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Wealthy Indians rush to invest Liberalis Remittance Scheme funds to comply with diktat

By Pavan Burugula, ET Bureau Last Updated: Mar 03, 2023, 11:58 AM IST

Synopsis
Indian individuals can send money overseas through the Liberalised Remittance Scheme (LRS). Under the scheme, an individual can send a maximum of $250,000 to an overseas jurisdiction in a year.

India's wealthy individuals have invested all their surplus foreign remittances in various securities ove the last few months to comply with a Reserve Bank of India (RBI) diktat tha ended last week.

In August last year, the central bank had issued a circular saying any mone that has been remitted overseas by Indian residents and remains unutilised for more than 180 days needs to repatriated back into the country.

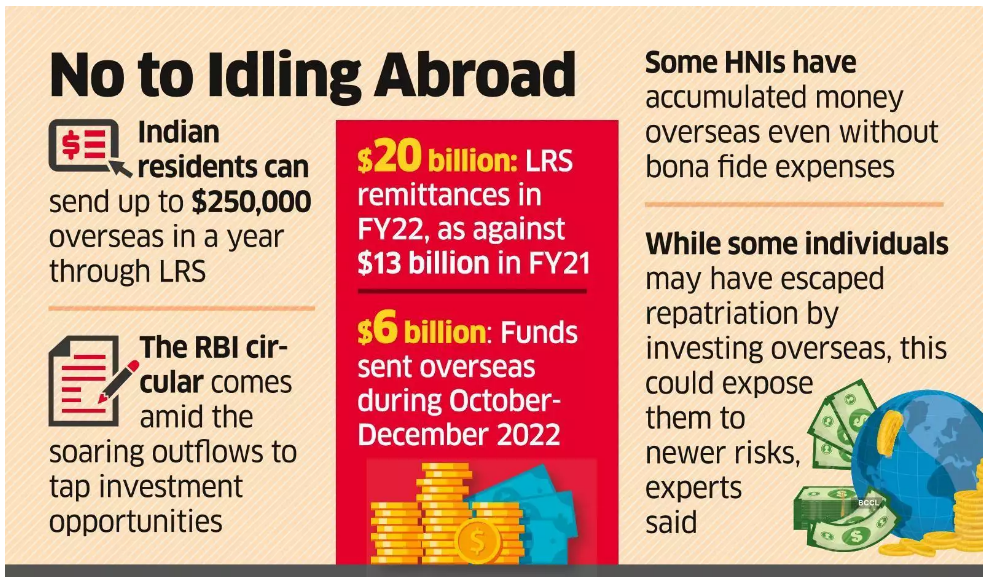
A 180-day deadline to fall in line ended on February 22.

Indian individuals can send money outside the country through the Liberalised Remittance Scheme (LRS). Under the scheme, an individual can send a maximum of $250,000 to an overseas jurisdiction in a year.
The $250,000 limit may fall short for a resident who aspires to, say, buy a home overseas, or undergo a medical procedure, or study abroad. Hence, to meet such expenses, many high net-worth individuals (HNIs) have accumulated forex by sending up to $250,000 every year, even when there w no bona fide expense, **experts said**.

"Post issuance of the overseas investment rules, the Indian HNIs mostly utilized their offshore funds in permitted overseas direct and portfolio investments, including listed equities and liquid funds, within 180 day perio said Prakhar Dua, leader, financial services & regulatory practice, at **law firm** Nishith Desai Associates.

"It would be interesting to see whether the AD banks would have the author to extend the timelines in certain bona fide cases or they would be required t report any and all delays to the RBI for its action".

The development assumes significance as LRS remittances by Indians saw a sharp uptick in the last few years, thanks to booming stock markets and othe lucrative investment opportunities including cryptocurrencies.



In 2021-22, Indians sent $20 billion overseas via LRS, up from $13 billion in FY21, RBI data showed. In the period between October to December 2022, residents sent $6 billion via LRS.

While some wealthy individuals may have escaped the requirement to repatriate the funds back into India by investing, the whole process could expose the residents to newer risks, market participants said.

Until now, the unutilised funds would mostly be parked in a bank account, which offer minimal risk of capital loss, but now the same money has been invested in securities, which come with a downside risk.

“Post the new LRS rules, most Indian residents are investing these in permitted categories and primarily by way of overseas portfolio investment o ultra-short-term regulated funds, particularly because the 180-day period fro the date of the circular expired on February 23, 2023," said Moin Ladha, partner at law firm Khaitan & Co. "While this requirement does encourage residents to not keep idle funds abroad, it also exposes them to a certain leve of risk, depending on the type of investment," **he** added.

Over the last few months, both the central government and the RBI have tightened the LRS route significantly. Outward remittances can add pressure to the forex reserves of the country, especially during times when there is foreign investor sell-off in Indian markets or when global oil prices go high. Hence, the authorities have been discouraging residents from sending mone aboard without any specific purpose.

In the **Union Budget** for FY24, the central government has proposed a 20% Tax Collection at Source (TCS) for any foreign remittance transactions. It means, for every $100,000 of overseas remittance, a tax of $20,000 would be deducted even before the money is sent aboard. Individuals can reclaim any excess taxes paid during the assessment period, which happens around July September every year. However, until then, any excess **TCS** paid by them remains locked in.