<u>Understanding the new TCS (Tax Credited at Source)</u>

Source: fi.money

The Union Budget proposed by Finance Minister Nirmala Sitharaman in February 2023 announced some significant modifications to personal finance. One of them is the introduction to the New Tax Regime. Another significant development was the TCS (Tax Collected at Source) for foreign transactions.

If you plan to invest in US stocks in 2023, or maybe take a foreign trip and make other foreign transactions, this read is a must for you!

What is TCS in Foreign Remittance Transactions?

When people move money abroad for remittances, travel expenditures, asset purchases, shopping, and investments, they are subject to a tax known as TCS, or Tax Collected at Source. Such transfers are made possible under the LRS (Liberalised Remittance Scheme). The TCS rate for the majority of remittances (apart from those for medical and educational expenses) increased from 5% to 20% in the 2023 Union Budget. This modification aims to increase tax income and promote domestic spending. While education and medical remittances remain at 5% for sums over ₹7 lakhs, the new 20% TCS rate will be in force as of 1 July 2023. When submitting income tax returns, taxpayers can claim TCS deductions as refunds or credits, which can be used to reduce their tax obligations. Effectively handling tax liabilities in cross-border transactions requires a thorough understanding of TCS.

2023 Union Budget update in TCS

The TCS has now increased to 20% from 5% for all remittances except those concerning education or medical treatment. Remittance is any money you send abroad. You'll still be taxed at 5% for amounts exceeding ₹7 lakhs for education and medical treatment in a foreign land.

The new TCS comes into effect from 1 July 2023 onwards.

TCS on Foreign Remittances Increased to 20% — Why?

There can be many reasons for this. While most of these pertain to increasing the tax revenue, the Indian government encourages its citizens to spend their money traveling and spending within India.

Outward foreign remittances were at an all-time high in 2022, especially at a time when the Rupee was at its weakest. It might also be to ensure that those spending money abroad file returns in their own country — since it's a direct cut to the bank at the time of remittance.

How will 20% TCS Affect Us From 1st July 2023?

After 1st July, 20% TCS will be applied on all outward remittances without a slab for US Stocks. Let's break this down with the help of an example. Let's assume you invest ₹1 lakh in US Stocks. The TCS will be 20% of ₹1,00,000 which equals to ₹20,000.

Let’s say you remit ₹20 lakhs for education or medical treatment, a TCS of 5% will be applicable for an aggregate amount that’s in excess of ₹7 lakhs. This means you will have to pay 5% on ₹13 Lakhs (₹20 Lakhs - ₹7 lakhs), which is ₹65,000.

How to Get Tax Benefits From the New TCS?
The good news is that you can claim this deducted money while filing your taxes. You can get your money back in one of two ways:

Claim it as an income tax refund.
Claim it as a credit while filing your ITR or computing your advance taxes.
For instance, you decide to remit ₹5 Lakhs for US stock market investments. TCS on the remitted amount would be ₹1,00,000. Say, your total tax liability for the financial year or advance tax dues stand at ₹3,00,000. You can use the TCS amount to lower your outstanding tax liabilities. Thus, your new tax liability would now be ₹2,00,000.

Conclusion
The 2023 Union Budget introduced significant changes to personal finance, including the implementation of a 20% TCS (Tax Collected at Source) on foreign remittances, excluding education and medical expenses. This increase in TCS aims to boost tax revenue and encourage domestic spending. Starting from 1st July 2023, the new 20% TCS rate will apply to all outward remittances. However, there are exemptions for certain scenarios, and understanding TCS is crucial for effectively managing tax liabilities in cross-border transactions. Additionally, investing in US stocks through platforms like Fi provides opportunities to own shares in top US companies with user-friendly interfaces and no brokerage fees, making it accessible to a wide range of investors.