

## Changes to Liberalised Remittance Scheme (LRS)

### Why in news?

The Central Government has announced that it has postponed the imposition of increased 20% TCS (Tax Collected at Source) by 3 months to October 1, 2023.

### What is Liberalised Remittance Scheme (LRS)?

- It is a *foreign exchange policy* initiative introduced by the Reserve Bank of India (RBI) in 2004.
- **Aim** - To simplify and streamline the process of remitting funds outside India.
- Under LRS, resident individuals can freely remit funds up to a certain limit for various permissible transactions involving a *current or capital account*.
- Prior to LRS, the remittance is controlled by FEMA 1999.
- This scheme helped Indians overcome international fund transfer restrictions as set by the ***FEMA (Foreign Exchange Management Act), 1999***.

### What are the key features of the LRS Scheme?

- **Eligibility**- It is available to all resident individuals, including minors and students.
- The scheme is *not available for* Corporates, Partnership firms, Hindu Undivided Family etc.,
- The eligible citizens must have an Indian bank account, a valid Permanent Account Number (PAN), and a passport.
- **Foreign currency** - The remittances can be made in *any freely convertible foreign currency*.
- **Usage**- They can use the remitted amount for educational, business, personal, or other purposes.
- **Current limit**- The current limit for LRS is ***\$250,000*** for a given financial year for permissible transactions.
- A resident individual can remit a higher amount after taking prior permission from the RBI.
- **Exception**- Remittances cannot be used for buying lottery tickets, margin trading, real estate etc.
- **Taxation** - Liberalised Remittance Scheme is *taxable through Tax collected at Source (TCS)*.
- The tax does not apply to Indian individuals if they furnish a declaration that the purchased goods would be utilised for manufacturing, processing or producing articles or things (for purpose of generating power) and not for further sale.

## What is TCS and its threshold?

- **TCS** - TCS refers to *tax collected by the seller* of a commodity *at the time of sale*.
- It is over and above the price of the commodity and is required to be *remitted to the government's account*.
- **TCS threshold**- 5% TCS is applicable for remittances exceeding the ***limit of Rs 7, 00,000***, other than the purchase of tour program packages.
- **Union Budget 2023 Proposal**- TCS has been increased from 5% to 20% for overseas tour package exceeding the limit of Rs 7, 00,000.
- The same was to apply for payments other than education and medical treatment.
- Purpose- To widen the tax base and to reduce the possibilities of tax avoidance.

## What are the new changes?

- **TCS threshold** - The implementation of Union Budget proposal has been delayed for 3 months till October 1, 2023.
- **Credit card** - The government also announced that transactions facilitated using international credit cards while being overseas would not fall under the LRS umbrella.
- Thus *transactions via credit cards when travelling abroad will not attract TCS*.

## Why is LRS so significant?

- **Diversification of Investment**- It promotes investing in foreign assets such as stocks, bonds, mutual funds, and real estate.
- **Overseas education**- It enables individuals to remit money for education. It provides the window of opportunity to pursue education in abroad.
- **Medical treatment**-It allows individuals to remit money for medical treatment outside India.
- **Travel**- It enables individuals to remit money for travel-related expenses such as tickets, hotel bookings, and other expenses.
- **Start-ups and business investments**- It enable individuals to invest in foreign businesses, start-ups, and joint ventures thus aiding in the expansion of their businesses globally.
- **Gift and donations**-It enable individuals to gift or donate money to their family members or charitable organisations outside India.

## References

1. [The Hindu| Explained LRS](#)
2. [Financial Express| Facts about LRS](#)