



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 1st July 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 1st July 2023 (except for medical and education-linked sectors).
 - After 1st July 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.**

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