# International Credit Card Spending Outside India under LRS

**For Prelims:** FEMA, Tax Collected at Source, Reserve Bank of India, **Liberalised Remittance Scheme (LRS).**

**For Mains:** Significance of Liberalised Remittance Scheme, FEMA

## Why in News?

Recently, the Finance Ministry of India, in consultation with the **Reserve Bank of India (RBI)**, has made significant amendments to the **Foreign Exchange Management Act (FEMA)**, bringing **international** credit card **spending outside India under the** Liberalised Remittance Scheme (LRS).

- This comes in the backdrop of a surge in spending in overseas travel. Indians spent **12.51 billion USD** on overseas travel between **April-February of fiscal 2022-23**, a **rise of 104%** compared to the same period of the last year.
- The inclusion enables the levy of the higher **rate of** Tax Collected at Source (TCS) **as announced in the Budget for 2022-23** effective from 1stJuly 2023.

## What are the Key Details and Implications?

- **Inclusion of International Credit Card Spend in LRS:**
    - The amendment is expected to facilitate the **monitoring of high-value overseas transactions** but does not apply to **payments for purchasing foreign goods/services from India.**
- **Omission of Rule 7 and Expansion of LRS:**
    - Previously, the usage of international credit cards for expenses during trips abroad was not covered under LRS.
    - Rule 7 of the **Foreign Exchange Management (Current Account Transaction)** Rules, 2000, which excluded such spendings from LRS, has been omitted.
        - This amendment allows international credit card transactions to be included in determining the overall **LRS limit of 250,000 USD per person per financial year.**
- **Tax Implications:**
    - A **TCS levy of 5%** will be applicable on such transactions until 1stJuly 2023 (except for medical and education-linked sectors).
    - After 1 stJuly 2023, the **TCS rate will increase to 20% for credit card spends** outside India.
        - The new provisions will not apply on payments for **'education' and 'medical' purposes** and do not impact changes in the use of international credit cards by residents while in India.
    - The mechanism for levying TCS on overseas credit card spends is yet to be made functional, which poses compliance challenges for banks and financial institutions.
- **Impact on Compliance and Refunds:**

- Banks and financial institutions may experience an **increased compliance burden due to these changes.**
- **Taxpayers can claim refunds on the TCS levy while filing tax returns,** which could result in locked funds until refunds are initiated by the tax department.

## What is Liberalised Remittance Scheme?

- **About:**
  - This is the **scheme of the Reserve Bank of India**, introduced in the year **2004.**
  - Under the scheme, **all resident individuals,** including minors, are allowed to freely **remit up to USD 2,50,000 per financial year** (April – March) for any **permissible current or capital account transaction or a combination of both.**
- **Not Eligible:**
  - The Scheme is **not available to corporations, partnership firms, Hindu Undivided Family (HUF), Trusts etc.**
  - Though there are no restrictions on the frequency of remittances under LRS, **once a remittance is made for an amount up to USD 2,50,000 during the financial year, a resident individual would not be eligible** to make any further remittances under this scheme.
- **Remitted Money can be used for:**
  - Expenses related to travelling (private or for business), medical treatment, study, gifts and donations, maintenance of close relatives and so on.
  - Investment in shares, debt instruments, and buy immovable properties in the overseas market.
  - Individuals can also open, maintain and hold foreign currency accounts with banks outside India for carrying out transactions permitted under the scheme.
- **Prohibited Transactions:**
  - Any purpose specifically **prohibited under Schedule-I** (like the purchase of lottery tickets, proscribed magazines, etc.) or any item restricted under **Schedule II of Foreign Exchange Management (Current Account Transactions) Rules, 2000.**
  - Trading in foreign exchange abroad.
  - Capital account remittances, directly or indirectly, to countries identified by the **Financial Action Task Force (FATF)** as **"non- cooperative countries and territories"**, from time to time.
  - Remittances directly or indirectly to those individuals and entities identified as posing a significant risk of committing **acts of terrorism** as advised separately by the Reserve Bank to the banks.
- **Requirements:**
  - It is mandatory for the resident individual to provide his/her **Permanent Account Number (PAN)** for all transactions under LRS made through Authorized Persons.

## What is Tax Collected at Source?

- TCS is the tax payable by a seller, which he collects from the buyer at the time of sale of certain goods or services.
- TCS is governed by **Section 206C of the** Income-tax Act**,** which specifies the goods or services on which TCS is applicable and the rates of TCS.
  - Some of the goods or services on which TCS is applicable are liquor, timber, tendu leaves, scrap, minerals, motor vehicles, parking lot, toll plaza, mining and quarrying, **foreign remittance under LRS**, etc.
- The seller must have a **Tax Collection Account Number (TAN)** to collect and deposit TCS with the tax authorities.
- The seller must issue a **TCS certificate to the buyer within a specified time limit,** showing the amount of tax collected and deposited.
- The buyer can claim credit for the amount of TCS deducted from his income while filing his income tax return.

## What is Foreign Exchange Management Act, 1999?

- The legal framework for the **administration of foreign exchange transactions** in India is provided by the **Foreign Exchange Management Act, 1999.**
- Under the FEMA, which came into force with effect from 1st June 2000, **all transactions involving foreign exchange have been classified either as** capital **or** current **account transactions.**
    - **Current Account Transactions:**
        - All transactions undertaken by a **resident** that do not alter his / her assets or liabilities, including contingent liabilities, outside India are current account transactions.
        - Example: payment in connection with foreign trade**, expenses in connection with foreign travel,** education **etc.**
    - **Capital Account Transactions:**
        - It includes those transactions which are undertaken by a **resident** of India such that his/her assets or liabilities outside India are **altered** (either increased or decreased).
        - Example: **investment in foreign** securities**, acquisition of immovable property outside India etc.**

**Source: IE**