



K P B & Associates

TCS on foreign remittances under Liberalized Remittance Scheme (LRS) to increase from 1st October, 2023

Background:

Tax Collection at Source ('TCS') is the tax collected by the receiver of payment from the payer on undertaking certain transactions specifically sale of certain goods and provision of certain services as mentioned under section 206C of the Income-tax Act, 1961 ('the Act'). Sale of alcohol, liquor, forest produce, scrap, etc. are all covered under this section.

With effect from 1st Oct, 2020 new section 206C(1G) was inserted wherein, foreign remittances made under the Liberalized

Remittance Scheme ('LRS') of Reserve Bank of India ('RBI') and sale of overseas tour package were included within the scope of TCS.

LRS was introduced as part of Foreign Exchange Management Act, 1999 ('FEMA') with the purpose to facilitate foreign remittances by resident individuals. Under this scheme, foreign remittances within the threshold limit of INR 7,00,000 is permissible for both current account and capital account transactions without any approval of the RBI.



Changes proposed with effect from 1st October, 2023:

(A) Blanket threshold limit of INR 700,000 is retained with changes in TCS rates:

Sr. No.	Nature of payment	TCS rates up to 30.09.2023	TCS rates w.e.f. 01.10.2023
1.	LRS for education, financed by loan from a financial institution	Nil upto Rs. 7 lakhs	Nil upto Rs. 7 lakhs
		0.5% above Rs. 7 lakhs	0.5% above Rs. 7 lakhs
2.	LRS for medical treatment / education (other than financed by loan)	Nil upto Rs. 7 lakhs	Nil upto Rs. 7 lakhs
		5% above Rs. 7 lakhs	5% above Rs. 7 lakhs
3.	LRS for other purposes	Nil upto Rs. 7 lakhs	Nil upto Rs. 7 lakhs
		5% above Rs. 7 lakhs	20% above Rs. 7 lakhs
4.	Purchase of Overseas tour program package ¹	5% (without threshold)	5% till Rs. 7 lakhs
			20% thereafter

Illustration:

Where Mr. A makes foreign remittances, the TCS rates applicable will be as follows:

Date of remittance	Particular	Amount remitted in INR	Applicable TCS rate
15 th Oct	Purchase of overseas tour program package	500,000	5% on 500,000. There is no exemption till 700,000. However low rate of 5% applied till 700,000.
12 th Nov	LRS for education purposes	100,000	NIL as within the threshold limit
18 th Dec	LRS for Medical treatment ²	200,000	5% on 100,000 i.e. amount exceeding the threshold limit of 700,000
31 st Dec	LRS for investments in overseas jurisdiction	10,00,000	20% on 10,00,000
31 st Jan	LRS for education purposes, financed by loan	100,000	0.5% on 100,000 as the overall threshold limit of 700,000 is breached, TCS rates will become applicable to all payments

¹ As per clarification in Circular No. 10 of 2023, to qualify as 'overseas tour program package', the package should include atleast two of the following –

- (i) International travel ticket,
- (ii) Hotel accommodation (with or without food) / boarding / lodging,
- (iii) Any other expenditure of similar nature or in relation thereto.

² As per the clarification by the RBI, remittance for the purposes of medical treatment shall include –

- (i) remittance for purchase of tickets of the person to be treated medically overseas (and his attendant) for commuting between India and the overseas destination;
- (ii) his medical expense; and
- (iii) other day to day expenses required for such purpose.



Thus, the blanket threshold limit of INR 700,000, if exceeded, triggers TCS for foreign remittances. However, any payment made towards purchase of overseas tour program package, even if it is within the threshold limit of INR 700,000, TCS shall continue to apply but at a reduced rate of 5% instead of 20%, which applies otherwise.

The threshold limit of INR 700,000 is applicable per financial year. In other words the INR 7 lakh threshold, at which TCS becomes applicable on LRS, applies for the entire financial year. If this threshold has already been reached, all subsequent remittances under LRS, whether in the first half or the second half of the financial year, will be subject to TCS at the applicable rate.

However, there are two separate thresholds and they apply independently for the purchase of overseas tour program packages and others. For the purchase of overseas tour program packages, the threshold of Rs 7 lakh is used to determine the applicable TCS rate, which can be either 5% or 20%.

Classification codes as specified A.P. (DIR Series) Circular no 50, dated 11 Feb 2016 are very important. TCS rates would be applicable based on these codes e.g. TCS provision for purpose of education would apply when remittance is under code S0305 (under the Purpose Group Name "Travel") or under S1107 7 (under the Purpose Group Name "Personal, Cultural & Recreational services") and TCS provision for purpose of medical treatment would apply when remittance is under code S0304 (under the Purpose Group Name "Travel") or under code S1108 (under the Purpose Group Name "Personal, Cultural & Recreational services").

(B) Inclusion of use of International credit card, when used abroad, within the LRS limit is deferred

The Tax Department has earlier indicated in the press release dated June 28, 2023, that the use of international credit cards while abroad

under the LRS would be considered for LRS. However same is postponed till further notice. Consequently, no TCS will be applicable to expenses made using international credit cards while overseas until further notice.

Comments:

It may be appreciated that the TCS (Tax Collected at Source) is not a standalone tax;

rather, it appears as a tax credit of the assessee like TDS and advance tax and can be seen in Form 26AS. This credit can be utilized to offset the tax liability when filing an Income Tax Return (ITR). Individuals can also apply it towards their advance tax payments. In case there is no tax liability, it will be refunded after the ITR has been filed. But in that case tax payer need to wait till the ITR filed is processed by the tax department.



Key Contacts – Direct Tax

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