

Tax Collected At Source on Overseas Credit Card Spends

Why in news?

The Centre has amended rules under the Foreign Exchange Management Act (FEMA), bringing international credit card spends outside India under the Liberalised Remittance Scheme (LRS).

What are the recent proposals?

- **Changes** - The Finance Ministry notified the Foreign Exchange Management (Current Account Transactions) (Amendment) Rules, 2023, to bring all credit card spends abroad under the remit of the LRS.
- The new notification, drafted in consultation with the RBI, omitted the Rule 7 of FEM (CAT) Rules, 2000 which had kept credit cards out of the \$2.5 lakh annual LRS limit.
- A *Tax Collected at Source (TCS) of 20%* will be applicable from July 1, 2023.
- (Before this proposal, a TCS of 5% was applicable on foreign outward remittances above Rs 7 lakh, and 5% without any threshold for overseas tour packages).
- **Exemptions** - The international transactions *up to Rs 7 lakh through debit cards or credit cards* will not be taxed.
- The changes will not apply to payments for the *purchase of foreign goods/ services from India*, such as subscriptions to newspapers, magazines, or online streaming services.
- A 20% TCS was proposed for all remittances under the LRS except for *education or medical expenses abroad*.
- **Need for the change** - The tweak in these rules is said to bring parity between the international usage of credit and debit cards, which were already part of LRS.

In 2020, the government in the Budget announced the levy of 5% TCS on overseas remittances and for sale of overseas tour packages.

What is Liberalized Remittance Scheme (LRS)?

- **Purpose** - LRS is a scheme introduced by the Reserve Bank of India (RBI) that allows resident individuals to freely remit a certain amount of money abroad for various purposes.
- **Annual Limit** - Individuals are allowed to remit up to a specified amount in a financial year.
- The limit is set by the RBI and is subject to periodic revisions.
- **Eligible Transactions** - Covers a wide range of transactions, including travel-related expenses, education, medical treatment, investment in foreign stocks or real estate, gifting, donations, and more.

- However, there are certain restrictions and prohibited transactions under the scheme.
- **Tax Implications** - Initially, the LRS remittances were subject to a tax collection at source (TCS) of 5% on amounts exceeding a certain threshold.
- However, recent proposals have increased the TCS rate to 20% for certain transactions, leading to concerns and discussions regarding the tax implications.
- **Prohibited Transactions** - The LRS does not permit remittances for speculative or margin trading purposes, lotteries, gambling, prohibited investments and remittances to countries identified by Financial Action Task Force (FATF) as non-cooperative countries.
- **Monitoring and Compliance** - The RBI closely monitors LRS transactions to ensure compliance with the regulations.
- Authorized dealers (banks) are responsible for reporting and monitoring the remittances made by individuals under the LRS.

What are the possible impacts?

- **High tax rate** - Proposal to levy a 20% TCS on credit card spends abroad has been met with widespread criticism.
- **Burden to foreign travelers** - It will increase the cost of travel for Indians and that it will make it more difficult for businesses to operate overseas.
- **Tacking spending** - Even though the government said that it need to track the spending of credit card users but already there exists 2% and 5% charges on them.
- **Increased cost of business** - It will increase the cost of doing business for the business that operate abroad.
- **Broad scope** - The proposal is very broad and could catch people who are not trying to evade taxes.
- **Students studying abroad** - Will increase the cost of education for Indians who study abroad.
- **IT refunds** - For IT refunds, tax payers may end up waiting as long as 15 months, as each assessment year's taxes are filed in the following financial year.
- **Compliance burden** - Expected to increase the compliance burden of banks and financial institutions.

References

1. [The Hindu | Proposal By Finance Ministry](#)
2. [The Indian Express | Impacts Of The Notification](#)
3. [The Hindustan Times | Response By Government](#)