Important notice: Revision in applicable taxes on outward foreign remittances

There have been amendments to the Tax collected at Source (TCS) provision on foreign remittance made during the Union Budget 2020-21. Please find details of the original and amended provision below;

Initial
- Effective 1 April 2020, banks are obligated to collect a 5% tax at source (10% in case customers do not have PAN/Aadhaar) for remittance(s) remittances over INR 7 lakh out of India under the Liberalised Remittance Scheme (LRS) of RBI.
- Once the threshold of INR 7 lakh in a financial year is crossed, TCS would apply on remittances which exceed INR 7 lakh in that financial year.

Amendment
- The provision of TCS shall now be effective from 1 October 2020 instead of 1 April 2020.
- Basis the recent clarification, TCS shall be applicable on amounts more than INR 7 lakh in a financial year and not on the total amount. In cases where the amount is remitted for pursuing education paid through a loan obtained from any financial institute, rate of TCS shall be 0.5% on the amount exceeding INR 7 lakh.

Frequently Asked Questions:

1. What is the effective date of implementation of the tax implication?
The implementation on TCS provision on foreign remittance is revised from 1 April 2020 to 1 October 2020

2. What all transactions will be impacted by this TCS provision?
All remittances more than INR 7 lakh in a financial year done under the LRS will be liable for a 5% TCS except if the remittance is for education paid through a loan obtained from any financial institution. The rate will then be reduced from 5% to 0.5%. For this purpose, ‘financial institution’ means a banking company to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act); or any other financial institution which the Central Government may, by notification in the Official Gazette, specify in this behalf.

The exemption from TCS on remittance overseas under LRS for amounts less than INR 7 lakh in a financial year will not be applicable, if the amount is being remitted for the purchase of overseas tour program package.

3. Will GST be applied on the 5% Tax collected at source (TCS)?
No GST will be applicable on the tax collected TCS. However, GST will be applicable on the currency conversion & remittance service charge.

4. What are the different purposes on which the tax collection is applicable?
The tax will be applicable on all remittance(s) out of India that fall under the Liberalised Remittance Scheme (LRS) of RBI.