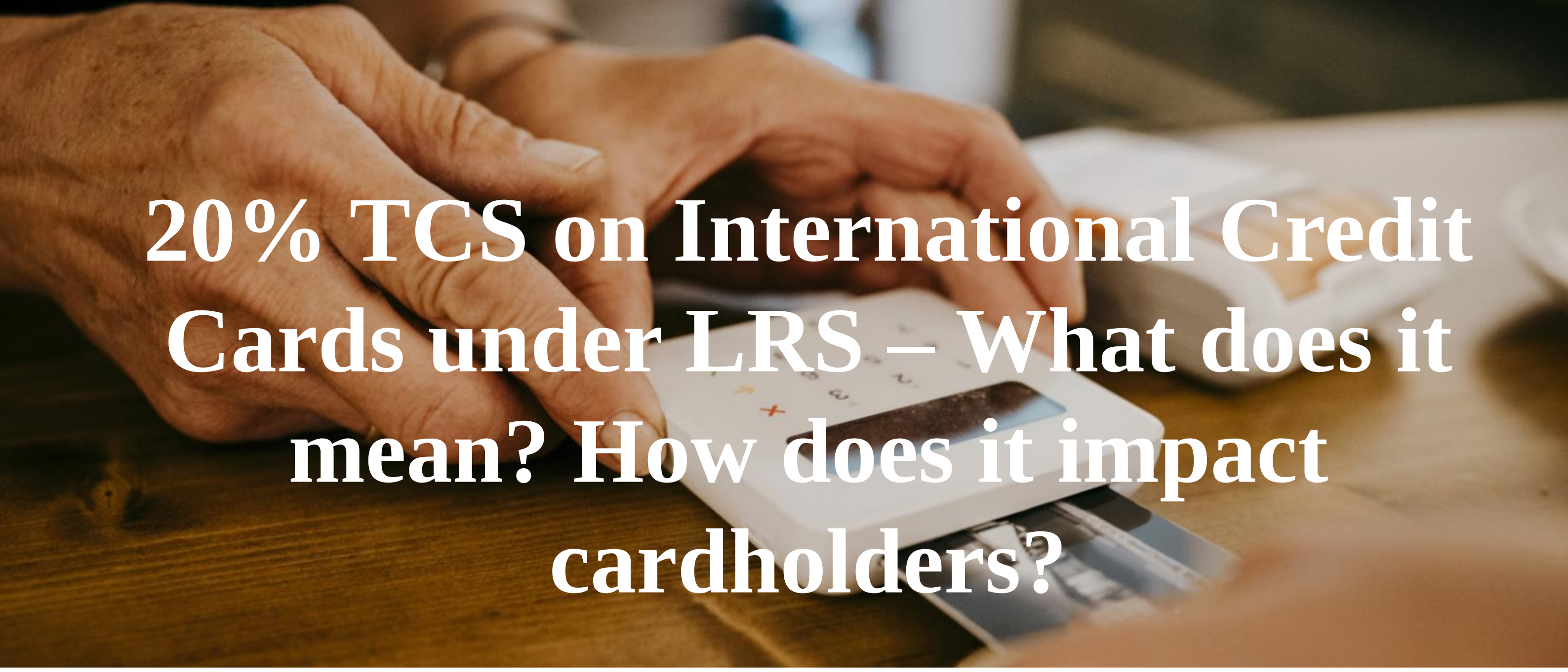

20% TCS on International Credit Cards under LRS – What does it mean? How does it impact cardholders?

Highlights:

- 20% TCS will not be applicable on healthcare and education sector
- 20% TCS will not be applicable if you book overseas tour package from Indian tour operator
- Inclusion of international credit cards under the LRS brings a spending limit of $250k in one year.
- If an individual wishes to spend more than $250,000 in a year, they will require RBI approval.
- The TCS can be claimed in the Income Tax Return (ITR) filed at the end of a financial year.

The Ministry of Finance on May 16th, 2023, through a notification announced that International Credit Cards (ICC) used for spending outside of India will be put under the aegis of the Liberalised Remittance Scheme (LRS), which will cause such cards to attract a higher tax collected at source (TCS) at 20%. The Government in consultation with the Reserve Bank of India during the Budget 2023, had proposed TCS for foreign outward remittance under LRS (other than for Education and medical purpose) of 20% applicable from July 1, 2023, up from 5%.

Until May 16, international credit cards used to meet expenses overseas by Indian consumers were exempt from the LRS, making it cheaper to use. The change in taxations could prove to have serious compliance ramifications for both consumers and the issuing banks.
Under the LRS scheme, Indians are allowed to spend/transfer up to $250,000 (approximately Rs 2.06 crore) per year without any prior approval from the RBI. Other operational guidelines about the credit card spends are expected to be issued later

“Tax Collected at Source (TCS) is an income tax, collected by the seller of specified goods, from the buyer. TCS is a concept where a person selling specific items is liable to collect tax from a buyer at a prescribed rate and deposit the same with the Government. Under the Liberalised Remittance Scheme (LRS), the

Bank used to collect TCS @5% until July 1, 2023. After July, there will be a 20% tax charged on overseas remittances".

Note: The TCS is only applicable to foreign outward remittances (when the Indian Rupee gets converted into any foreign currency and sent outside India). It is not applicable to foreign inward remittances (money sent to India).

How TCS works in India?

In India, the provisions for TCS are governed by the Income Tax Act, 1961. According to these provisions, specific goods or services are identified for which the recipient is liable to pay tax at the time of purchase. The person making the payment is required to collect the applicable tax and deposit it with the government.

The person collecting tax at source is required to obtain a Tax Collection Account Number (TAN) and file regular returns with the tax authorities. The rate at which tax is collected and the procedures for compliance vary depending on the nature of the goods or services.

TCS under LRS

Under the Liberalised Remittance Scheme (LRS), TCS is applicable to certain foreign remittances made by individuals. The LRS allows resident individuals to freely remit a certain amount of money abroad for various permissible purposes, such as education, travel, investment, and gifting.

When an individual makes a foreign remittance under the LRS, TCS may be applicable to the amount being remitted. Before this year's budget, a TCS rate of 5 per cent was applicable for remittances exceeding Rs 7 lakhs in a financial year. However, the rule was changed in the **Union Budget 2023 as TCS rate was hiked to 20 per cent under LRS, except for educational and medical purposes where the old rates would apply.**

Budget 2023

The responsibility of collecting TCS lies with the authorized dealer (bank or financial institution) through which the remittance is made. The authorized dealer collects the TCS from the individual making the remittance and deposits it with the government. It's important to note that TCS under the LRS is not applicable to all types of foreign remittances. Certain categories, such as payments for imports, transactions under the government's foreign aid programs, and remittances by certain exempt entities, are excluded from the scope of TCS.

Why the change in rules?

The decision arises against the backdrop of a significant increase in expenditures on international travel. From April 2022 to February 2023, Indian citizens allocated $12.51 billion to travel abroad, marking a substantial growth of 104% in comparison to the corresponding period in the previous year. The rule somewhat is to limit the outflow of rupees from the country.

How does it impact cardholders?

- Credit card spending in a foreign currency will be a part of the LRS and have a limit of $250k per year.
- Users must be cognizant of the restrictions on transactions listed out in Schedule III of the FEMA act, which explain the monetary caps imposed on certain identified transactions.
- If you are purchasing an overseas tour package from an international travel agent in foreign currency using your credit card, you must pay a TCS of 20 per cent from July 1, 2023. However, buying tour packages from local tour operators will not be liable for TCS.

Let's understand the concept of TCS with the help of example:

Example-1: If you plan to remit Rs. 20,000 then a TCS (Tax collected at source) of Rs. 4,000 will be applicable from 1st July 2023. Assume the tax on your income is Rs. 5,000 then the TCS of Rs. 4,000 will be adjusted and you will need to additionally pay a tax of only Rs.1,000.

Example-2: If you plan to remit Rs. 20,000 then a TCS (Tax collected at source) of Rs. 4,000 will be applicable. Assume the tax on your income is Rs. 3,000 then the TCS of Rs. 4,000 will be adjusted and you will get a refund of Rs. 1,000 as part of the filing of your yearly taxes.

Visit At: Taxxplanet.Data.Blog

Email: Shuklanavneet710@gmail.com

Phone: 095558 94021