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Liberalised Remittance Scheme

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Why is in news? Important changes w.r.t Liberalised Remittance Scheme (LRS) and Tax Collected at Source (TCS)

In the Budget this year, certain changes were announced to the system of Tax Collection at Source (TCS) on payments under the **Liberalised Remittance Scheme (LRS) and on overseas tour program packages**.

These were to **take effect from 1st July 2023**. It was also announced in March that credit card payments would be brought under the LRS.

It has been decided that there **will be no change in the rate of TCS for all purposes under LRS and for overseas travel tour packages,** regardless of mode of payment, for **amounts up to Rs. 7 lakh per individual per annum**.

It has also been decided to give more time for the implementation of the revised TCS rates and for inclusion of credit card payments in LRS.

The changes are below.

Sub-section (1G) of **section 206C of the Income-tax Act, 1961** ("the Act") provides for Tax Collection at Source (TCS) on (i) foreign remittance through the Liberalised Remittance Scheme (LRS) and (ii) sale of overseas tour program package.

Through the Finance Act 2023, amendments, inter alia, **increased the rate of TCS from 5% to 20% for remittance** under LRS as well as for purchase of overseas tour program package and removed the threshold of Rs 7 lakh for triggering TCS on LRS. These **two changes were not applicable** when the **remittance is for education or medical purpose**. These amendments were to take effect from 1st July 2023.

The Government had notified **Foreign Exchange Management (Current Account Transactions) (Amendment) Rules, 2023** to **remove the differential treatment for credit cards vis à vis other modes of drawal of foreign exchange** under LRS.

Liberalised Remittance Scheme:

Liberalised Remittance Scheme (LRS) was brought out **by the RBI in 2004**.

It allows **resident individuals to remit a certain amount of money** during a financial year **to another country for investment and expenditure**.

According to the prevailing regulations, resident individuals **may remit up to $250,000 per financial year**.

Resident Indians or people resident in India are allowed to transfer foreign currency under the foreign exchange regulations.

The **transfer of foreign currency outside India** is governed by the Foreign Exchange Management Act, 1999 (FEMA).

Hence, to **regulate transferring of funds within a specified limit**, RBI brought the LRS.

The Scheme is **not available to corporations, partnership firms, Hindu Undivided Family (HUF), Trusts etc**.

Though there are **no restrictions on the frequency of remittances** under LRS, once a remittance is made for an amount up to USD 2,50,000 during the financial year, a resident individual would not be eligible to make any further remittances under this scheme.

It is **mandatory** for the resident individual **to provide his/her Permanent Account Number (PAN) for all transactions** under LRS made through Authorized Persons.

Remitted Money can be used for:

Expenses related to travelling (private or for business), medical treatment, study, gifts and donations, maintenance of close relatives and so on.

Investment in shares, debt instruments, and buy immovable properties in the overseas market.

Individuals can also open, maintain and hold foreign currency accounts with banks outside India for carrying out transactions permitted under the scheme.

Requirements: It is mandatory for the resident individual to provide his/her Permanent Account Number (PAN) for all transactions under LRS made through Authorized Persons.

Tax collection at source (TCS):

Collecting tax at source for purchase of certain goods and services is another way to identify those **who earn a tidy sum every year but are not paying any taxes**.

As of now, **TCS is collected for high value goods** such as **expensive motor vehicles, gold jewellery or overseas remittances**.

The ambit of TCS can be **expanded to consumer durables, domestic luxury travel, stays in expensive hotels etc**.

This can help identify those operating in the informal sector and earning high income, yet evading tax.

While this could hit honest taxpayers, they can reclaim the tax in their annual return.