# Credit card spend in forex to come under RBI's remittance scheme

*Any remittance beyond $2.50 lakh or its equivalent in foreign currency would require approval from the Reserve Bank of India*

**OUR CORRESPONDENT**

**NEW DELHI:** Spending in foreign exchange through international credit cards will be covered under the RBI's liberalised remittance scheme (LRS), under which a resident can remit money abroad up to a maximum of $2.50 lakh per annum without the authorisation of the Reserve Bank, as per a Finance Ministry notification.

The ministry on May 16 notified the Foreign Exchange Management (Current Account Transactions) (Amendment) Rules, 2023, to include international credit card payments in the LRS. Any remittance beyond $2.50 lakh or its equivalent in foreign currency would require approval from the RBI. Earlier, the usage of international credit cards (ICCs) for making payments for fulfilling expenses during travel outside India was not included in the LRS limit.

According to the notification, the Finance Ministry, in consultation with the RBI, has omitted Rule 7 of the Foreign Exchange Management (Current Account Transactions) Rules, 2000, thus effectively including forex spending through international credit cards under the LRS.


**The Finance Ministry on May 16 notified Foreign Exchange Management (Current Account Transactions) (Amendment) Rules, 2023, to include ICC payments in LRS**

The Union Budget 2023-24 hiked TCS rates to 20 per cent, from 5 per cent currently, on overseas tour packages and funds remitted under LRS (other than for education and medical purposes). The new tax rates will come into effect from July 1, 2023.

Nangia Andersen India Partner - Regulatory Nischal S Arora said the use of ICC by residents on a visit outside India or even for international purchases on the internet was hitherto not supposed to be included while computing the overall LRS limit of $2,50,000 per person per financial year. "The same now having been omitted shall offer ample clarity to stakeholders for the purposes of determining the limit of $2,50,000 under LRS," Arora said.

IndusLaw Partner Shreya Suri said the move will essentially require persons undertaking transactions through ICCs during their travels in India to be cognizant of the restrictions on transactions listed out in Schedule III of the Rules, which are in terms of monetary caps imposed on certain identified transactions.

"Accordingly, the prior consent requirement as mentioned will kick in only if these caps are breached (and some of these limits are reasonably high as well), and it will have to be analysed how the industry reacts to these changes," Suri added.

Shardul Amarchand Mangaldas & Co Partner Yogesh Chande said deletion of Rule 7 with effect from May 16, 2023, will tighten the usage of international credit cards for making payments by a person towards meeting expenses while such person is on a visit outside India, and will specifically bring it within the purview of Schedule III of Foreign Exchange Management (Current Account Transactions) Rules, which deals with Liberalised Remittance Scheme (LRS).

"This should enable the RBI to monitor the usage of credit cards for the purposes of foreign travel more closely. The deletion is to ensure that payments for foreign tours through a credit card do not escape tax collection at source (TCS)," Chande said.

Grant Thornton Bharat Partner Riaz Thingna said the notification essentially means that credit card spends outside India will also get roped within the ambit of the overall cap of $2,50,000. "This is irrespective of the fact that whether such spends are for personal or business purposes and there is a consequential TCS impact," Thingna added.

RBI allows residents to spend up to $250,000 abroad per year HT

# Credit card used abroad to count as foreign remittance

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The finance ministry has included use of credit card abroad by an Indian resident within the $250,000 limit that an individual is allowed to remit abroad in a year under the liberalised remittance scheme (LRS), showed an official order.

Under this scheme, the Reserve Bank of India allows residents to spend funds abroad up to the specified ceiling for investment and expenditure, including travel, education, medical treatment and buying securities and physical assets.

Until now, a resident Indian's overseas use of credit cards during foreign travel was excluded from the $250,000 cap by a provision in the Foreign Exchange Management (Current Account Transactions) Rules, 2000. An amendment to the rule brought out by the finance ministry late on Tuesday showed that this exclusion has been dropped.

The rule change means that international credit card transactions are also considered for determining this limit under the LRS scheme, explained Nischal S Arora, Partner- Regulatory at business advisory firm Nangia Andersen India. Individuals require the RBI's prior permission to make any remittance above this threshold.

The move could impact spending by high networth individuals during foreign visits as the RBI's nod is required for breaching the limit. The approval requirement will ensure that details of such overseas spending is reported to the authorities. The government has been sharpening its data gathering mechanism as part of efforts to improve oversight of transactions.

The $250,000 cap on LRS

# Credit Card Use Abroad Comes Under RBI Remittance Limit

Travel industry protests, says it will add to pain from 20% TCS rule that will apply from July 1

**Our Bureau**

**New Delhi:** International credit card spends by individuals when they are abroad will be included in the annual limit of \$250,000 under the liberalised remittance scheme (LRS) of the Reserve Bank of India, according to a government notification on Wednesday. RBI approval will be required for spending beyond the LRS cap. The travel and tourism industry said the move will hurt Indians travelling overseas, adding to pain from the 20% tax collected at source (TCS) rule that comes into effect July 1.

The Department of Economic Affairs has scrapped Rule 7 of the Foreign Exchange Management (Current Account Transactions) Rules, 2000, under which such an exemption had been granted. The change is with immediate effect.

Some experts said the new rules will extend to the transactions through such credit cards in foreign land by Indian travellers for the purpose of gifts, donations, medical treatment and even study expenses.

A senior government official aware of the details said the new rules are not applicable to "payments (through such credit cards) for the purchase of foreign goods and services" by people when they are in India. However, some experts still await further clarity on this issue.

## Another Blow to Indian Travellers

The Dept of Economic Affairs scraps Rule 7 of the Foreign Exchange Management (Current Account Transactions) Rules, 2000

**Now, any remittance beyond \$2.5 lakh would require RBI approval**

**Earlier,** the use of global credit cards for payments abroad was not included in the LRS limit

**Some experts** said the new rules will extend to the transactions for the purpose of gifts, donations, medical treatment and even study expenses

"Move will severely impact the Indian travel industry, and innovative travellers will find ways and means to circumvent the law"

**AJAY PRAKASH, Federation of Associations in Indian Tourism and Hospitality**

Separately, the February budget had raised the tax collected at source (TCS) rate to 20% from 5% on overseas tour packages and funds remitted under LRS, other than for education and medical purposes. Those new rates will come into effect on July 1.

The latest move is "draconian," said Ajay Prakash, board director of the Federation of Associations in Indian Tourism and Hospitality. "It will severely impact the Indian travel industry, and innovative travellers will find ways and means to circumvent the law," he said. "We have been pleading for a rollback of the proposed 20% TCS on overseas tours, but instead, we have this new, misconceived and ill-timed amendment to contend with."

Nischal S Arora, partner at Nangia Andersen India, said the now-omitted Rule 7 was introduced almost 20 years ago as a liberalisation measure.

"Thus, the use of ICC (international credit cards) by residents on a visit outside India or even for international purchases on the internet were hitherto not supposed to be included while computing the overall LRS limit of \$250,000 per person per financial year," he said. "The same now having been omitted makes sure that ICC transactions are also considered for the purposes of determining the LRS limit."

Jyoti Prakash Gadia, managing director at consultancy firm Resurgent India, said the rule change could have "far-reaching" consequences. "This implies that the foreign exchange spending on personal transactions of expenses and gifts, etc., will be subject to a ceiling of \$250,000," he added.

Rahul Garg, managing partner of tax and regulatory consultant Asire Consulting, said this would have consequential implications under the TCS provisions of the Income Tax Act.

"Card companies would have to collect 20% TCS on these payments as well, which would increase the overall outgo of the people making such remittances and they would have to claim the said TCS as refund in their tax returns as they may not have any corresponding income to offer against such credit," he said.