

LIBERALISED REMITTANCE SCHEME

INTRODUCTION

Liberalised Remittance Scheme (LRS) is a window opened for individuals to remit funds outside India for permissible transactions. Initially LRS limit was USD 25,000 per financial year and this limit would be consistently revised based on economic conditions prevailing in the country.

Currently, under LRS, Resident Individuals are allowed to freely remit funds abroad (including minor) up to USD 2,50,000 per financial Year (April – March) for any permitted current or capital account transaction or a combination of both. It is to be noted that the Scheme is not available to corporates, partnership firms, HUF, Trusts, etc.

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PERMISSIBLE CAPITAL ACCOUNT AND CURRENT ACCOUNT TRANSACTIONS

Permissible Capital Account Transactions

- Opening of foreign currency account outside India with a bank
- Purchase of property abroad
- Making investments abroad- acquisition and holding shares of both listed and unlisted overseas company or debt instruments; acquisition of qualification shares of an overseas company for holding the post of Director; acquisition of shares of a foreign company towards

professional services rendered or in lieu of Director's remuneration; investment in units of Mutual Funds, Venture Capital Funds, unrated debt securities, promissory notes

- Setting up WOS and JV outside India for bonafide business subject to the terms & conditions stipulated in prescribed notification
- Extending loans including loans in India , in Indian Rupees to Non-resident Indians (NRIs) who are relatives¹ as defined in Companies Act, 2013

Permissible Current Account Transactions

- Private Visits
- Gift/ donation
- Going abroad on employment
- Emigration
- Maintenance of close relatives¹ abroad
- Business Trip
- Medical trip abroad
- Facilities available to students for pursuing their studies abroad
- Residual current account transactions which are not prohibited/ restricted transactions without RBI's permission can be undertaken by satisfying AD Bank

GENERAL POINTS

- Remittance under LRS can be consolidated in respect of family members subject to terms and conditions. However, for certain capital account transactions such as opening of bank A/c/investment/ purchase of property facility of clubbing by other family members is permitted only if they are also the co-owners/co-partners of the overseas bank account/investment/property.
- Investor, who has remitted funds under LRS can retain, reinvest the income earned on the investments. It is not required to repatriate the funds or income generated out of investments made under the Scheme. However, a resident individual who has made overseas direct investment in the equity shares or compulsorily convertible preference shares of a JV/WOS

¹ 'relatives' as per Section 2(77) of Companies Act, 2013

outside India, within the LRS limit, shall have to comply with the terms and conditions prescribed by the overseas investment guidelines under prescribed notification.

- Resident Individual is required to furnish Form A2 Declaration to AD bank for remittance abroad. In case of minor, Form A2 can be countersigned by Minor's natural guardian. Permanent Account Number is mandatory. It is pertinent to note that the Purpose Code as per the list prescribed by RBI has to be mentioned correctly in Form A2.

RESTRICTIONS

- This Scheme is not available for capital account remittances to countries identified by Financial Action Task Force (FATF) as non-co-operative countries and territories
- The Scheme is not available for remittances for any purpose specifically prohibited under rules governing Current Account Transactions.
- All other transactions which are otherwise not permissible under FEMA and those in the nature of remittance for margins or margin calls to overseas exchanges/ overseas counterparty are not allowed under the Scheme
- Resident individual cannot gift foreign currency to another resident individual, for the credit of latter's foreign currency account held abroad.

SPECIFIC COVERAGE OF LOAN AND GIFT TO NRI/PIO CLOSE RELATIVES UNDER LRS

Facility to grant loan in rupees to NRI/PIO close relative under LRS

Resident individual is permitted to lend to a NRI/PIO close relative² by way of crossed cheque/ electronic transfer subject to the following conditions:

- The loan is interest free and the minimum maturity period is one year
- The loan amount should be within the overall limit under the LRS of USD 2,50,000 per financial year available for a resident individual. It is the responsibility of the resident individual to ensure that the amount of loan granted by him is within the LRS limit and all the remittances made by

² 'relatives' as per Section 2(77) of Companies Act, 2013

the resident individual during a given financial year including the loan together have not exceeded the limit prescribed under LRS.

- The loan shall be utilized for meeting the borrower's personal requirements or for his own business purposes in India.
- The loan shall not be utilized, either singly or in association with other person for any of the activities in which investment by persons resident outside India is prohibited, namely:
 - ✓ The business of chit fund, or
 - ✓ Nidhi Company, or
 - ✓ Agricultural or plantation activities or in real estate business³, or
 - ✓ Construction of farm houses, or
 - ✓ Trading in Transferable Development Rights (TDRs).
- The loan amount should be credited to the NRO account of the NRI / PIO and should not be remitted outside India. Credit of such loan amount is an eligible credit to NRO a/c.
- Repayment of loan shall be made by way of inward remittances through normal banking channels or by debit to the NRO/ NRE / FCNR account of the borrower or out of the sale proceeds of the shares or securities or immovable property against which such loan was granted.

Rupee Gifts under LRS

Resident Individuals are allowed to make rupee gifts to their close relatives subject to following conditions:

- It should be credited to NRO A/c of the relative and credit of such gift amount is as an eligible credit to NRO A/c.
- Gift amount should be within the LRS limit prescribed and it is the responsibility of Resident donor to ensure the same.

³ real estate business shall not include development of townships, construction of residential/ commercial premises, roads or bridges

INCOME TAX

The scope of tax collection at source is widened to include TCS on remittances made under LRS w.e.f.

1st October, 2020:

Scenario	Threshold limit	Person responsible to collect TCS	If PAN/Aadhaar Card Available	If PAN/Aadhaar Card not available
Remittance outside India under LRS (other than loan obtained for education purpose covered below)	Amount of remittance or aggregate thereof is INR 7 Lakhs or more	Authorised Dealer	5%	10%
Remittance outside India under LRS for the purpose of pursuing education through a loan obtained from any financial institution ⁴	Amount of remittance or aggregate thereof is INR 7 Lakhs or more	Authorised Dealer	0.5%	5%
Overseas Tour Program Package ⁵	No threshold limit	Seller	5%	10%

Exceptions:

1. Though TCS is applicable from 01.10.2020, for calculating the limit of INR 7 lakhs, transfers under LRS made from 1st April, 2020 would be considered.
2. Remitter can claim credit for the tax collected by the Bank while filing for their tax returns
3. TCS to be collected from Central Government, State Government, Embassy, High Commission, Legation, Commission, Consulate, Trade Representation of a Foreign state, a Local Authority or any other person as notified by the Central Government subject to conditions as may be specified.
4. No TCS to be collected from buyer who is liable to deduct TDS under any provision of the Act and has deducted such amount.

⁴ defined in section 80E of the Income Tax Act, 1961

⁵ Overseas tour programme package means any tour package which offers visit to a country or countries or territory or territories outside India and includes expenses for travel or hotel stay or boarding or lodging or any other expenditure of similar nature or in relation thereto.

GLOSSARY

NRO	Non-resident Ordinary
NRE	Non-resident External
FCNR	Foreign Currency Non-Resident
JV	Joint Venture
WOS	Wholly Owned Subsidiary
PIO	Person of Indian Origin
NRI	Non- resident Indian
TDS	Tax Deducted at Source

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03rd December, 2020

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