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Liberalised Remittance Scheme

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India has witnessed its **highest-ever monthly outflow** of \$1.69 billion **under the Liberalised Remittance Scheme (LRS)** in July 2019.

- The outflow of funds by **resident Indians** under LRS over the last five years has almost **negated the inflow of funds by Foreign Portfolio Investors (FPIs)** in the

same period.

RISE IN OUTWARD REMITTANCE UNDER LRS	
Year	Amount (USD Bn)
2014-15	1.325
2015-16	4.642
2016-17	8.17
2017-18	11.333
2018-19	13.787
2019-20*	5.871

- The sharp rise in the outflow of funds under LRS scheme over the last five years **indicates the flight of capital from the country.**
- 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.

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.

- **Resident Indians:** A '**person resident in India**' is defined in Section 2(v) of FEMA, 1999 as :
 - Barring few exceptions, a person residing in India **for more than 182 days** during the course of the preceding financial year.
 - Any person or **body corporate registered or incorporated in India.**
 - An office, branch or agency in India owned or controlled by a person resident outside India.
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Source: Mint