



## ***Liberalized Remittance Scheme (LRS) for Resident Indian***

### ***1. Introduction on LRS under Automatic Route for Outside India***

#### ***(i) History of LRS for Outside India***

- *LRS was announced by RBI vide circular No. 64, dated February 04, 2004 as simplified + liberalized foreign exchange facility for resident individual (RI) only. Hence LRS is not permitted for HUF + partnership firm + company + Trust + etc.*

#### ***(ii) Monetary limit for LRS under Automatic Route for Outside India***

- *RI including minor is separately permitted to remit as not exceeding USD 2.5 Lac per person + per financial year against permissible current account + Capital account (both) transactions under automatic route*

### ***2. Permitted + Non-Permitted LRS under Automatic Route for Outside India***

#### ***(i) Permitted for Capital account transaction as investment in asset Outside India :***

- (a) For acquisition of equity share in listed + unlisted (both) outside India*
- (b) For acquisition of qualification equity share to hold a directorship outside India*
- (c) For acquisition of equity share against professional services as rendered outside India*
- (d) For acquisition of equity share against director remuneration as receivable outside India*
- (e) For acquisition of Debt instrument outside India*
- (f) For acquisition of immovable property outside India*
- (g) For acquisition of investment in unit of Mutual Fund outside India*
- (h) For acquisition of investment in Venture capital Fund outside India*
- (i) For acquisition of investment in Promissory Note outside India*

- (j) **For acquisition of investment in Wholly Owned Subsidiary + Joint Venture outside India**
- (k) **For acquisition of investment in object of art outside India**
- (l) **For acquisition of any other notified an asset by RBI outside India**
- (m) **For providing of loan (in INR) to NRI + PIO (both) as close relative outside India**
- (n) **For opening of foreign currency account as without approval of RBI outside India**
- (ii) **Permitted for Current account transaction as expense outside India**
  - (a) **For expenses against private visit outside India**
  - (b) **For providing a Gift to NRI + PIO (both) close relative + donation to NGO outside India**
  - (c) **For expenses against taking of employment outside India**
  - (d) **For expenses against taking of emigration outside India**
  - (e) **For expenses against maintenance of close relative outside India**
  - (f) **For expenses against business Visit outside India**
  - (g) **For expenses against medical treatment outside India**
  - (h) **For expenses against education outside India**
- (iii) **Not Permitted for Capital + current account (both) transaction Outside India**  
(Commonly known as **prohibited transaction under LRS outside India**)
  - (a) **For remitting against purchase as notified under Schedule - I of Foreign Exchange Management (Current Account Transactions) Rules 2000 from outside India :-**
    - (aa) **For purchase of lottery ticket + sweep stake from outside India**
    - (ab) **For purchase of proscribed magazine + etc. from outside India**
  - (b) **For Remitting against purpose as notified under schedule - II of Foreign Exchange Management (Current Account Transactions) Rules 2000 from outside India**
  - (c) **For remitting against margin + margin call (both) to stock exchange outside India**

- (d) **For remitting against acquisition of Foreign Currency Convertible Bond (FCCB) as issued by Indian company from secondary market outside India**
  - (e) **For remitting against trading in foreign exchange outside India**
  - (f) **For remitting to country + territory (both) identified as non-cooperative by Financial Action Task Force (FATF) outside India**
  - (g) **For remitting to individual + entity as identified by RBI as posing significant risk for committing an act of terrorism in India**
- (iv) **Permitted for Current account transaction outside India as exceeding 2.5 Lac**
- (a) **For expense against emigration. However not permitted for earning any point or credit to become an eligible for Immigration outside India**
  - (b) **For expense against medical treatment outside India**
  - (c) **For expense against education outside India**
    - **AD Bank is permitted to allow as exceeding USD 2.5 Lac as based on document as received from RI + own judgment by bank about bonafideness of remittance + without an approval from RBI**
- (v) **Permitted for LRS under Approval Route for Outside India**
- **RI is permitted to remit under approval route from RBI where remittance is not permitted under automatic route.**

### **3. Role of AD Bank under Automatic Route for LRS**

- (i) **RI is required to designate AD bank for remitting under LRS**
- (ii) **RI is required to maintain bank account as exceeding 1 year before remitting under LRS**
- (iii) **AD bank is required to carry due diligence for opening + operating and maintaining of account where RI is not maintaining bank account as exceeding 1 year before remitting under LRS**
- (iv) **AD bank is required to review bank statement for previous year to satisfy about source of fund under LRS**

- (v) AD bank is required to obtain latest income tax assessment order where bank statement of last 1 year is not available
- (vi) AD bank is required to receive an application-cum-declaration in form A2 for not permitted purpose
- (vii) AD bank is not permitted to provide any credit facility for remitting under LRS
- (viii) AD bank is required to levy the TCS @ 5% where remittance is exceeding Rs. 7 Lac per financial year
- (ix) AD bank is required to accept the payment through credit card + debit card + prepaid card + bank account as maintained in bank
- (x) AD bank is permitted to satisfy that recipient of remittance is not resident of non-cooperate country + territory as identified by FATF
- (xi) AD bank is permitted to refuse for remittance where bank is having a reason to believe that RI has made any contravention of FEMA provision

#### 4. Clarifications on LRS under Automatic Route

##### (i) Incomes earned on investment

- (a) RI is permitted to retain + to reinvest against income as earned on investment already made under LRS outside India
- (b) Hence RI is permitted for not remitting against income as earned on investment from outside India
- (c) Moreover AD bank is permitted for computing the limit as not exceeding USD 2.5 Lac without adding the income as earned on investment outside India
- (d) However RI is required to obey the Overseas Direct Investment (ODI) guidelines from RBI for investment against income as earned on investment outside India

##### (ii) Consolidation of LRS for entire family

- (a) Consolidation of LRS for entire family is permitted through multiply by per person monetary limit like not exceeding USD 2.5 Lac
- (b) However consolidated investment is permitted for entire family member where asset is jointly owned (Jointed titled)

**(iii) Purchase of object of art**

- RI is permitted to remit under LRS for purchase of objects of art like painting + etc. within permissible monetary limit as not exceeding USD 2.5 Lac + should be with in Foreign Trade Policy (FTP) of Govt. for import in India

**(iv) PAN for RI**

- RI is mandatory required to have a PAN for remittance under LRS outside India.

**(v) Private visit to Nepal + Bhutan (both)**

- (a) RI is not permitted to obtain foreign exchange as not exceeding USD 2.5 Lac for visiting to Nepal + Bhutan (both)
- (b) Hence RI is permitted to obtain foreign exchange for visiting to other than Nepal + Bhutan

**(vi) Frequency of remittances**

- RI is permitted to remit without any restriction on frequency but within permissible monetary limit as not exceeding USD 2.5 Lac

**(vii) Remittance through Demand Draft (DD)**

- RI is permitted to make a request to bank for issuing a DD in his own name + name of investee + beneficiary at time of private visit outside India with in permissible monetary limit as not exceeding USD 2.5 Lac

**(viii) Gift by RI**

- (a) RI is permitted to remit for gift to close relative with in permissible monetary limit as not exceeding USD 2.5 Lac
- (b) RI is permitted for gift in INR to NRI + PIO (both) close relative with in permissible monetary limit as not exceeding USD 2.5 Lac through transferring to NRO account + sending as remittance in foreign exchange under LRS outside India.

**(ix) Loan in Indian Rupee (INR) to NRI + PIO (both) close relative**

- Interest is not to be charged on loan to NRI + PIO (both) close relative: Hence Loan is permitted as interest free (only) :

- (a) **Where** maturity is exceeding 1 year
- (b) **Where** loan amount is not exceeding USD 2.5 Lac per financial year
- (c) **Where** Proceeds of loan be utilized for meeting borrower's personal need + business purpose in India
- (d) **Loan not permitted :-**
  - (da) **For** chit fund business
  - (db) **For** Nidhi Company
  - (dc) **For** Agricultural or plantation activities
  - (dd) **For** Real estate business like trading of properties
  - (de) **For** Trading in Transferable Development Rights (TDRs)
  - (df) **For** Agricultural + Plantation activity + Construction of farm house
- (e) **Loan amount be** deposited in NRO account of NRI + PIO (both)
- (f) **Loan amount not be** remitted Outside India
- (g) **Repayment of loan be** made through foreign inward remittance + debit to NRO, NRE or FCNR account

(x) **Business Trip under LRS outside India**

- (a) **Business trip is** permitted by RI with in permissible monetary limit as not exceeding USD 2.5 Lac
- (b) **Business trip is** permitted for non- RI without permissible monetary limit as not exceeding USD 2.5 Lac. **Hence** non RI is permitted for business trip without LRS

(xi) **Currency for remittance**

- **RI is** permitted to remit in any freely convertible foreign currency. **However** with in permissible monetary limit as not exceeding USD 2.5 Lac

(xii) **Remittance not permitted under LRS twice in Financially year**

- (a) **RI is** not permitted to remit under LRS 2<sup>nd</sup> time in same financial year where proceed of 1<sup>st</sup> investment is brought back to India
- (b) **Hence** RI is permitted as not exceeding USD 2.5 Lac per financial year one time (only).

**(xiii) Annual Performance Report (APR) for Investment in JV + WOS (both) outside India**

- RI is required to file APR based on audited financial statement of investee company as not exceeding 31<sup>st</sup> December each year against investment in JV + WOS (both). Hence APR is not required where investment is not in JV + WOS (both).

**5. Conclusion on LRS under Automatic Route**

(i) RI is permitted to remit as not exceeding USD 2.5 Lac per person per financial year under LRS outside India. However RI is permitted to remit as exceeding USD 2.5 Lac under Automatic route:

(a) For Emigration outside India

(b) For Medical treatment outside India

(c) For Education outside India

- RI is required to submit the evidence to bank where estimated expenses as exceeding USD 2.5 Lac

(ii) RI is permitted to send the remittance under LRS for permitted capital account + permitted current account (both) transactions. Hence RI not permitted for prohibited transactions

(iii) **Role of AD bank in India :-**

(a) For carrying Due diligence of RI

(b) For collecting TCS @ 5% where remittances are exceeding Rs. 7 Lac per financial year

(c) For not allowing any credit facility for remittance under LRS Outside India

(iv) **RI permitted :-**

(i) For reinvestment of income earned on investment already made under LRS outside India

(ii) For gift to close relative outside India

(iii) For Loan to close relative outside India

(v) **LRS under Approval Route**

- RI is permitted to remit under approval route where remittance is not permitted under Automatic route.



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