Changes to Liberalised Remittance Scheme (LRS)

Why in news?

The Central Government has announced that it has postponed the imposition of increased 20% TCS (Tax Collected at Source) by 3 months to October 1, 2023.

What is Liberalised Remittance Scheme (LRS)?

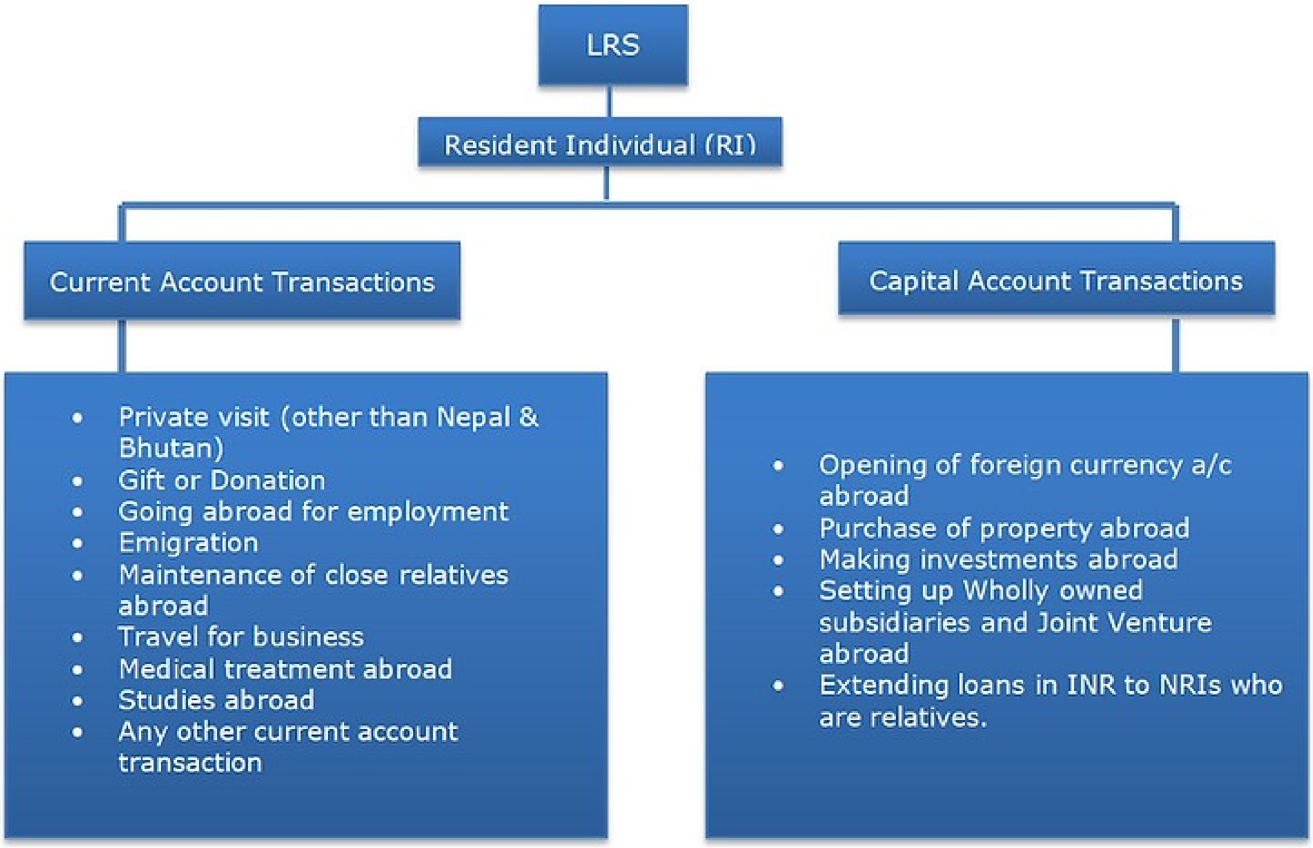
- It is a *foreign exchange policy* initiative introduced by the Reserve Bank of India (RBI) in 2004.
- **Aim** - To simplify and streamline the process of remitting funds outside India.
- Under LRS, resident individuals can freely remit funds up to a certain limit for various permissible transactions involving a *current or capital account.*
- Prior to LRS, the remittance is controlled by FEMA 1999.
- This scheme helped Indians overcome international fund transfer restrictions as set by the ***FEMA (Foreign Exchange Management Act), 1999.***

What are the key features of the LRS Scheme?

- **Eligibility-** It is available to all resident individuals, including minors and students.
- The scheme is *not available for* Corporates, Partnership firms, Hindu Undivided Family etc.,
- The eligible citizens must have an Indian bank account, a valid Permanent Account Number (PAN), and a passport.
- **Foreign currency -** The remittances can be made in *any freely convertible foreign currency.*
- **Usage-** They can use the remitted amount for educational, business, personal, or other purposes.

- **Current limit-** The current limit for LRS is ***$250,000*** for a given financial year for permissible transactions.
- A resident individual can remit a higher amount after taking prior permission from the RBI.
- **Exception-** Remittances cannot be used for buying lottery tickets, margin trading, real estate etc.

- **Taxation** - Liberalised Remittance Scheme is *taxable through Tax collected at Source (TCS).*
- 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.



What is TCS and its threshold?

- **TCS** - TCS refers to *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.*
- **TCS threshold-** 5% TCS is applicable for remittances exceeding the ***limit of Rs 7, 00,000,*** other than the purchase of tour program packages.

- **Union Budget 2023 Proposal-** TCS has been increased from 5% to 20% for overseas tour package exceeding the limit of Rs 7, 00,000.
- The same was to apply for payments other than education and medical treatment.
- Purpose- To widen the tax base and to reduce the possibilities of tax avoidance.

What are the new changes?

- **TCS threshold** - The implementation of Union Budget proposal has been delayed for 3 months till October 1, 2023.
- **Credit card** - 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.*

Why is LRS so significant?

- **Diversification of Investment**- It promotes investing in foreign assets such as stocks, bonds, mutual funds, and real estate.
- **Overseas education-** It enables individuals to remit money for education. It provides the window of opportunity to pursue education in abroad.

- **Medical treatment-**It allows individuals to remit money for medical treatment outside India.
- **Travel-** It enables individuals to remit money for travel-related expenses such as tickets, hotel bookings, and other expenses.
- **Start-ups and business investments-** It enable individuals to invest in foreign businesses, start-ups, and joint ventures thus aiding in the expansion of their businesses globally.
- **Gift and donations**-It enable individuals to gift or donate money to their family members or charitable organisations outside India.

References

1. The Hindu| Explained LRS
2. Financial Express| Facts about LRS