DEWAN P N CHOPRA & CO

Note on Liberalised Remittance Scheme (LRS)

INTRODUCTORY NOTE ON RBI MASTER DIRECTION – LIBERALISED REMITTANCE SCHEME (LRS)

The Liberalised Remittance Scheme (LRS) was first introduced by the Reserve Bank of India (RBI) in 2004 to enable resident individuals to remit foreign exchange abroad for certain permissible purposes without seeking prior RBI approval.

Over the years, the scheme has evolved, and as of the latest update, the permissible limit stands at USD 250,000 per individual per financial year (April–March) subject to details.

The current Master Direction consolidates all the updated guidelines, ensuring consistency with the latest regulations such as the Foreign Exchange Management (Overseas Investment) Rules/Regulations/Directions, 2022, and the International Financial Services Centres Authority (IFSCA) Act, 2019.

This scheme applies only to resident individuals, including minors (wherein the natural guardian must sign), and does not apply to corporates, partnership firms, HUFs, or trusts. It is designed to facilitate overseas investments, education, travel, maintenance of relatives, and other legitimate remittances while maintaining transparency and compliance under the Foreign Exchange Management Act (FEMA), 1999.

Remittances under the Scheme can be consolidated in respect of family members subject to individual family members complying with its terms and conditions. However, clubbing is not permitted by other family members for capital account transactions such as opening a bank account/investment, if they are not the co-owners/co-partners of the overseas bank account/ investment. Remittances for purchase of property shall be in accordance with the provisions under paragraph 6(ii).

Investor, who has remitted funds under LRS can retain, reinvest the income earned on the investments. The received/realised/unspent/unused foreign exchange, unless reinvested, shall be repatriated and surrendered to an authorised person within a period of 180 days from the date of such receipt/ realisation/ purchase/ acquisition or date of return to India, as the case may be, in accordance.

Further, a resident cannot gift to another resident, in foreign currency, for the credit of the latter's foreign currency account held abroad under LRS.

Table 1: Permissible Capital Account Transactions under LRS

Nature of Transaction	Remarks/ condition
Opening foreign currency bank accounts abroad	Without RBI approval
Acquisition of immovable property abroad	Subject to Overseas Investment Rules, 2022
Overseas Direct Investment (ODI)	In foreign JV/WOS as per FEMA (Overseas Investment) framework
Overseas Portfolio Investment (OPI)	Investment in listed shares, debt listed instrument, mutual funds, AIFs etc.

Extension of loan to NRI/PIO relative (interest-free)	• Minimum 1-year maturity; • Loan should be utilized by NRI for personal/business use in India • The loan must be interest-free • The loan must not be used for prohibited activities like: i. Real estate business (except townships/residential buildings) ii. Nidhi companies, chit funds iii. Agriculture or plantation iv. Trading in Transferable Development Rights (TDRs) • Loan amount should be credited to the NRI/PIO's Non-Resident Ordinary (NRO) account in India

Table 2: Permissible Current Account Transactions under LRS

Nature of Transaction	Remarks/ condition
Private visits (tourism, personal travel)	All travel costs included under LRS limit
Gifts and donations	To persons/organisations outside India
Going abroad for employment	Up to USD 2,50,000 per FY
Emigration	As per host country's requirements or USD 250,000, whichever lower
Maintenance of relatives abroad	Up to USD 2,50,000 per FY to the 'Relative' as per Companies Act, 2013

Business travel	For international conference, seminar, specialised training, apprentice training, etc; However, if an employee is being deputed by an entity for any of the above and the expenses are borne by the latter such expenses shall not be covered under LRS. This may include reimbursement of expenses made by the employee on his business trip. Though there is no statutory requirement to this effect such employee should ideally intimate the same to AD Bank, since AD Bank is tasked with verifying the bonafides of the transaction. The TA/DA of the employee including expenses of hotel stay and meal would also be kept outside LRS limits.
Medical treatment abroad	Up to USD 250,000 without estimate; higher amounts with supporting documentation
Accompanying patient for treatment	Up to USD 250,000
Education abroad	Estimate not mandatory for limit; exceeding allowed with institute’s documentation

Table 3: Prohibited / Restricted Transactions

Category	Not Permitted under LRS
Speculative / Margin Transactions	Remittances for margin calls, trading/speculative purposes on overseas exchanges
Gifts to Residents in Foreign Currency	A resident cannot gift foreign currency to another resident for crediting to their foreign account
FATF Non-Cooperative Jurisdictions	Capital account remittances to countries identified as high-risk/non-cooperative

With regard to medical expenses and expenses related to education the AD Bank may release foreign exchange over and above the LRS limit based on the estimate from the doctor in India or hospital/ doctor abroad or based on the estimates of the educations institution, as the case may be.

USE OF INTERNATIONAL CREDIT CARDS ("ICC")

Resident individuals maintaining foreign currency accounts with an Authorised Dealer in India or a bank abroad, as permissible under extant Foreign Exchange Regulations, are free to obtain ICCs issued by overseas banks and other reputed agencies. The charges incurred against the card either in India or abroad, can be met out of funds held in such foreign currency account/s of the card holder or through remittances, if any, from India only through a bank where the card holder has a current or savings account. The remittance for this purpose should also be made directly to the card issuing agency abroad, and not to a third party. The applicable limit will be the credit limit fixed by the card issuing banks. There is no monetary ceiling fixed by the Reserve Bank for remittances, if any, under this facility.

Payments made through ICC while a person was outside India were exempted from the applicability of the LRS limit, pursuant to Rule 7 of the FEM (Current Account Transactions) Rules, 2000. However, vide a notification omitting Rule 7 of the said Rules, the Government brought international credit card transactions within the ambit of LRS, thereby making such payments subject to LRS limits (USD 2,50,000 per financial year) and Tax Collected at Source (TCS) provisions, with effect from 16th May 2023.

Subsequently, the Government reinstated Rule 7 through an amendment, effectively re-exempting international credit card payments made abroad from the applicability of LRS.

This reinstatement was made with retrospective effect from 16th May 2023, thereby nullifying the earlier inclusion of such transactions under LRS for that interim period.

This was to give adequate time to banks and card networks to put in place requisite IT based solutions.

As of now, there are no formal notification from RBI or Govt. of India regarding inclusion of ICC spending within the LRS limit (per person per FY).

Discussion with Banks

We had discussions with multiple banks and they have informed us that they have systems in place to track amount spent by individuals internationally through their ICC.

Few banks have started tracking aforesaid credit card transactions and are advising their customers to consider the amount spent internationally via ICC for computing their LRS limit and reporting it while further remitting amounts through normal banking channels. However, they are yet not deducting TCS on such credit card spends.

Accordingly, it is advisable to monitor international transactions made through ICC by resident individuals and take the requisite steps to plan your LRS remittances.

TCS on LRS

Certain changes were announced for TCS on payments under the LRS in the Budget 2025. These were to take effect from 1 April 2025.

Sub-section (1G) of Section 206C provides for collection of tax at source by AD Bank, who receives an amount, for remittance from a buyer, being a person remitting such amount under the Liberalised Remittance Scheme of the Reserve Bank of India or a seller of an overseas tour program package, who receives any amount from a buyer, being the person who purchases such package, at the rates specified therein.

The threshold to collect TCS on such remittances under LRS is Rs.10 lakh.

Further it is provided that no tax be collected at source if the amount being remitted out is a loan obtained from specified financial institution as defined in section 80E, for the purpose of pursuing education.

Summary table on TCS on LRS their applicability is provided herein below:

Nature of payment	New Rates w.e.f. 01.04.25
LRS for education financed by specified institutions	Nil
LRS for Medical treatment/ education (other than financed by loan)	Nil up to Rs.10 lakh 5% above Rs.10 lakh
LRS for other purposes	Nil up to Rs.10 lakh, 20% above Rs.10 Lakh

REMITTANCES TO IFSCS UNDER THE LIBERALISED REMITTANCE SCHEME (LRS):

Resident individuals in India are allowed to remit money to IFSCs (International Financial Services Centers) in India under LRS for two specific purposes:

1. To use financial services/products offered in IFSCs – *Example: You can invest in global funds, ETFs, or other*

financial instruments permitted under the IFSCA Act, 2019 through a platform based in IFSC (like GIFT City, Gujarat).

2. To make overseas transactions through an IFSC account *– You can also route foreign investments or remittances to other countries (not just IFSC) using a Foreign Currency Account (FCA) opened in the IFSC.*

Simple Example:

- *Allowed:*
  Ms. Riya remits USD 50,000 under LRS to her FCA in GIFT City (an IFSC), and from there, invests in a U.S.-based mutual fund.

- *Not Allowed:*
  Mr. Raj remits USD 10,000 to his FCA in IFSC and transfers it to another Indian resident's FCA to settle a payment for services within India.

Key Documentation & Process Requirements

Requirement	Details
PAN	Mandatory for all LRS transactions
Form A2	To be filed with the AD bank for each transaction
Declaration	Self-declaration confirming source of funds, compliance with LRS and FEMA
KYC Compliance	ADs must ensure full compliance with KYC/AML norms

One-Year Relationship Rule	For capital transactions, bank account with AD must be maintained for at least one year
IFSC-related Remittances	Separate FCA account allowed in IFSC, but not for domestic settlements
Repatriation Rule	Unused/earned foreign exchange must be brought back within 180 days, unless reinvested

Additional Points of Interest

- Remittances under LRS can be consolidated for family members only if each person independently complies with limits and documentation.
- ADs must ensure that the source of funds belongs to the remitter (cheque, debit, card).
- RBI may require prior approval for transactions exceeding the threshold or involving sensitive destinations/sectors.
- No credit facilities should be provided by banks to facilitate capital account remittances under LRS.

Disclaimer: -

The summary information herein is based on the provisions of Foreign Exchange Management Act, 1999 and Master Directions on Liberalized Remittance Scheme, 2022 as amended from time to time, including rules, regulation, circulars, instructions, judicial precedents and administrative interpretations in respect thereof as on the date of this note read with Income Tax Act, 1961. While the information is believed to be accurate, we make no representations or warranties, express or implied, as to the accuracy or completeness of it and there can be no assurance that authorities will not take a position which is contrary to our note. Readers should conduct and rely upon their own examination and analysis and are advised to seek their own professional advice. This note is not an offer, advice or solicitation. We accept no responsibility for any errors it may contain, whether caused by negligence or otherwise or for any loss, howsoever caused or sustained, by the person who relies upon it. Any subsequent change in the above law or judicial precedents would have effect on validity of our view. No part of this note may be reproduced or published or quoted in any manner whatsoever or transmitted in any other language without our prior consent in writing. A note or the like will not be binding on an Indian court or regulator or any income tax authority which would have to be independently satisfied despite any other person's note.