet, expanding broadband connectivity to rural areas, and promoting digital literacy, the government aims to create a digitally inclusive society where citizens can access a range of services online, from education and healthcare to financial transactions and government services. Digital India represents a paradigm shift towards leveraging technology to drive socio-economic development, foster innovation, and enhance the overall quality of life for citizens.

The imposition of a 5% Goods and Services Tax (GST) on online bus tickets contradicts the government of India's overarching initiative to promote Digital India. By burdening online transactions with additional taxes, the government essentially discourages using digital platforms for essential services like ticket bookings. This move runs counter to the core principles of the Digital India campaign, which seeks to leverage technology to enhance convenience, efficiency, and accessibility across various sectors, including transportation. Taxing online bus tickets not only adds financial strain on consumers but also undermines the goal of fostering a digital-first approach by disincentivising the adoption of digital services. It sends a mixed message to citizens, dampening the enthusiasm for embracing digital platforms for everyday transactions. Instead, the

government should strive to incentivise online transactions, facilitating the transition towards a cashless economy and aligning with the broader objectives of its Digital India initiative.

## Digi Dhan Mission and digital payments

Within the digital transformation landscape, the government introduced the Digidhan mission, a critical component to promote, oversee, and sustain a robust, secure, and inclusive national digital payments ecosystem.

The objectives of the Digidhan Mission include “promoting and overseeing the establishment, growth, and sustenance of robust, secure and inclusive national digital payments ecosystem,” “evolving and facilitating appropriate standards for efficient, affordable, and secure digital payments services,” and “proposing appropriate commercial and business models for digital payments, including rationalising transaction charges.”

The recent amendments in the tax regime for online bus ticketing, introducing a 5% GST on non-air-conditioned bus tickets, contradict the principles outlined in the Digidhan Mission. The mission emphasises the need for efficient, secure, and inclusive digital payments, but the imposed tax structure creates discrepancies between online and offline channels. The taxation misalignment contradicts the mission’s goal of promoting an inclusive digital payments ecosystem. It introduces financial implications for online platforms and users, hindering the seamless and affordable digital payment experience envisioned by the Digidhan Mission. To align with the overarching objectives of promoting digital payments and ensuring accessibility, re-evaluating the tax structure for online bus ticketing becomes imperative.

The tax amendments present a nuanced challenge to Digital India’s ideals. The objectives of e-Kranti and the Digidhan mission are at odds with a tax regime introducing discrepancies in online bus ticketing. To harmonise digital payment principles with broader goals, a thoughtful re-evaluation of the tax structure is imperative, ensuring alignment with principles of good governance, inclusive digital services, and financial accessibility for all.

## Tax impact: Impact on online ticketing industry, consumer behaviour, and decision-making

The imposition of a 5% GST on online bookings of non-AC buses will impact customers, the industry, and the government.

### Impact on customers

#### Affordability challenge

Non-AC buses are often a preferred mode of transportation for individuals with limited financial means. These buses typically cater to a segment of the population that values affordability in their travel choices. Passengers who opt for non-AC buses are often more cost-sensitive, seeking economical travel options. Even a slight increase in fare due to the GST imposition can disproportionately impact their travel budget.

#### Shift in travel behaviour

The increased fare may prompt travellers, particularly those from weaker economic backgrounds, to re-evaluate their travel choices. Some individuals may explore alternative, potentially less expensive modes of transportation or consider offline ticketing options to avoid the additional tax.

A primary survey conducted among bus travellers across eight cities in India revealed that a significant percentage (77.89%) of users express concerns about additional fees, highlighting the importance of transparency in pricing. **A substantial proportion of these users expressed concerns about the levy of 5% additional GST on online bus bookings.**

Particulars	Frequency	Percentage
Additional fees (including 5% additional GST)	391	77.89%
No confirmation of seats	178	35.46%
App failures	176	35.06%
Lack of quality grievance redressal	173	34.46%
App not convenient to use	160	31.87%



## Digital integration hurdles

The decision to impose GST on non-AC bus bookings raises equity concerns, as it impacts a demographic that relies on economical travel options. It may exacerbate existing disparities, limiting the accessibility of digital services for those who could benefit the most from the convenience and transparency offered by online platforms. Due to financial constraints, individuals from economically disadvantaged backgrounds might be more resistant to adopting digital platforms. The increased fare could function as a deterrent to the digital integration of this population, hindering the government's broader goals of promoting a digital economy.

## Impact on e-commerce operators/Travel aggregators:

### Discrepancy in tax payments

Operators managing their own apps or websites continue to enjoy exemption from 5% GST. However, when the same operator sells through an e-commerce platform, they become liable to pay GST, creating a distinct tax burden for similar services.

### Transparency challenges in offline transactions

The introduction of GST on non-AC bus bookings has brought about operational challenges for bus operators, especially those running a mixed fleet of AC and non-AC buses. In the offline realm, there has traditionally been a lack of transparency, allowing bus operators to potentially misreport AC buses as non-AC and evade GST payments altogether. However, by virtue of its transparency, the online system prevents such misrepresentation, ensuring accurate tax assessments.

### Competitive disadvantage:

Online travel aggregators and platforms may face a competitive disadvantage compared to offline ticketing options, as the additional 5% GST could make their services comparatively more expensive.

### Decrease in bookings:

The higher overall fare may lead to a potential decrease in the number of bookings made through online platforms. Customers may opt for alternative transport modes or offline booking options to avoid the extra tax. According to industry executives, the percentage of such transactions decreased from 41% of the overall online bus ticket bookings in the fourth quarter of 2021 to 22% in the three concluded months<sup>2</sup>. A tax specialist highlighted the consequences of the uneven implementation of GST on the digital integration of the transportation system. They stressed that the existing situation, wherein online platforms must apply a 5% GST while offline methods are exempt from such fees, obstructs the advancement of digital integration<sup>3</sup>.

## Impact on government

### Affordability and inclusivity

The economic considerations revolve around striking a balance between revenue generation and maintaining affordability for a diverse population. Imposing a 5% GST on non-AC bus tickets could impact the affordability of this mode of transportation, especially for individuals from economically disadvantaged backgrounds.

### Digital inclusion and economic equity

The government's broader goal is to foster digital inclusion and economic equity. However, if the tax burden disproportionately affects segments of the population that rely on non-AC buses for affordability, it may hinder the government's efforts to create a more inclusive digital economy. The decision to impose a GST on non-AC bus tickets needs to be evaluated in the context of the government's vision of making India a trillion-dollar digital economy. Hindering the affordability and digital integration of a significant portion of the population may contradict this vision by limiting the participation of specific economic segments in the digital marketplace.

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2 <https://www.hindustantimes.com/india-news/25-teens-in-age-group-14-18-can-t-read-grade-2-text-fluently-aser-report-101705477288545.html>

3 <https://blog.saginofotech.com/travellers-offline-ticket-booking-route-5-percent-gst-bus-rides#>

# Recommendations

The current imposition of a 5% GST on online bookings of non-AC buses, effective from 1 January 2022, as per Notification No. 16/2021-CGST (Rate) and Notification No. 17/2021-CGST (Rate) dated 18 November 2021, warrants reconsideration in light of its economic impact, regional variations, and broader environmental and social welfare goals. We propose the following recommendations:

- 1 Recognising the socio-economic importance of non-AC buses, particularly for economically disadvantaged populations, the government should introduce targeted exemptions for online bookings.
  - **Digital inclusivity:** To ensure digital inclusivity, exempting online bookings of non-AC buses from the 5% GST aligns with the government's vision of promoting a digitally inclusive society. By removing financial barriers, this measure encourages a broader population to utilise online platforms for affordable and convenient bus travel.
  - **Environmental sustainability:** Acknowledging the role of non-AC buses in promoting environmental sustainability, it is vital to incentivise eco-friendly travel choices by exempting them from the GST burden. This step to align tax benefits with environmental goals encourages the use of public transportation, contributing to a greener and more sustainable transportation ecosystem.
- 2 The imposition of a 5% GST on online bookings of non-air-conditioned buses has inadvertently created an imbalance within the industry. The revenue contribution from this levy remains exceedingly minuscule due to the limited number of e-commerce operators engaged in the sale of non-AC buses. The tax burden disproportionately affects the bus operators, potentially discouraging their participation in the online marketplace. Considering the nominal revenue generated and the impact on market dynamics, we strongly recommend that the government reconsider this levy. A recalibration of the taxation policy to account for the unique characteristics of the non-AC bus segment will contribute to a more equitable and conducive business environment, fostering growth and sustainability.
- 3 Equal treatment for e-commerce platforms
  - Creating a level playing field for businesses operating in both offline and online domains is essential. The call for equal treatment stems from the need to eliminate existing disparities between offline and online bus ticketing channels. Presently, the imposition of a 5% GST on online bookings of non-AC buses creates a disparity that puts e-commerce platforms at a disadvantage compared to their offline counterparts. It ensures that both online and offline service providers operate under a uniform tax structure, preventing distortions in the market. Equal treatment promotes the digital transformation of the bus travel industry. Removing tax-related hurdles for online platforms encourages more players, including small and local businesses, to adopt digital channels. This, in turn, contributes to the overall growth and modernisation of the industry.
  - From the e-commerce standpoint, the transparent nature of the online system is perceived as a potential challenge. In the offline realm, there is an observed practice where air-conditioned buses are sometimes reported as non-AC, resulting in a lack of GST payment. However, the online platform's transparency eliminates this loophole, making it difficult for operators to misrepresent the services offered. The imposition of GST on non-AC bus bookings online has inadvertently brought forth the challenge of operators potentially being taxed for offline AC bus bookings. The government's assertion of creating a level playing field may inadvertently subject e-commerce operators to unintended tax implications on offline services due to the transparency facilitated by the online platform. This warrants carefully examining the unintended consequences and re-evaluating the taxation approach to ensure fairness without inadvertently penalising e-commerce operators for transparent reporting.
  - The move to the recent amendments that imposed a 5% GST on online bookings of non-AC buses aims to restore a balance in taxation between online and offline sales channels, removing barriers to digital adoption and promoting a fair business environment.



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