# Tax Collected At Source on Overseas Credit Card Spends

## Why in news?

The Centre has amended rules under the Foreign Exchange Management Act (FEMA), bringing international credit card spends outside India under the Liberalised Remittance Scheme (LRS).

## What are the recent proposals?

- **Changes -** The Finance Ministry notified the Foreign Exchange Management (Current Account Transactions) (Amendment) Rules, 2023, to bring all credit card spends abroad under the remit of the LRS.
- The new notification, drafted in consultation with the RBI, omitted the Rule 7 of FEM (CAT) Rules, 2000 which had kept credit cards out of the $2.5 lakh annual LRS limit.
- A *Tax Collected at Source (TCS) of 20%* will be applicable from July 1, 2023.
- (Before this proposal, a TCS of 5% was applicable on foreign outward remittances above Rs 7 lakh, and 5% without any threshold for overseas tour packages).
- **Exemptions** - The international transactions *up to Rs 7 lakh through debit cards or credit cards* will not be taxed.
- The changes will not apply to payments for the *purchase of foreign goods/ services from India*, such as subscriptions to newspapers, magazines, or online streaming services.
- A 20% TCS was proposed for all remittances under the LRS except for *education or medical expenses abroad.*
- **Need for the change -** The tweak in these rules is said to bring parity between the international usage of credit and debit cards, which were already part of LRS.

> *In 2020, the government in the Budget announced the levy of 5% TCS on overseas remittances and for sale of overseas tour packages.*

## What is Liberalized Remittance Scheme (LRS)?

- **Purpose** - LRS is a scheme introduced by the Reserve Bank of India (RBI) that allows resident individuals to freely remit a certain amount of money abroad for various purposes.
- **Annual Limit** - Individuals are allowed to remit up to a specified amount in a financial year.

- The limit is set by the RBI and is subject to periodic revisions.
- **Eligible Transactions** - Covers a wide range of transactions, including travel-related expenses, education, medical treatment, investment in foreign stocks or real estate, gifting, donations, and more.
- However, there are certain restrictions and prohibited transactions under the scheme.
- **Tax Implications** - Initially, the LRS remittances were subject to a tax collection at source (TCS) of 5% on amounts exceeding a certain threshold.
- However, recent proposals have increased the TCS rate to 20% for certain transactions, leading to concerns and discussions regarding the tax implications.
- **Prohibited Transactions** - The LRS does not permit remittances for speculative or margin trading purposes, lotteries, gambling, prohibited investments and remittances to countries identified by Financial Action Task Force (FATF) as non-cooperative countries.
- **Monitoring and Compliance** - The RBI closely monitors LRS transactions to ensure compliance with the regulations.
- Authorized dealers (banks) are responsible for reporting and monitoring the remittances made by individuals under the LRS.

## What are the possible impacts?

- **High tax rate** – Proposal to levy a 20% TCS on credit card spends abroad has been met with widespread criticism.
- **Burden to foreign travelers** – It will increase the cost of travel for Indians and that it will make it more difficult for businesses to operate overseas.
- **Tacking spending** - Even though the government said that it need to track the spending of credit card users but already there exists 2% and 5% charges on them.
- **Increased cost of business** – It will increase the cost of doing business for the business that operate abroad.
- **Broad scope** - The proposal is very broad and could catch people who are not trying to evade taxes.
- **Students studying abroad** - Will increase the cost of education for Indians who study abroad.
- **IT refunds** - For IT refunds, tax payers may end up waiting as long as 15 months, as each assessment year's taxes are filed in the following financial year.
- **Compliance burden** - Expected to increase the compliance burden of banks and financial institutions.

### References


1. The Hindu | Proposal By Finance Ministry
2. The Indian Express | Impacts Of The Notification
3. The Hindustan Times | Response By Government



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