

Frequently Asked Questions

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

What is LRS?

The Liberalised Remittance Scheme (LRS) of the Reserve Bank of India (RBI) allows resident 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.

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.

How TCS will be collected?

An authorised dealer (DCB Bank Ltd.) receiving an amount or an aggregate of amount of INR 7 Lakh or more 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.

What are the different purposes on which TCS is applicable?

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

Are there any exemptions on TCS?

Remittances under LRS below ₹7 Lakh during the 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.

How TCS will be computed on foreign remittance transactions?

This example demonstrates how TCS is applicable for foreign remittances.

Sr. No.	Customer	Foreign Remittance under LRS till 30 Sept 2020 (INR)	Foreign Remittance on 1 Oct 2020 (INR)	TCS Applicable Y/N	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	2,00,000	5%	10,000
4	D	8,00,000	2,00,000*	Y	2,00,000	0.5%	1000

* 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.

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.

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.
