Overseas LRS spends may be advanced before tax tweak

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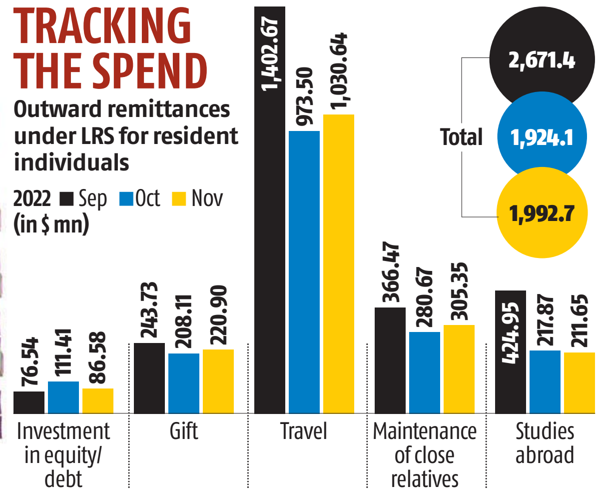
Bankers expect an increase in overseas remittances under the Liberalised Remittance Scheme (LRS) in the coming months. This comes as individuals seek to send funds abroad before a revised tax rate for such remittances takes effect from July 1, 2023.

In the Union Budget, the government raised the tax collection at source (TCS) rate for foreign remittances under the LRS from 5 per cent to 20 per cent.

This will apply to overseas tour packages and other remittances except for education and medical purposes. An earlier annual limit of ₹7 lakh on remittances has also been removed.



Note: LRS– Liberalised remittance scheme

"Some people, who might not avail the tax credit and have to wait to get the refund, may prefer to send their remittance before the new TCS rate is applicable. So, banks can expect to see a surge in LRS remittances and will gear up to service their customers," said Murali Ramakrishnan, managing director (MD) and chief executive officer (CEO), South Indian Bank

"Since overseas travel and tours usually increase during the summer vacation, we can expect some increase in overseas remittances under LRS," he said.

The TCS is not in itself a tax and credit for the amount paid on any transaction is available to the person to adjust against their tax liability for the year.

The TCS on remittances made under the LRS was launched in 2020.

Its purpose was to keep track of remittances and correlate them with income tax returns of persons deploying funds through this route. Different TCS rates are applicable based on the nature of transactions.

"In order to advance expenses (before the new TCS rate kicks in), one needs liquidity. The 20 per cent is over and above what the conversion equivalent would be in Indian rupees. But yes, if there are some things to be paid by people after the new tax structure kicks in, they could try to advance it to the next couple of months," said Ashutosh Khajuria, executive director, Federal Bank.

"All these things happen at the branch levels of banks. Going ahead, the step on TCS could have an impact because everybody was thinking of making use of $250,000 under LRS, subject to having that much liquidity available. This is not something, which is a charge straightaway; it's something, which can be set off against your tax liabilities," he said.

Latest RBI data showed that Indians remitted close to $2 billion in November under the LRS. Outward remittances under the scheme jumped 29 per cent to $1.99 billion compared to $1.54 billion in the year-ago month. Sequentially, outward remittances under the scheme were up about 3.5 per cent. International travel continued to remain over 50 per cent of the entire outward remittance by Indians under the scheme. In November, outward remittances for international travel touched $1.03 billion, up 2.25 times from the year-ago period.

In FY23, till November, Indians have remitted around $17.28 billion in outward remittances under the scheme. Outflows may touch an all-time high at the end of this fiscal year, aided by the rise in international travel.

In FY22, outflows at $19.61 billion hit an all-time high, aided by overseas education and international travel.

"What was earlier $1 being sent abroad could now go up to $1.2 during the period before the new tax rules kick in. People may push forward overseas spending in the next three to four months. And, we could see lower remittances happen from the next fiscal year," an executive at a private bank said.