FOREIGN EXCHANGE REMITTANCE FACILITIES FOR INDIVIDUALS

PPB Module A Chapter 8 By Ashish Sir

Historical Background:

- **1939**: **Exchange control started** during WWII under Defence of India Rules.
- **1947**: Foreign Exchange Regulation Act (FERA) introduced as a legal framework.
- **1973**: FERA expanded to tighten controls on foreign exchange.
- **2000 (June 1):** FEMA replaced FERA. **Big Shift:** From strict control to easier foreign exchange management.

Why FEMA Was Needed:

- **Global Changes:** The world economy changed, trade increased. India needed flexible rules.
- **Encouraging Trade:** FEMA helped businesses and individuals trade more easily.
- **Civil vs. Criminal:** FEMA made violations civil offences instead of criminal.
- **WTO Rules:** FEMA matched India's laws with World Trade Organization standards.

Key Features of FEMA:

- **Simple Approach:** Aimed to make foreign exchange rules easier to follow.
- **Trade Promotion:** Encouraged external trade and smooth payments.
- **Modern Framework:** Supported development of foreign exchange markets.
- **Government Control:** Central Government can still impose restrictions when needed.
- **RBI Role:**
  - Regulates foreign exchange transactions.
  - Ensures transactions go through authorized dealers.
- **Limited Transactions Without Permission:**
  - Payments to people outside India restricted.
  - Owning property abroad restricted without permission.
- **Inherited Assets Rule:** People can keep foreign assets inherited or owned from before they returned to India.

Examples from Indian Context:

- A small shop owner in **Mumbai** now uses FEMA's simpler rules to import spices easily.

- An IT company in **Bangalore** receives payments from clients abroad without the complex paperwork required under FERA.
- A retired couple in **Chennai** inherited a flat in London. Under FEMA, they are allowed to keep it.

Summary Table:

Feature	FERA ( )	FEMA ( )
Year Introduced	1973	2000
Offences	Criminal	Civil
Approach	Strict, control-focused	Flexible, management-focused
Trade and Payments	Complex process	Easier, streamlined
Inherited Foreign Assets	Limited permissions	Allowed under specific conditions

Definitions Under FEMA

Important Terms:

1. **Authorised Dealer (AD):** A person authorized under Section 10(1) of FEMA.
2. **Authorised Dealer Category I:** Entities allowed to **handle all permissible current and capital account transactions** as directed by RBI.

AD I

3. **Authorised Dealer Category II:**

AD Cat II

   - Handles specific non-trade current account transactions.

- Activities include those allowed for Full-Fledged Money Changers (FFMCs).
- Examples:
  - Select Regional Rural Banks (RRBs)
  - Select Urban Cooperative Banks (UCBs)
  - Other approved entities

Cat IV

4. **Authorised Dealer Category III:** Entities permitted by RBI for specific foreign exchange transactions related to their business activities.
5. **Authorised Person (AP):** Includes ADs, money changers, offshore banking units, or anyone authorized under FEMA Section 10(1) to deal in foreign exchange or foreign securities.

Foreign Exchange Transactions:

Partial

- **Capital Account Transaction:** Alters assets/liabilities even contingent liabilities outside India for residents or within India for non-residents.
- **Current Account Transaction:** 100%
  - Payments related to foreign trade, business, services, short-term credits.
  - Interest on loans, investment income.
  - Remittances for family expenses abroad.
  - Expenses for foreign travel, education, or medical care.

Currency & Accounts:

- **Currency:** Includes notes, orders, cheques, drafts, traveller's cheques, and other monetary instruments.
- **Currency Notes:** Coins and banknotes.
- **Foreign Currency Account:** Account in a currency other than INR, Nepali Rupee, or Bhutanese Ngultrum.

Foreign Investments & Securities:

- **Foreign Portfolio Investment:** Investment under 10% of equity capital of a listed Indian company.
- **Foreign Portfolio Investor (FPI):** Registered as per SEBI regulations.
- **Foreign Security:**
    - Denominated in foreign currency.
    - Includes shares, stocks, bonds, debentures, and similar instruments.
    - Returns may be paid in Indian currency.

Other Key Terms:

- **Drawal:** Using foreign exchange through authorized means (e.g., credit cards, ATM cards).
- **Full-Fledged Money Changer (FFMC):** Authorized to buy foreign exchange from non-residents and sell it for travel purposes.
- **Repatriation Outside India:** Sending funds or converting them into foreign exchange for use outside India.

NRE → No limit   NRO → 1Mn USD   LRS USD 250000

- **Liberalized Remittance Scheme:** Allows resident individuals to remit funds abroad under RBI guidelines.

Non-Resident Indian (NRI)

An **Indian citizen** who **resides outside India** for:

- **Employment**
- **Business or vocation**
- **Education**
- **Any other valid purpose for an uncertain period**

Example:

- A **software engineer from Mumbai** working in **the USA** is considered an **NRI**.

Overseas Citizen of India (OCI) Cardholder

A **foreign citizen** who **was formerly an Indian citizen** OR has family ties to India.

Who Qualifies?

1. **Ex-Indian Citizens** who **renounced Indian citizenship**

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. **Foreign nationals whose parents, grandparents, or great-grandparents were Indian citizens**

3. **People from territories that became part of India after 15 August 1947**

Example:

- A **British citizen born in India before 1950** or their **child born abroad** can apply for an **OCI card**.

Person Resident in India

Someone who has lived in India for **182+ days in the previous financial year**

Includes **Indian citizens & foreigners residing in India**

Exceptions:

- People **who left India for**:
  - **Employment outside India**
  - **Business or profession abroad**
  - **An uncertain period**

Example:

- A **Delhi-based entrepreneur** who **stayed in India for 200 days in a financial year** is a **Resident in India**.

Person Resident Outside India

Anyone who **does not qualify as a Resident in India**

Includes **NRIs, OCIs, and foreign citizens**

Example:

- A **doctor from Bengaluru working in Canada for the past 5 years** is considered a **Person Resident Outside India**.

Summary Table

Category	Definition	Example
NRI (Non-Resident Indian)	An **Indian citizen living abroad** for work, business, or studies.	A **Delhi engineer working in Dubai**.
OCI (Overseas Citizen of India)	A **foreign citizen** who was formerly an **Indian citizen** or has **Indian roots**.	A **UK-born child of Indian parents with an OCI card**.
Person Resident in India	Lived in India **for 182+ days in the previous financial year**, except for those leaving for work/business abroad.	A **Kolkata businessman staying in India for 200 days**.
Person Resident Outside India	Anyone **not qualifying as a resident**.	A **Bangalore-based doctor living in the US for 5 years**.

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- **Permissible Currency:** Any foreign currency that is freely convertible.
- **Transfer:** Includes any sale, purchase, mortgage, gift, or similar transaction.

Summary Table

Term	Definition/Key Feature	Example
Authorised Dealer (AD)	Entity authorized under FEMA to handle foreign exchange.	Bank managing foreign remittances.
Current Account Transaction	Regular trade payments, living expenses abroad.	Paying tuition fees abroad.
Foreign Portfolio Investor (FPI)	Investor with <10% equity in a listed Indian company.	International investment fund in India.
Full-Fledged Money Changer (FFMC)	Authorized to buy/sell foreign exchange for travel.	Forex kiosk at the airport.
Liberalized Remittance Scheme	RBI-approved remittance outside India for residents.	Sending money to a relative abroad.
Overseas Citizen of India (OCI)	Former Indian citizen with an OCI card.	Person of Indian origin living in Canada.

Bringing In and Taking Out Foreign Exchange

Bringing in of Foreign Exchange

- **Unlimited Entry:** Foreign exchange can be brought into India freely without any limit.
- **Declaration Rules:**
  - If foreign exchange exceeds certain thresholds, a **Currency Declaration Form (CDF)** must be submitted.
  - **No Declaration Needed When:**
    - Foreign currency notes and/or traveller's cheques are ≤ USD 10,000.
    - Foreign currency notes are ≤ USD 5,000.
- **Example:**
  - A tourist arriving in Mumbai with USD 4,000 cash and USD 3,000 in traveller's cheques does not need to file a CDF.

Purchase of Foreign Currency from Public

- **Who Can Purchase:**
  - Authorized Persons (APs) and their franchisees may freely buy foreign currency from both residents and non-residents.
  - If the currency was declared on the **CDF**, the declaration must be provided.

- **Payment Limits:**
  - From **residents:** USD 1,000 or equivalent per transaction.
  - From **foreign visitors/NRIs:** USD 3,000 or equivalent per transaction.
- **Card Transactions:**
  - Sale of Indian Rupees to foreign tourists using **International Credit/Debit Cards** is permitted.
- **Encashment Certificate:** Important
  - Provided when foreign currency is purchased.
  - **Non-residents must have this certificate to convert unused Indian currency back into foreign currency.**
- **Example:** A student returning from London exchanges leftover pounds for INR 80,000 at an AP counter in Delhi airport. The AP issues an encashment certificate for any future reconversions.

Taking Out of Foreign Exchange Imp

- **Restrictions:**
  - **Taking out foreign exchange, except from an authorized dealer or money changer, is prohibited.**
  - ***Non-residents have general permission to take out the amount originally brought in***, provided they follow the declaration rules and obtain an encashment certificate.

- **Example:** An NRI visiting family in Hyderabad brings USD 5,000 and, after spending USD 2,000, carries USD 3,000 back without any issues.

Sales Against Reconversion of Indian Currency

- **Conversion Rules:**
  - **APs can convert unspent Indian currency back into foreign currency if a valid encashment certificate is shown.**
  - **No Certificate Needed for:**
    - **Up to Rs. 10,000:**
      - If AP is satisfied with the reason for not having the certificate.
      - Departure is within seven days.
    - **Foreign Tourists Only:**
      - Reconvert up to Rs. 50,000 from ATMs.
      - **Documents Required:**
        - Valid passport and visa.
        - Confirmed air ticket for departure within seven days.
        - Original ATM withdrawal slip.

Exception

Example: A US tourist in Goa uses an ATM to withdraw Rs. 30,000. Upon departure, they reconvert the unused amount into USD by showing their ATM slip, passport, and air ticket.

Summary Table

Feature	Rule/Limit	Example
Bringing in Foreign Exchange	Unlimited, no CDF needed if notes ≤ USD 5,000 and total ≤ USD 10,000	Tourist entering Chennai airport with USD 3,000 in cash and USD 2,000 in traveller's cheques, no CDF needed.
Buying from Residents	Up to USD 1,000 equivalent without a bank account transfer	A Delhi shopkeeper sells leftover USD 800 after a trip to Bangkok.
Buying from Non-Residents	Up to USD 3,000 equivalent without a bank account transfer	An NRI visiting Kochi sells USD 2,500 cash from their travel budget.
Taking Out Foreign Exchange	General permission for non-residents to take out what they brought in.	An NRI who brought USD 4,000 to India can return with USD 4,000 without additional permissions.
Reconversion Without Certificate	Rs. 10,000 for residents, Rs. 50,000 for foreign tourists with required documents.	A French tourist in Jaipur reconverts Rs. 40,000 to euros before leaving.

→ ATM
→ Visa/passport
→ 7 days confirmed ticket

Inward Remittances to India

What is Inward Remittance?

- Inward remittance refers **to the transfer of money from a foreign country to India**.
- Commonly used by **Non-Resident Indians (NRIs)** to support family, business, or investments.

General Rules on Inward Remittances

No restrictions for resident individuals receiving inward remittances through **Authorized Dealer (AD) banks** in India.

AD banks can freely purchase money transfers (TTs, MTs, Drafts, Bills) in any foreign currency against Indian Rupees.

Foreign exchange received as:

- **Salary/wages**
- **Settlement of any lawful obligation**
- **Income from assets outside India**
- **Inheritance, settlement, or gifts**

Must be **sold (surrendered) to an authorized person within 180 days** from receipt.

Approved Remittance Methods to India

Method	How It Works	Processing Time	Best For
Bank Wire Transfer	Electronic transfer between banks.	**2 working days**	Quick & secure transfers.
Bank Money Orders	Similar to postal orders, sent via banks.	**Slow, time-consuming**	Small transactions, where time is not a concern.
Foreign Currency Cheques	Cheque sent from abroad, deposited in India.	**20-25 days**	Transactions that are not urgent.
Foreign Currency Drafts	Similar to bank drafts, but for international transactions.	**21 days**	Business payments, payments to unknown recipients.
Remittance Cards	Reloadable debit card for easy withdrawals.	**Instant after activation**	Regular family support, everyday expenses.
Direct Deposit/ACH Transfer	Automatic withdrawals from NRI's foreign bank account to India.	**Fast, regular basis**	Monthly household expenses, EMI payments.

Inward Remittance Limits

No limit on the amount that can be remitted into India under FEMA.

Foreign Inward Remittance Certificate (FIRC):

- **Not required** for NRIs sending money to relatives.
- **Required** for business remittances to claim tax concessions.

Summary Table

Feature	Rule/Limit	Example Use Case
Receiving Foreign Money	No restriction for resident individuals.	An NRI sending INR 5 lakh to his parents in Mumbai.
Deadline to Surrender Forex	Must be sold to an **authorized person within 180 days**.	A freelancer in Delhi receiving payment from a UK client.
FIRC Requirement	**Required** for business remittances. **Not required** for family transfers.	An exporter in Hyderabad receiving payments from a US buyer.
Best Quick Transfer Method	**Bank Wire Transfer** (2 days)	An NRI sending urgent medical funds to his brother in Chennai.
Slowest Transfer Method	**Foreign Currency Cheques** (20-25 days)	A father in London sending a cheque for his daughter's education in Bangalore.

Conclusion:

Inward remittances play a **crucial role in India's economy**. With **multiple safe and quick methods**, NRIs can send money home easily. Choosing the **right remittance method** based on urgency, cost, and security ensures **hassle-free transfers**.