

Frequently Asked Questions

Tax Collection at Source (TCS) for Foreign Remittance under Liberalised Remittance Scheme

TCS FAQs – 1st October, 2020

1. What is LRS?

The Liberalised Remittance Scheme (LRS) of the Reserve Bank of India (RBI) allows resident Indian individuals to remit a certain amount of money during a Financial Year to another country for investment, expenditure and other permissible reasons. According to the prevailing regulations, resident Indian individuals may remit up to an amount equal to \$250,000 per Financial Year.

2. What is Tax Collection at Source (TCS)?

The Finance Act, 2020 amended Section 206C of the Income Tax Act, 1961 and introduced tax collection at source (TCS) on foreign remittance under LRS subject to the applicable threshold limit.

TCS at the rate of 5% shall be collected on foreign remittance under LRS exceeding INR 7 Lakh during the Financial Year. TCS at the rate of 0.50% shall be collected on foreign remittance under LRS if the amount being remitted is towards education abroad and is out of a loan obtained from any financial institution in India as defined under Section 80E of the Income Tax Act. The said amended Income Tax provisions shall be applicable from 1st October 2020.

3. How is TCS collected?

An authorised foreign exchange dealer (for example, DCB Bank Ltd.) who receives INR 7 Lakh or more either for a single transaction or an aggregate amount in a Financial Year for remittance out of India under the LRS of RBI shall be liable to collect TCS, if the Bank receives a sum in excess of said amount from a customer being a person remitting such amount out of India.

4. What are the different purposes on which TCS is applicable?

TCS is applicable on all foreign remittance transactions that fall under LRS.

5. Are there any exemptions on TCS?

Remittances under LRS below INR 7 Lakh during a Financial Year are not subject to TCS. Similarly, foreign remittance under LRS, if the amount is being remitted out of a loan obtained

from any financial institution as defined under Section 80E of the Income Tax Act, TCS will be collected at 0.5% instead of 5% where the purpose of remittance is 'Education Abroad'.

TCS shall not apply, if the remitter is,

- (i) liable to tax deducted at source under IT Act and has deducted such amount;
- (ii) the Central Government, a State Government, an embassy, a High commission, a legation, a commission, a consulate, the trade representation of a foreign state, a local authority or any other person as notified by the Central Government.

6. How is TCS computed for foreign remittance transactions?

This example demonstrates how TCS is applicable for foreign remittances. Example 1.

Sr. No.	Customer	Foreign Remittance under LRS till 30 Sept 2020 (INR)	Foreign Remittance on 1 Oct 2020 (INR)	TCS Applicable Yes/ No	TCS Applicable Amount (INR)	TCS Rate %	TCS Amount (INR)
1	A	5,00,000	2,00,000	N	-	-	-
2	B	6,00,000	2,00,000	Y	1,00,000	5%	5,000
3	C	8,00,000	2,00,000	Y	3,00,000	5%	15,000
4	D	8,00,000	2,00,000*	Y	3,00,000	0.5%	1500

* Fund for remittance utilised from a loan obtained from a financial institution as defined under Section 80E of the Income Tax Act for the purpose of pursuing education abroad.

7. Can I avail tax credit on TCS?

Yes, the remitter may claim credit for TCS amount by filing the Income Tax Return subject to applicable Income Tax provisions.

8. Will GST be applicable on TCS?

No GST will be applicable on the TCS. However, GST will be applicable on the currency conversion, remittances charges or any other charges as applicable.

Additional TCS FAQs from 1st July, 2021**9. What is section 206CCA?**

Section 206CCA of the Income Tax Act, 1961 (the “Act”) provides Collection of Tax at Source (TCS) from the customer/ buyer/ remitter at higher rates in the event of specific transactions (including outward remittance under LRS), if the customer/ buyer/ remitter is a specified person (i.e. non-filer of Income Tax Returns) as defined u/s 206CCA of the Act.

10. From what date is the section 206CCA applicable?

Section 206CCA is applicable from 1st July 2021.

11. Applicable on which type of transactions?

The higher rate of TCS shall be also collected for transactions under LRS that exceed the threshold of INR 7 Lakh in a Financial Year and the customer/ remitter/ buyer is a non-filer of Income Tax Returns as defined u/s 206CCA of the Act. Higher TCS rates are also applicable for some other transactions as prescribed under the Income Tax provisions.

12. When is the increase rate on TCS applied?

The TCS is required to be collected at higher rates than prescribed in the Act, if the person has not filed Income Tax returns for two Assessment Years relevant to the two previous years immediately prior to the previous year in which tax is required to be collected, for which the time limit of filing of Income Tax Return under section 139(1) has expired: and

Going back to Point 6 ‘Example 1’ in this FAQ document, the aggregate of TDS and TCS in this case is INR 50,000 or more in each of the two previous years.

13. What is the TCS applicable rate?

If the buyer/ remitter/ customer fulfils the conditions in Point 12, then TCS shall be collected at higher of the following two rates:

- a) at twice the rate specified in the relevant provision of the Act or
- b) at the rate of 5%

Higher rates of TCS 10% instead of 5% will be applicable in the case of any LRS transactions (Foreign Remittance, International Debit Card, and International Pre-Paid Cards).

Example 2: A person has done LRS remittance in FY 2021-22 amounting to INR 4 Lakh. Additionally he used a Debit Card abroad for an international transaction of INR 5 Lakh on 5th July, 2021 and the same day he also used his Pre-Paid Card for another international transaction of INR 2 Lakh. The customer is a non-filer of IT returns as specified u/s 206CCA of the Act.

- Calculation of TCS:
Remittance Transaction: INR 4 Lakh
Debit Card and Pre-Paid Card transaction: INR 7 Lakh (INR 5 Lakh + INR 2 Lakh)
Total Amount: INR 11 Lakh

TCS will be applied on INR 11 Lakh minus INR 7 Lakh (Threshold, no TCS will be deducted for international LRS transactions up to INR 7 Lakh in a Financial Year).
TCS = INR 4 Lakh @ 10% (twice the existing rate) INR 40,000.00

14. What is applicable TCS rate if the customer is a student, housewife or retired personnel and not filed ITR for the last two Financial Years?

Permanent Account Number (PAN) of the customer will be checked/ verified from the official India Income Tax website for the applicability of TCS rates. If the customer is a non-filer of Income Tax Return as per the Income Tax website, then a higher rate of TCS shall apply as per section 206CCA of the Act.
