Examrace

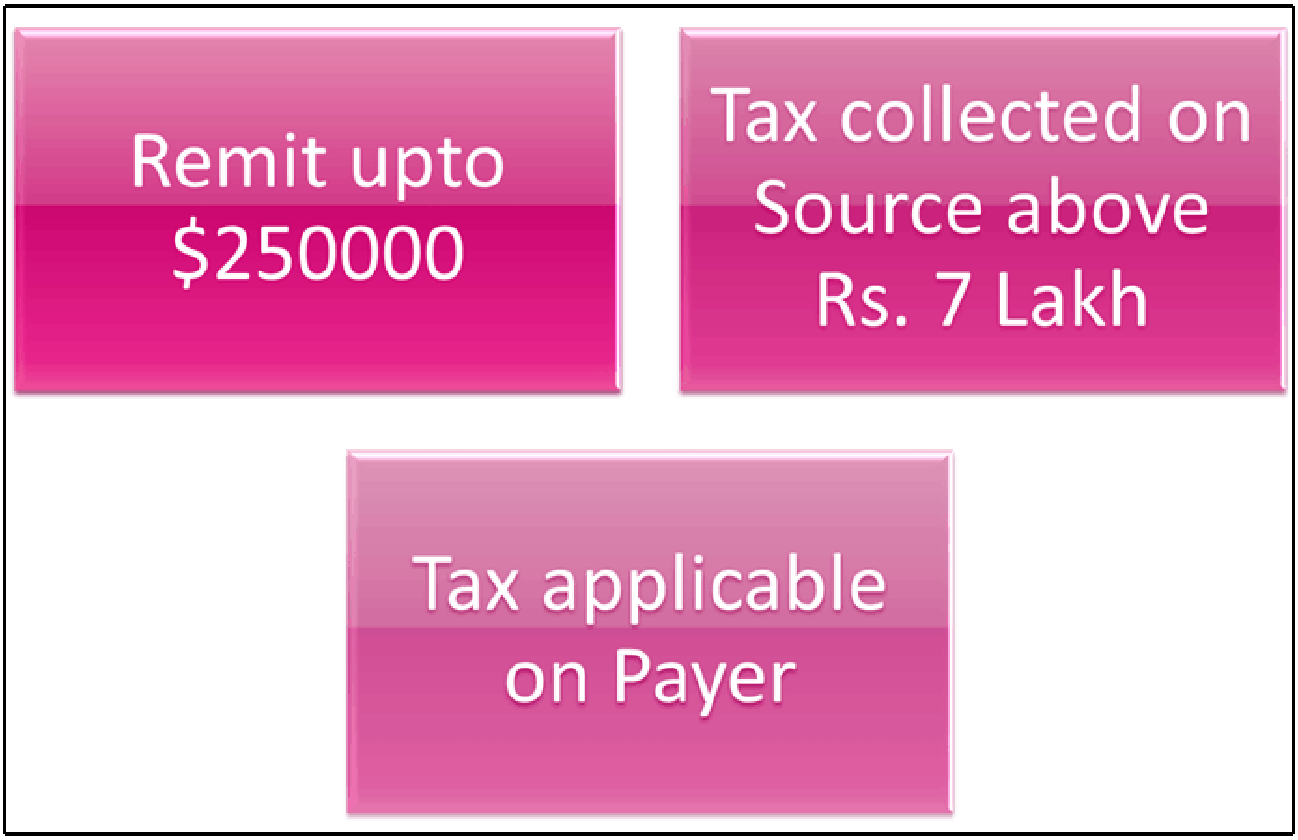
Liberalized Remittance Scheme Current Account Transactions YouTube Lecture Handouts

Liberalized Remittance Scheme

What is LSR?

- All resident individuals, including minors, are allowed to freely remit up to USD 2,50, 000 per financial year
- Not available to corporations, partnership firms, Hindu Undivided Family (HUF) , Trusts
- **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.
- An office, branch, or agency outside India owned or controlled by a person resident in India.
- Change 182 days to 120 days. The government is seeking to tax NRIs who are carrying on substantial economic activities from India. Under the present residence criteria of a minimum stay of 182 days in an FY, NRIs remain non-resident in India perpetually. Consequently, they do not declare and pay tax on their global incomes in India.

LRS – What’s New?



- LRS allows a person to remit up to $ 250,000 (around ₹ 1.83 crore at an exchange rate of 73.50) in a financial year for expenses such as travel and education, as well as capital account transactions like investing in the foreign stock markets. Now, a tax will be collected at source on foreign remittances above ₹ 7 lakh.
- The tax is applicable only on the payer, and not on the recipient.

How Will 5 % TCS be Calculated?

- The 5 % tax is collected at source only on the amount above 7 lakh. For example, if you remit ₹ 10 lakh in a year, 5 % will be calculated on 3 lakh i.e.. ₹ 15,000 will be deducted as TCS.
- The Foreign Exchange Management Act, 1999, provides the legal framework for administration of foreign exchange transactions in India. Under the Foreign Exchange Management Act, 1999 (FEMA) , which came into force with effect from June 1,2000, all transactions involving foreign exchange have been classified either as capital or 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.

- Outward remittance 1.3 billion in 2014 - 15 to 11.3 billion in 2017 - 2018 and 5.87 billion in 2019 - 20

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