

Impact of TCS on Payments for International Transactions

Amendment in RBI circular

Inclusion of all Credit card payments for International Transaction under Liberalized Remittance Scheme (LRS). Rule 7 of Foreign Exchange Management (Current Account Transactions), Rules, 2000 stands omitted

New Rule

Tax Collected at Source (TCS) at **20%** on international usage of credit / Debit / Forex cards or Foreign exchange **exceeding** INR 7 lakhs, from July 1, 2023.

Who will be affected?

1. Individuals, who use their credit cards when travelling overseas or for payments for global goods and services. *Debit cards were already under TCS.*
2. High Net Worth Individuals (HNIs) investing in assets viz., stocks, bonds, and real estate abroad
3. Overseas Tour and travel packages, and
4. Gifts to non-residents.

“Several payment methods and amounts on International Transactions now under the ambit of LRS”

- Spending on the International Transactions – beware of the LRS limits and TCS rates to avoid breaching the caps and incurring additional tax liabilities.
- Budget the TCS part also in the cost while planning for the expenditure to be done on international transactions.
- Monitoring the LRS Limit – one needs to keep the track of LRS Limits and to ensure that it does not exceed US\$ 250,000/-

NOTE

- A. TCS is not a final tax
- B. Tax payers can claim credit on the TCS amount against his / her tax liabilities, advance taxes etc
- C. Clarification awaited on treatment of business travel reimbursements w.r.t. TCS

Old Vs New Regime

Medical (No Changes)

	Old	New
Nature	Threshold / TCS Rate	Threshold / TCS Rate
Medical Expense	7 L / 5%	7 L / 5%

Education (No Changes)

	Old	New
Nature	Threshold / TCS Rate	Threshold / TCS Rate
Expense through loan under 80E	7 L / 0.5%	7 L / 0.5%
Expense otherwise	7 L / 5%	7 L / 5%

Sale of Overseas Tour Package

	Old	New
Nature	Threshold / TCS Rate	Threshold / TCS Rate
Remittance for overseas Tour	NIL / 5%	NIL / 20%

For Any Other Types of Remittances

	Old	New
Nature	Threshold / TCS Rate	Threshold / TCS Rate
For real estate, bonds, shares, gifts	7 L / 5%	NIL / 20%

Note: TCS on remittances for travel and incidental expenses for education and medical treatment will attract the same TCS as are applicable for education and medical expenses abroad

Our view

- The change will have a significant impact on the individuals using credit card transactions as the limit on LRS on one hand is US\$ 250,000 and whereas under the Section 206C (1G) chargeability section of TCS clearly mentions the limit for the transaction up to INR 700,000/.
- Now, an individual limit is set up to INR 7 Lakhs for spending through credit/debit/forex card or other methods, on international transactions if they want to avoid TCS. People will now have to set out their budgets accordingly in order to plan foreign travel
- Though the move is beneficial for the government as they aim to curb tax evasion and increase accountability, the same comes with increased compliance burdens and operational challenges