TDS ON CREDIT CARD PAYMENT : IMPACT ON INTERNATIONAL TRANSACTIONS AND HOW TO NAVIGATE THE CHANGES

With the recent amendments in the Foreign Exchange Management Act (FEMA), international credit card spending now falls under the Reserve Bank of India's (RBI) Liberalised Remittance Scheme (LRS). This change has brought a significant impact on the tax liabilities and expenses of individuals using credit cards for transactions outside India. In this comprehensive guide, we will discuss the implications of these changes, the reasoning behind them, and how you can plan your spending and trips accordingly. Understanding the Liberalised Remittance Scheme (LRS)

Before delving into the changes in credit card payments, it is essential to understand the LRS. The LRS is a scheme by the RBI that allows Indian residents, including minors, to remit up to $250,000 per financial year (April - March) for any permissible current or capital account transactions. Under this scheme, any additional remittance beyond the said limit would require prior approval from the RBI.

Foreign Exchange Management Act (FEMA) Amendments

The Finance Ministry, in consultation with the RBI, has amended the Foreign Exchange Management (Current Account Transactions) Rules, 2000. These amendments, effective from May 16, 2023, have resulted in the inclusion of international credit card payments under the LRS. The primary implication of this change is that credit card spending in foreign currency will now be a part of the LRS's annual limit of $250,000 per person. Additionally, these transactions will be subject to Tax Collected at Source (TCS).

Changes to TCS Rates

The Union Budget 2023-24 has increased TCS rates for foreign remittances under the LRS from 5% to 20% (except for education and medical purposes). This new rule will be effective from July 1, 2023. TCS is a type of tax collected by the seller of selected goods and services from the buyer, and in the context of foreign remittance transactions, this tax is collected when individuals send money abroad.

Impact of TCS on Foreign Remittance Transactions

- Private visits to any country (except Nepal and Bhutan)
- Gifts or donations
- Going abroad for employment
- Emigration
- Maintenance of close relatives abroad
- Travel for business, conferences, specialized training, or medical expenses
- Expenses related to medical treatment abroad

- Studies abroad
- Any other current account transaction

As a result of these changes, individuals using international credit cards for transactions during their travels outside India must be aware of the restrictions and monetary caps imposed on certain identified transactions. The prior consent requirement will only apply if these limits are breached.

How the New TCS Rule Impacts Credit Cardholders

The new TCS rule has several implications for individuals using international credit cards for transactions outside India:

(i) Increased TCS Rates for Overseas Tour Packages:

From July 1, 2023, TCS rates on remittances for booking overseas travel packages will increase from the existing 5% to 20%. This change means that if you purchase an overseas tour package from an international travel agent in foreign currency using your credit card, you will have to pay a TCS of 20% from July 1, 2023. This also applies if you purchase foreign currency individually from an authorized dealer for your foreign trip.

(ii) Impact on Cash Flow and Budgeting:

The upfront TCS of 20% on tour packages will increase the cash outflow for individuals planning foreign trips. If the user does not have an adequate tax liability to offset the TCS, they will have to file for a refund, which could take several months and severely impact their cash flow. Therefore, it is essential to factor in this condition when budgeting for your next foreign trip.

(iii) Compliance Burden and Operational Nuances:

The responsibility of collecting TCS will fall on the authorized dealer, i.e., the bank that issued the credit card. The bank will collect an additional 20% from the credit cardholder to deposit the same as TCS, which can be adjusted against any income tax liability for that financial year. This process may involve additional compliance and operational nuances, including pop-up messages on the nature of the transaction and automatic triggering of TCS collection.

Navigating the Changes : Tips for Credit Cardholders

To minimize the impact of the new TCS rule on your international transactions, consider the following tips:

1. **Plan your spending carefully**: Be aware of the LRS limits and TCS rates to avoid breaching the caps and incurring additional tax liabilities**.**
2. **Budget for TCS:** When planning your foreign trips, factor in the 20% TCS on tour packages and other transactions.
3. **Monitor your LRS usage:** Keep track of your remittances under the LRS to ensure you do not exceed the annual limit of $250,000.

4. **Consider alternative payment methods:** Evaluate other money transfer instruments and explore their tax implications to minimize your tax liabilities.

Final Thoughts

The recent changes in credit card payments and TCS rates under the LRS have significant implications for individuals using international credit cards for transactions outside India. While these changes aim to curb tax evasion and increase accountability, they also come with increased compliance burdens and operational challenges. To navigate these changes, credit cardholders must plan their spending and foreign trips carefully, budget for TCS, and explore alternative payment methods.