

INDIA'S OUTWARD REMITTANCES – ECONOMY

NEWS: India's outward remittances under the Liberalised Remittance Scheme (LRS) moderated by **6.85 percent** year-on-year (YoY) to **\$29.56 billion in FY25**, after reaching an all-time high of **\$31.73 billion in FY24**.

WHAT'S IN THE NEWS?

What is Outward Remittance?

- Outward remittance refers to the **transfer of funds in foreign currency** by a **resident Indian to a beneficiary located outside India**.
- These remittances may be for:
 - **Education or studies abroad** (tuition fees, living expenses).
 - **Overseas travel and tourism** (leisure, business trips).
 - **Medical treatment in foreign countries**.
 - **Investments in foreign assets** (equity, debt, startups).
 - **Gifting or maintenance of close relatives abroad**.

What is the Liberalised Remittance Scheme (LRS)?

- Introduced in **2004** by the **Reserve Bank of India (RBI)** to simplify and regulate individual outward remittances.
- **Eligibility**: All resident individuals, including **minors**, can use LRS (with legal guardian acting on behalf of minors).
- **Annual Remittance Limit**: Initially capped at **\$25,000**, it has since been revised upwards to **\$250,000 per individual per financial year**.
- **Permissible Transactions** under LRS include:
 - **Current account transactions** (education, travel, medical expenses, gifts, donations).
 - **Capital account transactions** (purchase of property abroad, investment in foreign securities or joint ventures).
- **Regulatory Framework**: LRS operates under the **Foreign Exchange Management Act (FEMA), 1999**, ensuring legal and monitored foreign exchange transactions.

Key Trends in FY25 (April 2024 – March 2025)

a. Travel Remittances

- **Travel-related remittances** have become the **largest component** under LRS in FY25.

- Total remittance under this head stood at **\$16.96 billion**, accounting for over **57% of all LRS outflows**.
- Despite a **marginal decline from FY24**, the data suggests **robust demand for international tourism and business travel** among Indian residents.

b. Education Remittances

- There was a **16% decline year-on-year** in education-related outward remittances.
 - FY24: **\$3.48 billion**
 - FY25: **\$2.92 billion**
- This reflects both **external policy restrictions** and **internal economic factors** influencing student mobility.

c. Investment Abroad

- Outward remittances for **investment in foreign equity and debt** rose significantly.
- FY25 saw a **12.51% increase**, reaching **\$1.699 billion**, up from **\$1.51 billion** in FY24.
- The upward trend indicates an **increased appetite among Indian investors to diversify their portfolios** and participate in global markets.

Policy Changes & Tax Implications (Union Budget 2025)

a. Revision of TCS Threshold

- The **Tax Collected at Source (TCS) threshold** under LRS was increased from **₹7 lakh to ₹10 lakh per annum**.
- This move aims to provide **relief to middle-class individuals**, especially students and travelers making moderate foreign remittances.

b. TCS Rates and Exemptions

- A **20% TCS** is now applicable on **overseas tour packages exceeding ₹10 lakh** in value.
- However, this TCS is **not an additional tax**:
 - It is **adjustable against the final tax liability** of the remitter while filing Income Tax Returns.
- **Spending via credit cards** abroad has been **excluded from LRS-related TCS**, offering further compliance relief.

5. Why Did Student Remittances Decline in FY25?

a. Global Visa Restrictions

- Major education destinations like the **US, UK, and Canada** witnessed a **25–31% drop in student visas issued to Indians**.
- Stricter visa norms and political pressures led to fewer student admissions abroad.

b. Economic Uncertainty

- Global inflation, rising interest rates, and job market volatility led many Indian families to **postpone overseas education plans**.
- Students and parents preferred more financially viable or domestic options.

c. High Base Effect

- FY24 had **record-high student remittances**, which set a **statistical high base**, making any natural decline in FY25 appear sharper.

Way Ahead

- Outward remittances under LRS continue to be a **barometer of rising aspirations among Indian residents**, especially the **urban middle class and high-net-worth individuals (HNIs)**.
- **Rising travel and investment remittances** underscore India's increasing **global integration and economic confidence**.
- The decline in education remittances draws attention to **shifting immigration policies** and their economic implications.
- Policymakers aim to balance:
 - **Ease of foreign remittance and financial freedom** for individuals.
 - With **macroeconomic stability, capital account monitoring, and foreign exchange conservation**.

Source: <https://www.thehindu.com/business/Economy/us-govt-moves-to-cut-proposed-tax-on-outward-remittances-to-35-from-5/article69610102.ece>