



KAMARAJ IAS ACADEMY
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Liberalised Remittance Scheme

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Why in News:

Recently the Finance Ministry in two announcements deferred the imposition of an increased 20% rate for Tax Collected at Source (TCS) by three months to October 1, and said transactions made using international credit cards overseas would not fall under the purview of the Liberalised Remittance Scheme (LRS).

About Liberalised Remittance Scheme (LRS)

The scheme puts forth that all resident individuals, including minors, may remit up to \$250,000 each financial year out of India for any current or capital account transaction, or a combination of both.

Relevant transactions may entail private visits to any country (excluding Nepal and Bhutan), gift or donation, emigration, maintenance of close relatives abroad, business travel (or attending specialised conferences), medical treatment and foreign education, among other things

It was introduced in February 2004 and has been revised recurrently in keeping with prevailing economic conditions. Its introductory threshold was \$25,000

Working mechanism of TCS

TCS refers to the tax collected by the seller of a commodity at the time of sale. It is over and above the price of the commodity and is required to be remitted to the government's account

The seller is responsible for handing over the tax amount to the government and not the customer. The responsibility is sometimes taken over by the aggregator or transactional platform if the seller is not located in India.

Under the mechanism, sellers could be the central government, state government, local authority, statutory authority, corporation and/or company registered under the Companies Act, among others.

A buyer is classified as a person who obtains goods or the right to receive goods in any sale, auction, tender or any other mode

The tax does not apply to Indian individuals if they furnish a declaration that the purchased goods would be utilised for manufacturing, processing or producing articles or things (for purpose of generating power) and not for further sale.

To put things into perspective, while LRS designates the upper limit of remittance, the TCS threshold would determine when the taxation eligibility is triggered.

Threshold limits under LRS

Transactions of up to Rs 7 lakh per annum per individual, other than for purchasing overseas tour program packages, do not draw any TCS.

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For example, if an individual spends Rs 8 lakh in a financial year, s/he would not be taxed for the initial Rs 7 lakh spend, but would be charged as per the rate corresponding to the nature of transaction for the additional Rs 1 lakh spend

This is not a purpose-specific but a combined threshold; that is, irrespective of the purpose, if an individual's remittances exceed Rs 7 lakh, it would be liable to taxation

About the recent changes

The announcement is significant for the travel industry. It was proposed in the Union Budget that the TCS for purchase of overseas tour packages be increased from 5% to 20% if the upper limit is breached. The same was to apply for payments made for purposes other than education (whether or not financed by loan) and medical treatment. The implementation has now been deferred by three months

Purchase of tour packages now draws TCS at 5% and did not have any threshold. The same rate applies for transactions exceeding the threshold other than for education and medical treatment.

No changes were made with respect to remittances for educational purposes and medical treatment, both within and beyond the threshold.

The idea behind the previous announcement was to widen and deepen the tax base and minimise avenues for tax-avoidance.

Impact of the Changes

While there would be no impact on remittances up to Rs 7 lakh during the ongoing financial year, taxation on transactions beyond the threshold would be determined at the then prevailing rates, that is, rates before and after the imposition.

For example, if the transaction pertains to purchase of a tour package, it will incur taxation at 5% (for those over Rs 7 lakh) until the new regime is imposed. Thereafter, it would incur 20% as per the new regime

The government also announced that transactions facilitated using international credit cards while being overseas would not fall under the LRS umbrella. Thus transactions via credit cards when travelling abroad will not attract TCS.

According to the government, the implementation was being postponed to give banks and credit card networks adequate time to put requisite IT-based solutions in place.

It clarified that the earlier notification about payments by individuals using debit or credit cards to be excluded from LRS limits, has been superseded.

The intent behind the bringing credit cards under the ambit was to remove the differential treatment accorded to credit cards in relation to other modes of foreign exchange.