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WHAT IS THE TCS ON FOREIGN REMITTANCES?

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

Indian residents can remit up to USD 250,000 under the LRS every year for various purposes such as medical treatment, gifts, maintenance of relatives abroad, foreign education and investment in real estate, stocks and bonds. Budget 2020 introduced a tax collected at source (TCS) at the rate of 5% on all remittances under the Liberalised Remittance Scheme (LRS) of the RBI above 7 lakh. Payments for foreign tour packages are also subject to the 5% TCS, without any exemption threshold. The tax goes into effect from 1st October 2020.

At what rate is it levied?

It is levied at 5%, however if you do not provide PAN or Aadhar, to the Authorised Dealer, TCS will be deducted at 10%. "The TCS will apply on the amount remitted in excess of 7 lakh. For example if you transfer 10 lakh, it will apply on the balance 3 lakh," said Prakash Hegde, a Bengaluru based Chartered Accountant.

Who will collect the tax?

The Authorised Dealer (AD) of foreign exchange in question, typically the bank remitting the money will collect the tax and pay it to the Government. In case of a foreign tour, the travel operator is required to collect the TCS.

Are there any exemptions?

Remittances below 7 lakh are not subject to this TCS. Similarly payments for foreign education originating an education loan from a financial institution in India are subject to a lower 0.5% TCS. If you book your foreign tour yourself (tickets, hotels etc) rather than going through a packaged tour operator, you will not be subject to the TCS. The TCS will also not apply if the buyer of the foreign exchange (the remitter) is subject to Tax Deducted at Source (TDS) under the Income Tax Act, 1961. “For example if you are transferring money exceeding 50,000 to a non-relative NRI as gift, you will be liable to deduct TDS on the remittance and not TCS. In some gifts, such as between parents and children, TDS does not apply and hence TCS will apply.," said Hegde.

Who will be impacted?

Indian students studying abroad, Indian tourists going abroad and Indian investors investing in stocks, bonds and property abroad will be impacted. It can raise the upfront cost of foreign education and travel, even though the tax can be subsequently claimed back as a refund while filing the income tax return.

What if the transfer is from already tax-paid income?

The TCS can be set off against the overall liability of the tax payer. If parent has already paid tax on the money in question as his or her income and is simply gifting the same to the child, the parent can claim a refund from the TCS.

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