'US remittance tax, tariff could cost India billions'

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A proposed 3.5 per cent US tax on remittances, combined with 10 per cent reciprocal tariffs on imports, could significantly impact India's economy, according to analyses by the Centre for WTO Studies. The measures are projected to reduce remittance inflows by billions of dollars and amplify trade costs, disproportionately affecting Indian households reliant on overseas earnings.

"The policy move by the US could have multiplying effects on the economy, including tightening household budgets in India, slowing local consumption, reduced returns from physical and financial assets due to lower investment, and weakening one of the country's most resilient sources of foreign exchange," said a brief, co-authored by Pritam Banerjee, Saptarshee Mandal and Divyansh Dua of Centre for WTO Studies.

The original version of US President Donald Trump's "One Big Beautiful Bill" — spanning major reforms in income tax, health care, corporate taxation, and federal debt — included a 5 per cent excise duty on outward remittances, to be paid by the sender. The revised Bill, after being passed by the House of Representative, is now headed to the Republican-majority Senate for final approval before it can become law.

The New Delhi-based think tank, under the Indian Institute of Foreign Trade, estimates that remittance inflows to India — earlier projected to reach $190.5 billion between 2025 and 2030 — could drop by $6.8 billion to $183.7 billion, if the tax is implemented. This reduction is expected to trigger opportunity costs for recipient families, including $406 million in lost returns from real estate investments, $200 million from bank savings, and $54 million from capital markets.

Tax burden

- Proposed 3.5% US tax on remittances could reduce India's inflows by $6.8 bn
- The tax could tighten household budgets and slow domestic consumption, the Centre for WTO Studies reckons
- 3.5% tax contradicts the UN Sustainable Development Goal of reducing remittance costs to 3% by 2030

In a note written in his personal capacity, Dilip Ratha, lead economist and economic adviser to the vice president of operations, Multilateral Investment Guarantee Agency at the World Bank, said migrants may shift to informal channels to avoid the remittance tax. "... migrants would choose ways to reduce the cost of sending money: they would hand carry, send money with friends travelling home, through courier services or bus drivers and airplane pilots, find friends in the US who'd arrange to pay local currency to beneficiaries in the recipient countries, use hawala-hundi channels, and cryptocurrencies," Ratha said.

Ratha warned that the tax could derail global development goals. A 3.5 per cent levy contradicts the UN's target to reduce remittance costs to 3 per cent by 2030.

"After years of debates and discussions, therefore, in the negotiations leading to Sustainable Development Goals (SGD), a target was introduced to reduce remittance costs to 3 per cent by 2030. A tax of 3.5 per cent will render the SDG indicator 7.c.1 impossible to achieve. Understandably, the proposed tax on remittances is cause for worry," Ratha added.

In the long term, according to the Centre for WTO Studies, diminished investment in physical assets such as real estate or machinery can slow down asset formation and economic development.

"Moreover, a decline in financial asset accumulation may weaken financial inclusion efforts and limit the growth of India's formal financial sector. Therefore, a sustained reduction in remittance inflows could erode the foundation of household wealth-building and constrain broader economic growth through weakened domestic capital formation," the report added.