

# TCS ON LIBERALISED REMITTANCE SCHEME (LRS) W.E.F. 1<sup>st</sup> OCTOBER, 2020

## INTRODUCTION

Under Liberalised Remittance Scheme (LRS), Resident Individual can freely remit upto USD 2,50,000 per financial year for various purposes such as foreign education, business trips, medical treatment, investment in immovable property & stocks, gifts, maintenance of relatives abroad etc. This facility was introduced by RBI in 2004 in order to regularise the transfer of foreign exchange abroad. Over the years this facility has been increasingly used and to eliminate possible tax evasion and to bring such remittance under the purview of Income Tax Act, Finance Act 2020 introduced Tax Collection at Source (TCS) on LRS. This provision was proposed to be effective from 1<sup>st</sup> April 2020 however as a part of COVID-19 relief measure, it shall now be applicable from 1<sup>st</sup> October 2020.

Scenario	Threshold Applicability	Person Responsible to collect TCS	If PAN / Aadhaar Card is provided	If PAN / Aadhaar Card is not provided
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 in a financial year	Authorized Dealer	5%	10%
Remittance outside India under LRS for the purpose of pursuing education through a loan obtained from any financial institution <sup>1</sup>	Amount of remittance or aggregate thereof is INR 7 Lakhs or more in a financial year	Authorized Dealer	0.5%	5%
Overseas Tour Program Package <sup>2</sup>	No threshold limit	Seller	5%	10%

**Note** - There is no relaxation in reduction of TCS rate on LRS unlike other TDS/TCS rates.

<sup>1</sup> defined in section 80E of the Act

<sup>2</sup> 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

## Exceptions:

1. No TCS to be collected from Central Government, State Government, an Embassy, a 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.
2. No TCS to be collected from buyer who is liable to deduct TDS under any provision of the Act and has deducted such amount.

## ANALYSIS

- Any amount transferred outside India during F.Y. 2020-21 but before 1st October 2020 shall also be considered under the overall limit of INR 7 Lakhs. Thus if any amount in excess of INR 7 lakhs is remitted before 1st October then TCS would apply on all amounts remitted on/after 1st October.
- TCS will be collected only on the amount in excess of INR 7 Lakhs and not the entire amount.
- The bank will collect TCS for any amount remitted for overseas tour program packages, unless the same has already been collected by the seller of the overseas tour package.
- TCS would also apply on International transactions on Debit Cards.
- Banks practically apply TCS even on rupee loan and gift to a NRI/PIO who is a close relative.
- Furnishing of PAN is mandatory for making remittance under LRS. Also person has to mention LRS limit exhausted during the year while making remittance outside India. Hence, even if remittance is done through different banks, overall limit of INR 7 lakhs shall apply at PAN level.

## CONCLUSION

TCS collected does not become additional cost to the remitter. Individual can claim credit for TCS in the same manner as Advance Tax and TDS. However, TCS on educational loan may result in scenario of refund for students who may not have sufficient taxable income.

**26<sup>th</sup> September, 2020**

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