Tax on foreign remittance: Only 2 months left to save lakhs on money sent abroad

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By Shilpa Menon

India’s finance minister Nirmala Sitharaman announced a steep tax increase on money remitted abroad under the Liberalised Remittance Scheme (LRS) as part of the Union Budget 2023.

Previously Indian residents sending money overseas under the LRS had to pay a 5% tax collected at source (TCS) on remittances exceeding Rs 7 lakh. However, the new rule would do away with the minimum threshold, and instead levy a whopping 20% TCS on any amount transferred overseas under LRS. An exception has been provided for remittances made for medical and educational purposes.

The remittance limit of $250,000 per individual would not get impacted with this, as the tax can be paid in rupees. This tax raise will also not impact cross-border transactions by Non-Resident Indians, for whom the LRS rules do not apply.

It’s important to note that this tax is not an additional tax and can be claimed back or settled against your other tax liabilities. However, this refund could take time and, therefore, at the very least, it’s a significant cash flow issue for most remitters.

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While seemingly aimed at high net-worth individuals, the rule will affect everyone – Indians remitted $19.6 billion in 2021-22, according to data from the Reserve Bank of India.

For example, if you live in the country but send money abroad to a family member abroad, you will have to budget for this tax, and then claim/settle it later. The same goes for investors wanting to diversify their portfolio by investing in overseas markets. The government also intends to bring credit card payments made for overseas trips under the LRS tax net. Overall, the new rule is a big dampener for any Indian resident looking to remit money overseas.

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Industry folks are seeing a mixed reaction to this new rule. HNI/UHNI families looking to make "must have" investments or expenses abroad are still going ahead with their plans irrespective of the change, taking help from their tax advisors to manage the change. It is possible that the change will have larger ramifications for "good-to-have" or "can-do-without" investments or expenses. Anoop Nair, Country Head – India at Interpolitan Money, remarks; "In our view, purpose-driven and strategic investments out of India have not seen any material impact as these investments are part of long-term wealth creation strategies."

This new rule is expected to come into force on July 1, 2023, which means one has just over two months to make overseas remittances at the current 5% TCS rates. According to tax consultants, if you foresee yourself requiring to remit money overseas in the next 6-12 months, it may be a good idea to fast track those transactions before July 1, to optimize your tax outgo.

(Author is Senior Director, India at LCR Capital)