

Liberalised Remittance Scheme and Tax Collection at Source – Update

30 June 2023



Background

- Tax Collection at Source (TCS) on remittances under the Liberalised Remittance Scheme (LRS) was first introduced by the Finance Act 2020 to widen the tax net. Subsequently, the Finance Act 2023 revised the rates of the TCS upwards, with effect from 1 July 2023.
- Subsequently, payments through international credit cards (ICCs), while on visits outside India, were brought within the ambit of LRS.
- Thereafter, as a relief measure, INR 7,00,000 was introduced as a threshold for exclusion from LRS in respect of expenses incurred through ICCs / debit cards.
- In response to stakeholder inputs, the Finance Ministry has issued a press release dated 28 June 2023, providing certain changes. This alert summarises the impact of the changes introduced by this press release.

Summary of changes

- Some TCS rates have been amended with effect from 1 October 2023. The applicable rates are tabulated below:

Sr No.	Particulars	TCS rate till 30 September 2023	TCS rate with effect from 1 October 2023
1	Education, where the source of funds is through a loan obtained from a specified financial institution	0.5% if the aggregate remittance exceeds INR 7,00,000	0.5% if the aggregate remittance exceeds INR 7,00,000
2	Education (not covered in point No.1 above) or medical treatment	5% if the aggregate remittance exceeds INR 7,00,000	5% if the aggregate remittance exceeds INR 7,00,000
3	Other remittances	5% if the aggregate remittance exceeds INR 7,00,000	20% if the aggregate remittance exceeds INR 7,00,000
4	Overseas tour package	5% without any threshold limit	5% for remittance till INR 7,00,000 and 20% thereafter

- The imposition of TCS on LRS spends through ICCs, while being overseas, has been postponed. Accordingly, TCS will not be applicable on such payments until further communication from the government.
- The threshold of INR 7,00,000 for applicability of TCS has been extended to all modes of payment, including direct payments from bank accounts and forex cards for any purpose, except payments for overseas tour packages (refer to slab rates above).
- The revised TCS rates will be applicable from 1 October 2023 instead of 1 July 2023 announced earlier.

Impact of changes

1. **Credit card payments:** Residents travelling abroad may spend any amount through ICCs until further notification is issued without impacting the LRS limits.
2. **Overall LRS limit:**
 - The interim changes have effectively removed the LRS limit for credit cards while travelling outside India.
 - TCS will be applicable on LRS payments above INR 700,000, irrespective of the mode of payment.

Our comments

Banks and card networks have a welcome relief by way of extended time to build their IT infrastructure to meet the increased compliance burden cast for tracking remittances and complying with the TCS requirements.

The government has indicated that it will issue FAQs shortly to clarify various practical issues in implementing these provisions. Regulatory amendments are also expected to be announced in due course. We are also awaiting clarifications on remittances for travel and incidental expenses for education and medical treatment, which were indicated earlier.
