PIONEER ONE

LIBERALISED REMITTANCE SCHEME

Foreign exchange has long been a topic of utmost importance and relevance to the growth of the Indian economy. After India opened its doors for other countries as part of its Globalisation, Liberalisation and Privatisation policy, it had to maintain adequate foreign exchange reserves to fund the rapid growth in exports and imports.

India had to enact strict policies and laws to oversee the inflow and outflow of foreign exchange. Consequently, the approval of RBI was required for every foreign exchange remittance out of India.

This approval mechanism applied for all the foreign remittances no matter the nature of remittance or remitter. This proved to be a problem to the working class Indians who wanted to remit money to their friends or families abroad (even in case of emergencies). With the Indian Economy beginning to grow substantially in the 2000's, India no longer had to worry about its foreign exchange reserves as there was always a surplus. This lead to the introduction of the Liberalised remittance scheme on 4th February 2004.

Under LRS, any resident individual can remit foreign exchange upto USD 25,000 without any prior approval from the RBI. The limit was increased 6 times over the course of 11 years to USD 2,50,000 on 26th May 2015 which is still applicable as on date. This scheme comes with its own set of rules and regulations which is the topic of this month's newsletter.

Who is allowed to remit foreign exchange under the Liberalised remittance scheme?

- Remittance under this scheme can be made only by **resident individuals.**
- The Scheme is not available to corporates, partnership firms, HUF, Trusts, etc.

Can a sole proprietorship remit money under this scheme?

- In a sole proprietorship business, there is no legal distinction between the individual / owner and as such the owner of the business can remit USD up to the permissible limit under LRS.
- Hence, if an individual in his own capacity remits USD 250,000 in a financial year under LRS, he cannot remit another USD 250,000 in the capacity of owner of the sole proprietorship business as there is no legal distinction.

Is a minor allowed to remit foreign exchange under this scheme?

- In case of remitter being a minor, the LRS declaration form must be countersigned by the minor's natural guardian.

Can the remittances under this scheme be consolidated in respect of family members?

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

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

What is the amount upto which remittance can be made under this scheme without any approval from RBI?

- The scheme was introduced on 4th February 2004 with a limit of USD 25,000/-
- It was revised 6 times over the course of 11 years due to various micro and macroeconomic conditions. The last revision was on 26th May 2015 to USD 2,50,000.
- Therefore, resident individuals can remit foreign exchange upto USD 2,50,000 **per financial year** without any prior approval from RBI.

Are there are any restrictions on the frequency of the remittance?

- There are no restrictions on the frequency of remittances under LRS. However, the total amount of foreign exchange remitted through, all sources in India during a financial year should be within the cumulative limit of USD 2,50,000.
- Once a remittance is made for an amount up to USD 2,50,000 during the financial year, a resident individual would not be eligible to make any further remittances under this scheme, even if the proceeds of the investments have been brought back into the country.

What are the purposes for which remittance under this scheme can be made?

- Private visits to any country (except Nepal and Bhutan)
- Gift or donation
- Going abroad for employment
- Emigration
- Maintenance of close relatives abroad
- Travel for business, or attending a conference or specialised training or for meeting expenses for meeting medical expenses, or check-up abroad, or for accompanying as attendant to a patient going abroad for medical treatment/ check-up
- Expenses in connection with medical treatment abroad
- Studies abroad
- Any other current account transaction which is not covered under the definition of current account in FEMA 1999.
- Permissible capital account transactions

What are the permissible capital account transactions?

- Opening of foreign currency account abroad with a bank;
- Acquisition of immovable property abroad, Overseas Direct Investment (ODI) and Overseas Portfolio Investment (OPI). *(refer note)*
- Extending loans including loans in Indian Rupees to Non-resident Indians (NRIs) who are relatives as defined in Companies Act, 2013.

Note:

1. *Should be made in accordance with the provisions contained in Foreign Exchange Management (Overseas Investment) Rules, 2022, Foreign Exchange Management (Overseas Investment) Regulations, 2022 and Foreign Exchange Management (Overseas Investment) Directions, 2022.*
2. *For remittances pertaining to permissible capital account transactions, the applicant should have maintained the bank account with the bank for a minimum period of one year prior to the remittance.*

What are the type of remittances that are prohibited under this scheme?

- Remittance for any purpose specifically prohibited under Schedule-I (like purchase of lottery tickets/sweep stakes, proscribed magazines, etc.) or any item restricted under Schedule II of Foreign Exchange Management (Current Account Transactions) Rules, 2000.
- Remittance from India for margins or margin calls to overseas exchanges / overseas counterparty.
- Remittances for purchase of FCCBs issued by Indian companies in the overseas secondary market.
- Remittance for trading in foreign exchange abroad.
- Capital account remittances, directly or indirectly, to countries identified by the Financial Action Task Force (FATF) as "non- cooperative countries and territories", from time to time.
- Remittances directly or indirectly to those individuals and entities identified as posing significant risk of committing acts of terrorism as advised separately by the Reserve Bank to the banks.

Under LRS are resident individuals required to repatriate the accrued interest/dividend on deposits/investments abroad, over and above the principal amount?

- There are **no restrictions** on the kind/quality of debt or equity instruments an individual can invest in, out of the money received under LRS.
- The investor **can retain and reinvest** the income earned from portfolio investments made under the Scheme.
- 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.

Is it mandatory for resident individuals to have Permanent Account Number (PAN) for sending outward remittances under the Scheme?

- Yes, it is mandatory for the resident individuals to provide his/her Permanent Account Number (PAN) for all transactions under LRS.

Can this scheme be used to remit foreign exchange to any country?

- Yes, at present there are no restrictions on the country to which remittance under this scheme can be made.
- Remittances directly or indirectly to countries identified by the Financial Action Task Force (FATF) as "non- cooperative countries and territories", from time to time; and remittances directly or indirectly to those individuals and entities identified as posing significant risk of committing acts of terrorism as advised separately by the Reserve Bank to the banks are not permissible.

Should the remittance be made only in US Dollar?

- The remittances can be made in any freely convertible foreign currency.

Can a resident individual make a rupee gift to a NRI/PIO who is a close relative of resident individual, by of crossed cheque/ electronic transfer?

- A resident individual can make a rupee gift to a NRI/PIO who is a close relative of the resident individual [relative' as defined in Section 2(77) of the Companies Act, 2013] by way of crossed cheque /electronic transfer.
- The amount should be credited to the Non-Resident (Ordinary) Rupee Account (NRO) a/c of the NRI / PIO and credit of such gift amount may be treated as an eligible credit to NRO a/c. The gift amount would be within the overall limit of USD 250,000 per financial year as permitted under the LRS for a resident individual.

Can an individual initiate a remittance under this scheme by way of providing cash to the authorised dealer bank?

- No, The AD Bank should ensure that the payment is received out of funds belonging to the person seeking to make the remittances, by a cheque drawn on the applicant's bank account or by debit to his account or by Demand Draft / Pay Order.
- Authorised Dealer may also accept the payment through credit /debit/prepaid card of the card holder.

Can an AD bank advance loan to a resident individual for the purpose of making remittances under this scheme?

- AD bank should not extend any kind of credit facilities to resident individuals to facilitate remittances for capital account transactions under the Scheme.

What are the documents required for making remittances under this scheme?

- PAN of the remitter
- Form A2 (to be submitted by remitter to AD bank)
- The remitter should have complied with the latest KYC guidelines issued by RBI
- Details of the receiver
- Any other information, as maybe required by the bank in this regard

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