Hike in tax collection at source under LRS may lead to cash flow issues

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The move to increase the tax collection at source (TCS) on foreign remittance under the Liberalised Remittance Scheme could be detrimental for investors in offshore securities.

"The proposed increase in the TCS on foreign remittance under the LRS scheme (and sale of overseas tour packages) is likely to pose challenges for resident investors looking to invest in foreign stocks and securities/investment products in the Gift City. While taxpayers can claim credit or refund for such TCS applicable on such remittances can be claimed back as refund, it does cause cash flow issues. Accordingly, the proposed increase in the TCS rates would effectively reduce the existing LRS limits available to resident investors for investing in offshore securities, " said Kunal Savani, Partner, Cyril Amarchand Mangaldas

Moin Ladha, Partner, Khaitan & Co. said the increase in the TCS rate would certainly impact LRS transactions, as 20 per cent would actually reduce the funds available for remittance. That being said the ₹7 lakh limit is still applicable even post the amendment.

But Alok Agarwal, Partner, Deloitte India said since TCS is ultimately going to be claimed as a credit in the tax return of the person making the overseas remittance, it will not impact global investments.