



M2K ALERTS - TCS ON USAGE OF INTERNATIONAL CREDIT CARDS

Background

Finance Act 2023 amended the provisions relating to Tax Collection at Source ('TCS') and provided that the AD banker is required to collect TCS at the rate of 20% on remittances made under the LRS (other than remittances made towards education or medical treatment) without any limit. The said amendment would be effective from 01 July 2023.

As per Rule 7 of Foreign Exchange Management (Current Account Transactions) Rules, 2000, amended vide Notification G.S.R. 426(E) dated 26 May 2015, usage of International Credit Cards, for making payment by a person towards meeting expenses while such person is on a visit outside India, was not covered under the purview of LRS. Accordingly, remittances / payments by such credit cards were not considered for the purpose of computing the overall limit of USD 250,000 per year (under LRS) and were also outside the scope of TCS.



Current update: Inclusion of such credit card usage under LRS

On 16th May 2023, the Finance Ministry, in consultation with the RBI, issued a notification stating that Rule 7 (as specified above) shall be omitted from the Foreign Exchange Management (Current Account Transactions) Rules, 2000. This would mean that usage of International credit cards would now fall under the purview of LRS and effective 01 July 2023, the provisions relating to TCS would also apply on usage of such cards for foreign travel purpose.

This amendment has come in the backdrop of a surge in spending in overseas travel by the resident Individuals. Although the taxpayers can claim the credit of such TCS at the time of filing their ITR, this move will impact the cash flows to a great extent.

