

## Important changes w.r.t Liberalised Remittance Scheme (LRS) and Tax Collected at Source (TCS)

No change in rate of TCS for all purposes under LRS and for overseas travel tour packages, regardless of mode of payment, for amounts up to Rs. 7 lakh per individual per annum

Government gives more time for implementation of revised TCS rates and for inclusion of credit card payments in LRS

Increased TCS rates to apply from 1st October, 2023

Posted On: 28 JUN 2023 9:09PM by PIB Delhi

In the Budget this year, certain changes were announced to the system of Tax Collection at Source (TCS) on payments under the Liberalised Remittance Scheme (LRS) and on overseas tour program packages. These were to take effect from 1<sup>st</sup> July 2023. It was also announced in March that credit card payments would be brought under the LRS. Numerous comments and suggestions were received which have been carefully considered.

In response to the comments and suggestions it has been decided to make suitable changes. Firstly, it has been decided that **there will be no change in the rate of TCS for all purposes under LRS and for overseas travel tour packages, regardless of mode of payment, for amounts up to Rs. 7 lakh per individual per annum**. It has also been decided to give more time for the implementation of the revised TCS rates and for inclusion of credit card payments in LRS. The changes are detailed below.

Sub-section (1G) of section 206C of the Income-tax Act, 1961 (“the Act”) provides for Tax Collection at Source (TCS) on (i) foreign remittance through the Liberalised Remittance Scheme (LRS) and (ii) sale of overseas tour program package.

Through the Finance Act 2023, amendments were carried out in sub-section (1G) of section 206C of the Act. These amendments, *inter alia*, increased the rate of TCS from 5% to 20% for remittance under LRS as well as for purchase of overseas tour program package and removed the threshold of Rs 7 lakh for triggering TCS on LRS. These two changes were not applicable when the remittance is for education or medical purpose. These amendments were to take effect from 1<sup>st</sup> July 2023.

The Government had notified Foreign Exchange Management (Current Account Transactions) (Amendment) Rules, 2023 vide an e-gazette notification dated 16th May 2023 to remove the differential treatment for credit

cards vis à vis other modes of drawal of foreign exchange under LRS.

After discussions with various stakeholders, and taking into account comments and suggestions received, the following decisions have been taken:

i) To give adequate time to Banks and Card networks to put in place requisite IT based solutions, the Government has decided to postpone the implementation of its 16th May 2023 e-gazette notification. This would mean that transactions through International Credit Cards while being overseas would not be counted as LRS and hence would not be subject to TCS. The Press Release dated 19<sup>th</sup> May 2023 stands superseded.

ii) **Threshold of Rs. 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 first Rs 7 Lakh remittance under LRS there shall be no TCS. Beyond this Rs 7 Lakh threshold, TCS shall be

- a) 0.5% (if remittance for education is financed by education loan);
- b) 5% (in case of remittance for education/medical treatment);
- c) 20% for others.

For purchase of overseas tour program package under Clause (ii) of Sub-section (1G), the TCS shall continue to apply at the rate of 5% for the first Rs 7 lakhs per individual per annum; the 20% rate will only apply for expenditure above this limit.

iii) **Increased TCS rates to apply from 1<sup>st</sup> October, 2023:** The increase in TCS rates; which were to come into effect from 1<sup>st</sup> July, 2023 shall now **come into effect from 1<sup>st</sup> October, 2023** with the modification as in (ii) above. Till 30<sup>th</sup> September, 2023, earlier rates (prior to amendment by the Finance Act 2023) shall continue to apply.

Earlier and new TCS rates are summarised as under:

Nature of payment (1)	Earlier rate before Finance Act, 2023 (2)	New rate wef 1 <sup>st</sup> October 2023 (3)
LRS for education financed by loan	Nil upto Rs 7 lakh 0.5% above Rs 7 Lakh	Nil upto Rs 7 lakh 0.5% above Rs 7 Lakh
LRS for Medical treatment/ education (other than financed by loan)	Nil upto Rs 7 lakh 5% above Rs 7 Lakh	Nil upto Rs 7 lakh 5% above Rs 7 Lakh
LRS for other purposes	Nil upto Rs 7 lakh 5% above Rs 7 Lakh	Nil upto Rs 7 lakh 20% above Rs 7 Lakh
Purchase of Overseas tour program package	5% (without threshold)	5% till Rs 7 Lakh, 20% thereafter

Note: (i) TCS rate in column two shall continue to apply till 30<sup>th</sup> September, 2023.

(ii) There shall be no TCS on expenditures under LRS under clause (i) of Sub-section (1G) for the first Rs. 7 lakh, irrespective of purpose.

The necessary changes to the Rules (Foreign Exchange Management (Current Account Transactions Rules), 2000) are being issued separately.

Legislative amendment in this regard shall be proposed in due course. Circular and Frequently Asked Questions (FAQs) shall be issued to clarify various practical issues in implementing this provision.

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(Release ID: 1936105)