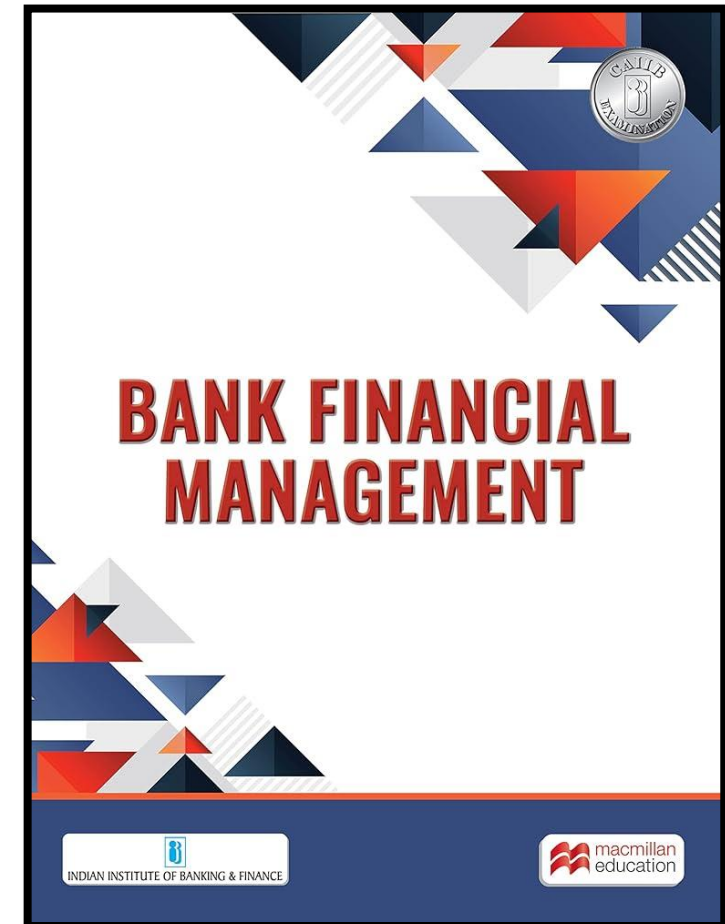


CAIIB Examination

**Bank Financial Management
Module A
Chapter 2 – Liberalised Remittance
Scheme (LRS) and Other Remittance
Facilities for Residents - Part 2**





LRS & OTHER REMITTANCE FACILITIES

1. FEMA, 1999 - 1. LRS Scheme, 2. Capital & Current Account, 3. Sections of FEMA vis-a-vis LRS, 4. Permissible/ Non-Permissible remittances under LRS, 5. Operational Guidelines

2. LRS - 1. LRS Remittances for Current A/c, 2. Tax Collected at Source (TCS), 3. LRS Remittances for Capital A/c 4. Reporting requirements

1. Liberalised Remittance Scheme (LRS)

1. Features



- 1. **Started** - 4th Feb 2004
- 2. **Purpose** - Facilitates for resident individuals to remit funds abroad for permitted current or capital account transactions or a combination of both.
- 3. **Available to** - Resident individuals (including Minors)
- 4. **Not eligible** - Corporates, Partnership Firms, HUFs, Trusts and NRIs

2. Capital and Current A/c Transactions

1. Capital Account Transaction

1. Sub-Section 2(e) FEMA - Capital account trans.= Alters the assets/liabilities of Indian or foreigner outside India or in India respectively
2. Example - Resident Indian invests in shares or property abroad



2. Current Account Transaction

1. Sub-Section 2(j) FEMA - Transaction that includes payments connected to trade, interest on loans and income on investments, expenses connected to travel, family maintenance, medical treatment, etc
2. Example - Remittances

1. FEMA, 1999

3. Key Sections of FEMA vis-a-vis LRS



1. Section 4 - 1. No person resident in India, shall acquire, hold, own etc. foreign exchange or foreign security or immovable property out of India unless acquired as non-resident, 2. Indians can invest

2. Section 5 - 1. Person may sell or draw foreign exchange to or from an authorized person for a capital account transaction

5. Section 13 Penalties for contravention of Act - 1. 3 x amount involved; 2. Non-quantifiable = Rs. 2lakhs;; 3. 5000/day further

4. Section 11 - 1. RBI may direct Authorized Person & impose penalty till Rs. 10,000 & further Rs. 2000/day

3. Section 10(6) - About utilization of foreign exchange availed from an Authorized Dealer for purpose which it has been availed

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4. Permissible/Non-Permissible remittances

1. FEMA, 1999

1. Schedule I – Non-permissible (Prohibited remittances)

- Remittances for margins or margin calls to Overseas exchanges/Overseas Counterparties
- Payment of commission on exports made towards equity investments in JVs/WOS abroad.
- Payment related to "Call Back Services of telephones"
- Remittance towards banned/proscribed magazines.
- Purchase of FCCBs issued by Indian companies abroad.
- Remittance of dividends by any company to which the requirement of dividend balancing is applicable
- Remittance of interest income on funds held in Non Resident Special Rupee accounts.
- Remittance out of lottery winnings, remittance for purchase of lottery tickets.
- Remittance of income from racing, riding or any other hobby
- Payment of commission on exports under Rupee State Credit Route

3. Schedule III - Remittances for resident individuals - permissible under the delegated powers of the Authorized Dealers

- Private visits to any country (other than Nepal & Bhutan)
- Gift or donation
- Going abroad for employment
- Emigration
- Maintenance of close relatives abroad
- Travel for business by resident individuals-attending international conferences, specialized training, etc
- Accompanying as attendant to a patient going abroad for medical treatment
- Expenses in connection with medical treatment abroad
- Studies abroad
- Purchase of Objects of Art subject to Foreign Trade Policy
- Others viz, remittances towards health insurance, etc.

2. LRS - 1. LRS Remittances for Current A/c, 2. Tax Collected at Source (TCS), 3. LRS Remittances for Capital A/c 4. Reporting requirements

2. Schedule II - Remittances permissible subject to approval of the respective Government Departments/Ministries

- Remittances towards Cultural tours-approval from Department of Education and Culture - Ministry of Human Resources Development.
- Advertisements in Foreign Print Media by State Governments/PSU Undertakings Ministry of Finance
- Remittances towards Freights of Vessels chartered by PSUs-Ministry of Surface Transport.
- Payment of Imports through Ocean Transport on CIF basis by Government dept/PSUs - Ministry of Surface Transport.
- Remittances of hiring charges of transponders by TV Channels, Internet Service Providers, etc. - Ministry of Information & Broadcasting, Ministry of Information Technology
- Remittance of prize money, sponsorship of sports activities abroad by a person other than International/ National/State level sports bodies and where the amount involved exceeds USD100,000- Department of Youth Affairs & Sports, Ministry of Education.

1. General Guidelines

5. Operational Guidelines

2. Documentation

- 1. PAN** - Mandatory irrespective of amount of remittance
- 2. Bank branch** - Customer to designate a particular branch for remittance transactions
- 3. Transactions** - Freely allowed up to **USD 250,000 per FY** (excess with **RBI approval**) for any permissible **current or capital account** transactions or combination without restrictions on **frequency**
- 4. Sole proprietor** – Credit, Debit & ATM cards for current a/c transactions
- 5. Foreign citizens** – Resident in India for < 3 yr. is resident, eligible for LRS

- 1. RBI** - Does not prescribe documents to be verified by AD to permit remittances
- 2. Documents from residents** – **1. Form A2 vis-à-vis FEMA Declaration, 2. Simplified documentation individuals** - for amounts up to USD 25,000, **3. Declaration of source of funds & PAN, 4. Ticket & VISA, 5. Tax Collected at Source (TCS)** applicable in respect of release of exchange by the tour operators



Concept Check

Q.

Which among the following remittances are prohibited under the Liberalised Remittance Scheme (LRS)?

- (I) Remittances for margins to Overseas exchanges.
- (II) Remittance out of lottery winnings, remittance for purchase of lottery tickets
- (III) Gift

(Select the most appropriate answer from the option given below)

- a) (I) and (II) only
- b) (II) and (III) only
- c) (I) and (III) only
- d) All of the above

Answer: Option A

Concept Check

HW Q.

The Government of India under the FEMA 1999 freely allows up to _____ for any permissible current or capital account transactions or combination without restrictions on frequency. (Select the most appropriate answer from the option given below)

- a) USD 250,000 per FY
- b) USD 500,000 per FY
- c) USD 750,000 per FY
- d) USD 50,000 per FY

Thank You

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Concept Check

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Answer: Option A