Taxes on outward remittance from India

Outward Remittances play a significant role in global economies, particularly in developing countries, as they contribute to the outflow of currency for various reasons, including medical expenses, paying for education, covering living expenses, or investing in businesses or properties outside India.

Remittances can be sent using several different channels, such as banks, money transfer companies, online marketplaces, or other electronic payment systems. The process of remittance is started by the sender by sending the funds, and it is completed by the recipient receiving the funds at the specified place or by using a certain method, such as cash pickup, bank deposit, or mobile wallet.

It's important to note that both the financial institutions and governing bodies in the sender and receiver nations may charge fees, impose exchange rates, and impose laws on remittances.

Here we are going to discuss the taxes on the outflow of the Indian rupee outside to support education, travel, medical expense, or other expenses.

The Reserve Bank of India (RBI) has put a framework called the Liberalised Remittance Scheme (LRS) 2004 and Tax Collective at Source (TCS) in 2020 that will tax residents of India to send a specific amount of money overseas for a variety of uses. It is a system that makes it easier to transmit money for authorized transactions by RBI regulations. This tax is known as Tax Collective at Source (TCS). The TCS rise aims to stop some people from engaging in tax evasion. In contrast to what they are seeing in income tax returns filed by remitters, the government believes that anyone who makes abroad remittances is likely to have an effective income tax rate of at least 20%. This justification is in line with what the government stated when TCS was first implemented in 2020. Following changes in TCS are applicable from 1st July 2023:

Type of remittance	**Present TCS Rate**	**Proposed TCS Rate**
If the money is being sent out as a loan that was obtained by section 80E, it must be used for educational purposes.	0.5% of the amount or the aggregate of the amounts over INR 7 Lakh	No change
For education, other than the above, or for medical treatment	5% of the amount or the aggregate of the amounts over INR 7 Lakh	No change
Overseas tour package	5% without any threshold limit	20% without any threshold limit
Any other case	5% of the amount or the aggregate of the amounts over INR 7 Lakh	20% without any threshold limit

The TCS amount collected by the authorized dealers or banks is deposited with the government, and the individual making the remittance receives a TCS certificate as proof of the tax collected. This can also be considered a tax credit. This TCS certificate can be used against the individual's income tax liability and can be refunded at the time of filing their income tax return if the total tax is less than TCS.

Let us understand with an example:

If you remit INR 10,00,000 to outside India for your children's education, TCS will be 0.5% of the amount or the aggregate of the amounts over INR 7 Lakh i.e., INR 1,500. At the end of the financial year, if the total tax of the individual is INR 1,00,000. He/she needs to pay INR 98,500 as TCS of INR 1,500 will be used as a tax credit.

If you remit INR 10,00,000 outside India for Medical expenses, TCS will be 5% of the amount or the aggregate of the amounts over INR 7 Lakh i.e., INR 15,000. At the end of the financial year, if the total tax of the individual is INR 1,00,000. He/she needs to pay INR 85,000 as TCS of INR 15,000 will be used as a tax credit.

If you remit INR 10,00,000 outside India for a tour or other cases, TCS will be 20% without any threshold limit i.e., INR 2,00,000. At the end of the financial year, if the total tax of the individual is INR 1,00,000. He/she needs to receive a refund of INR 1,00,000 as TCS of INR 1,00,000 will be used as a tax credit and the remaining will be refunded.

The LRS allows residents to transfer money for a variety of uses, including presents, investments, travel, education, healthcare, and support of relatives abroad. The plan establishes a yearly cap on the amount that can be transferred by an individual; this cap is subject to cyclical changes by the RBI.

This move by RBI might not show any effect on anyone's pocket but it may not encourage people to take benefit of LRS.

It's crucial to remember that even while the LRS permits the transfer of cash for particular reasons, there can be particular terms, limitations, or documentation specifications related to each type of remittance. For complete and up-to-date information regarding the Liberalised Remittance Scheme, it is advised to study the most recent rules and regulations released by the RBI or to speak with a financial expert.

Note:

- No interest will be received on TCS.
- Documents required to validate transactions for lower TCS bracket such as education proof, Hostel & Tuition fees.

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