

Tax Collected at Source (TCS) as per provisions of 'The Finance Act, 2020'

The Finance Act, 2020 introduced new Income tax provisions on Foreign Exchange transactions under Liberalised Remittance Scheme (LRS), effective October 1, 2020.

- Tax Collected at Source (TCS) at 5% shall be applicable on aggregate forex transactions under LRS exceeding INR 7 Lakhs in a financial year.
- For remittances towards pursuing overseas education, TCS at 0.5% shall be applicable, if the amount remitted is obtained through a loan from a financial institution*.
- For remittances to Foreign Tour Operators through the Bank, 5% TCS of the total amount remitted shall be applicable and the amount remitted will not be subsumed under the threshold limit of INR 7 Lakhs mentioned above.
- The TCS rates mentioned above are to be increased by applicable surcharge as well as Health and Education Cess in case a remitter is non-resident as per the Income-Tax Act, 1961.

Frequently Asked Questions (FAQs):

1. What is Liberalised Remittance Scheme (LRS)?

Under this Scheme, all resident individuals, including minors, are allowed to freely remit / avail foreign exchange facility up to USD 2,50,000 per financial year (April – March) for any permissible current or capital account transaction or a combination of both.

2. What is the tax implication on all forex transactions under LRS?

TCS at 5% shall be applicable on all forex transactions under LRS, exceeding INR 7 lakhs in a financial year (except for remittances towards overseas education made out of loan obtained from a financial institution*, for which TCS at 0.5% will be applicable). For instance, if the total foreign exchange facility availed under LRS in a financial year is INR 10,00,000, TCS at 5% will be applicable on INR 3,00,000 (INR 10,00,000 - INR 7,00,000) and tax collected will be INR 15,000. This will also include international transactions on debit cards issued by the Bank.

Example of computation

Below is a sample calculation of the same for your reference:

Customer	Total International Spends in INR	Spends on Foreign Tour Operators/ Packages (included in the total International spends)	TCS Applicable on Amount INR	TCS Amount in INR (5% on applicable amount)
A	5,00,000	0	0	No TCS Applicable
B	5,00,000	2,00,000	2,00,000	10,000
C	8,00,000	0	1,00,000	5,000
D	8,00,000	5,00,000	5,00,000	25,000

- For spends on Foreign Tour Operators/Travel Packages, TCS of 5% is applicable on entire amount.
- For rest of the spends, TCS is applicable on incremental remittance above Rs. 7 Lacs threshold amount

Important points: -

- TCS Amount will be recovered from customer's account.
 - TCS once collected, cannot be refunded by the Bank in case of any return of transactions or remittances.
 - **TCS certificate will be issued to the customer for the amount collected.**
3. What is the tax implication if the amount remitted for pursuing overseas education is Owned Funds (not a loan availed)?
TCS at 5% shall be applicable on remittances exceeding INR 7 lakhs in a financial year.
 4. What is the tax implication for remittances to Foreign Tour Operator under LRS?
TCS applicable will be at 5% of the total amount remitted and the amount remitted will not be subsumed while considering INR 7 lakhs limit. For instance, if the amount remitted is INR 5,00,000, TCS at 5% will be applicable on full amount and tax collected will be INR 25,000.
 5. Which transactions are included in threshold limit of INR 7 lakhs, above which TCS shall be applicable?
All forex transactions under LRS, except remittances to Foreign Tour Operators, will be included in threshold limit of INR 7 lakhs.
 6. If remitter/ customer can avail tax credit of the TCS?
Yes, remitter / customer can claim credit for the tax collected by the Bank while filing for their tax returns.
 7. What are the scenarios under which the provision will not apply?
The provision will not apply in case the remitter is liable to deduct tax at source under any other provision of the act and the amount has been deducted and if the remitter is Government or any other person notified by the Government.
 8. What was this income tax provision introduced?
The new TCS provision came into effect from October 1, 2020.
 9. What is the applicable TCS if PAN card is not updated on Bank's records?
Foreign Exchange facility under LRS can be availed only if your PAN is updated on Bank's record.

* Financial Institutions refer to -

As per the Section 80E of the Income Tax Act, 1961, a "financial institution" means a banking company to which the Banking Regulation Act, 1949 (10 of 1949) applies (including any bank or banking institution referred to in section 51 of that Act); or any other financial institution which the Central Government may, by notification in the Official Gazette, specify in this behalf.