

NRI Checklist – What should you do if you are leaving the country and your residential status needs to change

In this blog, we will understand who an NRI is and some of the essential steps that need to be taken by an NRI before leaving the country. With this in mind, let's start with the fundamental question.

Who is a Non-Resident Indian (NRI)?

A non-resident Indian is a person who stays in India for **less than 182 days** during the period of the foreseeing financial year.

Or

An NRI can also be someone who has **left the nation for employment**.

Or

A person **staying abroad for business-related purposes** is also known as an NRI.

People living abroad are classified into three major categories, namely

- Non-resident Indians (NRIs).
- Overseas Citizens of India (OCIs).
- Persons of Indian Origin (PIOs).

For this blog, we keep our discussions only related to NRI. Let's understand the definition of NRI per the Income Tax Act of India.

'**Non-resident Indian**' is an individual who is an Indian citizen or a person of Indian origin and who is not a resident of India.

To determine whether an individual is a non-resident Indian, his residential status must be determined under Section 6. As per **Section 6 of the Income-tax Act**, an individual is said to be a non-resident in India if he is not a resident in India.

An individual is deemed to be a resident, if

(A) Individual has resided in India in that year for 182 days or more or

(B) Having within the four years preceding that year been in India for 365 days or more and is in India for 60 days or more in that year.

Exceptions to residential status are

- Individual who is a citizen of India and who leaves India in any financial year for employment outside India.
- Individual who is a citizen of India or a person of Indian origin (PIO) and who are outside India comes on a visit to India in any financial year.

"B" condition stated above shall not be applicable and individual status will be determined only by the "A" condition in both cases above.

With the clarity of who an NRI is, Let's proceed to understand "**What are some of the important steps a person should take before leaving the country.**"

1) Close or re-designate bank accounts:

From the day we leave the country to settle abroad 180 days later, we will be considered Non-Resident Indians. **Our Savings Bank accounts, Fixed Deposits, and Recurring Deposits either need to be closed or converted into non-resident (ordinary) rupee accounts (NRO).**

As per RBI guidelines, an NRI cannot keep a regular savings bank account in India. So, one has to convert their existing savings bank account to an NRO account.

In total, there are three types of rupee accounts that NRIs can maintain for various purposes, they are:

- NRE- Non-Resident (External) Rupee Account
- NRO- Non-Resident (Ordinary) Rupee Account
- FCNR-Foreign Currency Non-Resident (Bank) Account

All NRIs can open an NRE account. NRE accounts are opened for NRIs, and it is also a rupee-denominated account. This account is fully repatriable i.e. principal and interest amount can be moved from India to the foreign country where the NRI is residing.

NRO accounts are opened for only those individuals who are leaving India to take up employment or establish business outside India and is a rupee denominated accounts. Local funds not eligible to be remitted abroad must be credited to an NRO account. This account has **restricted repatriable**. Any resident outside India (other than a person in Nepal and Bhutan) can open an NRO account.

FCNR accounts are opened by NRIs and are **denominated in any freely convertible foreign currency**. This account **is fully repatriable**, i.e., principal and interest amount can be moved from India to the foreign country where the NRI is residing.

However, one point to remember is that individuals and entities of Bangladesh and Pakistan require prior approval from the Reserve Bank of India to open 3 of the accounts mentioned above.

2) Get your Debit/Credit Card converted into an International Card:

Banks will have costs such as foreign currency conversion, international withdrawal, foreign transactions, etc. It is always advisable to convert our debit/credit cards into international cards due to charges associated with overseas expenses. Also, remember we can only pay our credit card bills through the NRO account. Do check for any markup fee before buying a new card.

3) Assign a Power of Attorney (POA) to a trustworthy person:

We must legally assign a "Power of Attorney (POA)" to someone to take care of our finances in India before we move aboard. POA will have the **authority to operate** our bank accounts, invest on our behalf, perform real estate transactions, rent out the property, issue cheques on our behalf, etc.

Once registration of POA is done, submit the document copies to banks & other financial institutions before we move abroad. We can opt for "General POA" or "Specific POA." However, POA has some limitations like they are not authorized to open a new bank account on our behalf of us, but they can operate the existing accounts. It's better to consult your lawyer to do it precisely.

4) Update KYC details with Financial Institutions.

As per RBI guidelines, we are updating our tax status to NRI status. Submitting new KYC details to financial institutions such as banks, mutual fund houses, and insurance companies is mandatory.

Any income generated in India -including rental income, interest, dividends, etc., will be deposited to your NRO account. If you plan to send money back to India after moving overseas, you must do it through a non-resident rupee (NRE) account. NRE and NRO are rupee accounts, and you must submit relevant documents to ensure your funds are know-your-customer (KYC) rules compliant.

5) Initiate International Roaming on Our Mobile Number.

Since our mobile number is linked in most places like bank accounts, mutual fund houses, etc., **it's better to activate international roaming on our number as this will help us to reduce the roaming charges to a considerable extent.** Doing this will help us receive OTPs in case of fund transfer and be in touch with our friends & family while using the same mobile number without hassles.

6) Activate online payment for Home loan EMIs.

We can make payments for EMIs on our home loan by shifting the charges to the auto payment mode. If we already have **ECS instructions for our EMIs**, we need to **link our loan account to the NRO account.**

7) Buy Health/Life Insurance before you leave.

If you are planning to buy insurance, get one before you leave, as it requires a **lengthy procedure once you become NRI.** In the case of life insurance policies, death cover is provided globally, while health insurance policies cover is provided for any medical expenses/ treatment in India. So it's always good to check for the T&C of the policy or consult a financial advisor before you buy one.

If you already have term insurance, it is advisable to update your residential status with the insurer for continuity in service. **Remember not to discontinue all insurance abruptly; many individuals end their Life and Health Insurance plans abruptly before moving abroad. This leaves them unprotected until new plans are bought overseas.** We can continue paying premiums by giving an ECS mandate to your bank for timely payment. It is advisable to continue Health Insurance in India if you have plans to come back.

8) Open a PPF account.

If we already have an active PPF account, we can continue to contribute to the same account through the savings account until your residential status remains as RI. However, once we become NRI, we cannot open or continue a PPF account.

9) Open a Portfolio Investment Scheme (PIS/PINS) account.

As per RBI guidelines, **an NRI can only trade or invest in stocks in India through the secondary market via a designated Portfolio Investment Scheme (PIS/PINS) account on a repatriation or non-repatriation basis.** An NRI can open only one PIS account. For any transaction in the secondary market on a repatriation basis, we need to have an NRE Bank account. Similarly, if we want to do any transaction on a non-repatriation basis, we should have an NRO bank account.

So, in case we have existing shares in our Demat account in India, we are required to get the shares transferred to our PIS account. Once claims are transferred to our PIS account, closing our existing Demat account is better to avoid unnecessary charges.

So, if we go abroad for a long-term assignment, settle down permanently, have higher studies, or for any other reason, the above checklist will be a helpful guide before we gain our NRI status.

K Sridhara

Research Desk

Dilzer Consultants Pvt Ltd