



GMS Flash Alert



2023-172 | September 12, 2023

India – Tax Collection at Source for Certain Outbound Remittances to Increase

Due to recent changes introduced by India’s Finance Act, 2023, overseas outbound remittances (including transfers from bank accounts, foreign exchange transactions, international property investments, etc.), except for medical and educational purposes, made via the Liberalised Remittance Scheme (LRS) will be taxed under the Tax Collection at Source system (TCS) at 20 percent, rather than 5 percent, if the amount is above INR 7 lakh in a financial year.

Finance Act, 2023 proposed to increase the TCS rate from 5 percent to 20 percent, effective 1 July 2023. The Ministry of Finance in India, recently however, by means of notifications and frequently asked questions (FAQs), clarified the effective start date, now 1 October 2023, and the tax rates (TCS) applicable for outbound remittances.¹

For the full report, see [TaxNewsFlash](#) (5 July 2023) and [TaxNewsFlash](#) (29 June 2023). *TaxNewsFlash* is a publication of the KPMG International member firm in India.

WHY THIS MATTERS

While exceptions apply to educational and medical expenses, the new tax rate will be applicable to funds sent overseas for vacations, investments, and gifts, and where those remittances exceed a certain amount, a higher tax rate (20 percent as opposed to 5 percent) would apply. In certain situations the new higher tax rate may also apply to employee stock purchase plan (ESPP) purchases by Indian participants. This will raise the tax burden for affected taxpayers.

Background

Section 206C(1G) of the Income-Tax Act, 1961 (“the Act”) provides for Tax Collection at Source (TCS) by a seller of an overseas tour program package from a buyer, being a person purchasing such package, at the rate of 5 percent of the

amount of the package. Similarly, TCS at the rate of 5 percent is applicable on a foreign remittance through the Liberalised Remittance Scheme (LRS)².

What's Changed?

The Finance Act, 2023 amended these [Section 206C(1G) of the Act] provisions whereby the rate of TCS was increased from 5 percent to 20 percent for remittances under LRS as well as for the purchase of overseas tour program packages. Further, the threshold of INR 7 lakh for triggering TCS on LRS was removed for purchases of overseas tour program packages. These two changes are not applicable when the remittance is for education or medical purposes.

Subsequent Clarification from the Tax Authorities

Earlier and new TCS rates are summarised as under:

Nature of payment (1)	Earlier rate before Finance Act, 2023 (2)	New rate w.e.f. 1 October 2023 (3)
LRS for education, financed by loan from financial institution	Nil up to INR 7 lakh 0.5% above INR 7 lakh	Nil up to INR 7 lakh 0.5% above INR 7 lakh
LRS for Medical treatment / education (other than financed by loan)	Nil up to INR 7 lakh 5% above INR 7 lakh	Nil up to INR 7 lakh 5% above INR 7 lakh
LRS for other purposes	Nil up to INR 7 lakh 5% above INR 7 lakh	Nil up to INR 7 lakh 20% above INR 7 lakh
Purchase of Overseas tour program package	5% (without threshold)	5% till INR 7 lakh, 20% thereafter

Source: KPMG in India

*Note: (i) TCS rate mentioned in column 2 shall continue to apply until 30 September 2023.

(ii) There shall be no TCS on expenditures under LRS under clause (i) of sub-section (1G) of section 206C up to INR 7 lakh, irrespective of purpose.

On 28 June 2023, the Ministry of Finance indicated in its clarification, "Threshold of INR 7 Lakh per financial year per individual in clause (i) of sub-section (1G) of section 206C shall be restored for TCS on all categories of LRS payments, through all modes of payment, regardless of the purpose. Thus, for the first INR 7 Lakh remittance under LRS, there shall be no TCS except for tour packages."³

Also, please note the following:

- Transfers of amounts equal to or below INR 700,000 made via international debit or credit cards will not attract any TCS.
- Further, the classification of the use of international credit cards, while overseas (as LRS), has been postponed. Therefore, no TCS is to be applicable on expenditures made using international credit cards while the card-holder is using it overseas until further order.

- The threshold of INR 700,000 for LRS is a combined threshold for the applicability of the TCS on LRS irrespective of the purpose of the remittance and such threshold applies for the whole of the financial year.
- For purchases of an overseas tour program, the threshold of INR 700,000 applies to determine the applicable TCS rate as 5 percent or 20 percent.

KPMG INSIGHTS

The Central Board of Direct Taxes (CBDT) has issued frequently asked questions (FAQs) to mitigate any difficulties around the implementation of changes related to TCS on LRS and the purchase of overseas tour program packages.⁴ The FAQs are welcome as they provide clarity on various practical aspects relating to the implementation of the TCS provisions.

The issuance of guidelines before the effective date of the provisions should help authorised financial institutions, credit card companies, dealer banks, and sellers of overseas tour program packages better prepare for the implementation of these provisions. However, the requirement to collect tax creates an additional compliance burden and cash “blockage” for resident individuals.

Taxpayers should note that, generally speaking, on their income tax returns TCS deductions may be claimed as refunds or credits. It is recommended they consult with their usual tax professional or a member of the tax team with KPMG in India (see the Contacts section).

[INR 1 = EUR 0.0112 | INR 1 = USD 0.0120 | INR 1 = GBP 0.00967 | INR 1 = AUD 0.0188 (source: www.xe.com)]

FOOTNOTES:

1 CBDT Circular No. 10 of 2023, dated 30 June 2023. See: <https://incometaxindia.gov.in/communications/circular/circular-10-2023.pdf> .

Also see Ministry of Finance, "Clarification regarding applicability of Tax Collection at Source to small Debit/Credit Transactions under LRS" (19 May 2023) at: <https://pib.gov.in/PressReleasePage.aspx?PRID=1925592> .

2 The Reserve Bank of India oversees the Liberalised Remittance Scheme or LRS that facilitates the transfer of funds outside of India by resident individuals subject to certain terms and conditions. Under the LRS, an individual can effect outbound remittances of up to a certain limit.

3 See Ministry of Finance 28 June 2023 press release at: <https://pib.gov.in/PressReleaseDetail.aspx?PRID=1936105> .

4 CBDT Circular No. 10 of 2023, dated 30 June 2023. See: <https://incometaxindia.gov.in/communications/circular/circular-10-2023.pdf> .

* * * *

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or the following professional with the KPMG International member firm in India:



Parizad Sirwalla

Tel. + 91 (22) 3090 2010

psirwalla@kpmg.com

The information contained in this newsletter was submitted by the KPMG International member firm in India.

© 2023 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

www.kpmg.com

kpmg.com/socialmedia



© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

KPMG LLP is the U.S. firm of the KPMG global organization of independent professional services firms providing Audit, Tax and Advisory services. The KPMG global organization operates in 147 countries and territories and has more than 219,000 people working in member firms around the world.

Each KPMG firm is a legally distinct and separate entity and describes itself as such. KPMG International Limited is a private English company limited by guarantee. KPMG International Limited and its related entities do not provide services to clients.

GMS Flash Alert is a publication of the KPMG LLP Washington National Tax practice.