

US REMITTANCE TAX PLAN RAISES CONCERNS – ECONOMY

NEWS: A U.S. bill proposes a 5% excise tax on any remittances that originate in the US to any other country.

WHAT'S IN THE NEWS?

I. Proposed U.S. Remittance Tax Bill: Key Provisions

1. Expanded Tax Scope

- The proposed bill introduces a levy on all cross-border remittances made by non-citizens residing in the U.S., including those on H-1B, L-1, and F-1 visas, as well as green card holders.
- U.S. citizens and nationals are explicitly exempted from this tax.

2. No Minimum Transaction Threshold

- The bill does not prescribe any minimum limit, meaning that even small-value remittances will be taxed, potentially affecting frequent or monthly senders.

3. Extension to Other Incomes

- The tax may also apply to income earned in the U.S. from investments and stock options by non-resident Indians, further widening its scope.

4. Tax Collection Mechanism

- The responsibility to collect and deposit the tax quarterly lies with remittance-transfer providers, such as banks, money transfer operators, or digital platforms.

II. Understanding Remittances

1. Definition and Nature

- Remittances refer to money sent by individuals, typically migrant workers, to family or dependents in their home country.

2. Economic Importance

- They serve as a vital financial lifeline for families and communities in recipient countries.

- Often used for essential needs like education, healthcare, food, and housing.

3. Transfer Channels

- Funds are remitted using formal banking systems, money transfer agencies (e.g., Western Union), or digital wallets/apps (e.g., Remitly, Wise).

III. Profile of Overseas Indians in the United States

1. Large Diaspora Presence

- There are approximately 54 lakh overseas Indians living in the U.S., with many holding temporary work visas like H-1B and L-1, or permanent residency (green cards).

2. Remittance Leadership

- India received \$32.9 billion in remittances from the U.S. in 2023–24, making it the largest recipient from the U.S., accounting for 27.7% of India's total inward remittances.

3. Long-term Global Leadership

- As per the World Bank, India has been the world's top remittance recipient since 2008.
- Its global share rose from 11% in 2001 to nearly 14% in 2024.

IV. Potential Impacts of the Remittance Tax Proposal

1. Increased Cost of Sending Money

- The tax would increase the financial burden on Indians in the U.S., especially those sending regular or small-value remittances to support family members in India.

2. Possible Decline in Remittance Flows

- Higher costs might discourage remittances, affecting families dependent on funds for daily expenses, education, or healthcare.

3. Compliance Burden on Service Providers

- Remittance-transfer agencies may need to adopt new systems to calculate, deduct, and deposit the tax, increasing administrative complexity.

4. Double Taxation Concerns

- Critics argue the tax results in double taxation, since immigrants already pay income tax in the U.S. on their earnings before sending remittances.

5. Impact on Investment Decisions

- The tax could influence where individuals choose to invest or hold their assets, especially affecting those on temporary work or student visas who plan long-term financial strategies.

V. India's Remittance Economy: Key Facts

1. Rising Remittance Inflows

- India's inward remittances more than doubled from \$55.6 billion in 2010–11 to \$118.7 billion in 2023–24.

2. Changing Remittance Geography

- Share from U.S. and U.K. rose to 40% in FY24, up from 26% in FY17, showing a shift from Gulf countries to developed economies as primary sources.

3. Top Source Country

- Since FY21, the U.S. has overtaken the UAE to become the largest single source of India's remittances.

4. State-wise Distribution

- Half of the total remittances go to Maharashtra, Kerala, and Tamil Nadu, while Punjab, Gujarat, and Haryana receive relatively smaller shares (below 5% each).

Source: https://www.business-standard.com/economy/news/us-remittance-tax-plan-raises-discrimination-concerns-for-overseas-indians-125051601501_1.html