RBI Approval Needed?	Yes, if exceeding $250,000/year
Popular Uses	Buying foreign stocks, tuition fees, real estate investment abroad

Conclusion

The **Liberalized Remittance Scheme (LRS)** makes it **easy for Indians to send money abroad** for **education, medical, investments, and travel**. **However, strict FEMA rules apply** to prevent misuse. Choosing the **right remittance method** ensures smooth, **hassle-free transaction**.

Part 3 Ch-8 Module A

Foreign Exchange Surrender & Operational Guidelines

Period of Surrender of Foreign Exchange

Usage Flexibility: Foreign exchange purchased for **one purpose** can be **used for any other eligible purpose** under FEMA rules.

Surrender Timeframe:

- Residents **must surrender** any **received/unused/unspent foreign exchange** to an **Authorized Person (AP) within 180 days**.
- **If surrendered after 180 days**, AP **cannot refuse** to accept it **just because the deadline has passed**.

Retention of Foreign Exchange by Travelers:

- **Returning Indian travelers** can **retain up to $2,000 in cash, traveller's cheques, or currency notes** indefinitely for future trips.

- **No limit on foreign coins**

Example: A **Mumbai businessman** returns from a **Singapore trip** with **$500 unspent**. He can:

- **Keep it for future travel**
- **Surrender it to an AP within 180 days**
- **Still exchange it later, even after 180 days**

Operational Aspects for Authorized Persons (APs)

Ensuring Legal Compliance: APs must **obtain a declaration** from individuals confirming that the foreign exchange transaction **does not violate FEMA rules**.

Verification & Documentation

- APs **must verify** the authenticity of **transactions and sources of funds**
- **Record keeping** is **mandatory**
- If AP **suspects any illegal activity**, they **must refuse the transaction** and **report it to RBI**

KYC & Anti-Money Laundering Compliance

- APs must follow **Know Your Customer (KYC) norms** and **Anti-Money Laundering (AML) rules** to prevent fraud.

- The applicant **must have maintained a bank account** for at least **one year** before making **capital account transactions**.
- If **a new customer**, AP should conduct **due diligence** by checking:
    - Bank statements
    - Income Tax Assessment Order/Returns
    - Other financial documents

Mode of Payment for Remittance

- APs must ensure that remittances are made using:
    - **Bank account transfers** (cheque/ debit)
    - **Demand Draft (DD)/ Pay Order**
    - **Debit, credit, or prepaid cards**

Example: A **Chennai IT professional** wants to **remit $20,000 abroad for investment**. The AP:

- **Verifies her bank account history**
- **Ensures the money is coming from her personal funds**
- **Checks tax records if needed**

- Processes the remittance via bank transfer

Restrictions & Reporting

250000 USD / FY

- **APs cannot extend credit** for capital account transactions
- **All LRS remittances** must be reported in **FETERS (Foreign Exchange Transactions Electronic Reporting System)**

Tax Deduction on Remittances to Non-Residents (TDS)

As per CBDT (Central Board of Direct Taxes), APs must:

- Deduct **TDS (Tax Deducted at Source)** on **remittances made to non-residents**.
- Ensure full **compliance with tax laws** before processing transactions.

Example:

- A **Kolkata-based company** pays **$50,000 to a consultant in the US**. Before sending money:
  - **TDS is deducted as per tax rules**
  - **The remaining amount is remitted**

Tax Deduction on Remittances to Non-Residents (TDS)

What is TDS on Foreign Remittances?

Tax Deducted at Source (**TDS**) is **applicable on remittances made to non-residents** under the **Income Tax Act, 1961**. Before sending money abroad, **Authorized Dealer (AD) banks** must **deduct TDS** as per **Section 195 or 206C(1G) of the Income Tax Act**.

Example:

- A **business in Mumbai** makes a **$50,000 payment** to a **foreign consultant**. Before sending, the bank **deducts TDS at the applicable rate** .

TDS Rates for Different Types of Remittances (FY 2023-24)

Type of Remittance	TDS Rate	Applicable Section
Education (With PAN & Loan from Financial Institution)	**0.5%**	206C(1G)
Education (With PAN & Without Loan)	**5%**	206C(1G)
Medical Treatment	**5%**	206C(1G)
Foreign Travel (Tour Packages)	**5%**	206C(1G)
Other Remittances (Consulting Fees, Services, Investments, etc.)	**10%-40% (Based on DTAA or Sec.195)**	195
Foreign Remittances Without PAN	**20%**	206AA

Double Taxation Avoidance Agreement (DTAA) may lower TDS rates

if the recipient is in a treaty country .

Example: A **student in Delhi** paying **$1,40,000 tuition fees in the USA** via an **education loan** will have **TDS at just 0.5%** .

When is TDS Deducted?

Before processing the remittance, AD banks **must deduct TDS** .

The remitter must file **Form 15CA & 15CB** (issued by a Chartered Accountant) for most transactions.

TDS is not deducted for:

- **Government remittances**
- **Remittances below ₹7 lakh for education/ medical treatment**

Example: A **Bangalore firm paying $10,000** to a **US consultant must deduct TDS at 10%** before sending the amount.

Documentation Required for Foreign Remittances (TDS Compliance)

Form	Purpose
Form 15CA	Self-declaration of remittance, filed online
Form 15CB	Chartered Accountant (CA) certificate for TDS deduction
Form 10F	If DTAA benefit is claimed, the non-resident must submit this form

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> **Example:** A **Hyderabad startup sending $5,000** to a **UK-based freelancer** submits **Form 15CA & 15CB** before remitting.

Summary Table: Key TDS Rules on Foreign Remittances

Feature	Details
Governing Sections	195 & 206C(1G) of Income Tax Act
TDS on Education (Loan-based) Pan available	0.5%
TDS on Education (Self-Financed)	5%
TDS on Medical Treatment	5%
TDS on Travel Packages	5%
TDS on Business Payments (DTAA Applicable)	10%-40%
Forms Required	Form 15CA, 15CB, 10F (for DTAA claims)

Key Rules for Foreign Exchange Surrender & Compliance

Feature	Rule/Requirement	Example
Surrender Period	Within **180 days** of receipt	A traveler returning from **Dubai with $1,500** can surrender it within **6 months**

Maximum Retention Limit (Cash)	**$2,000** indefinitely	A businessman in **Delhi keeps $1,500 from a US trip** for future use
Verification by APs	APs must **verify documents & KYC**	A **resident wanting to invest abroad** must show **bank statements & tax returns**
When APs Can Refuse Transactions?	If remittance **violates FEMA or AML rules**	A person sending money for **illegal trading** gets flagged
TDS on Remittances	**Deducted as per tax laws**	A **Hyderabad firm paying a US consultant must deduct tax before remittance**

Conclusion:

Foreign exchange surrender rules **ensure proper tracking & compliance**. APs **must follow strict guidelines** to **prevent fraud & money laundering**. By **following FEMA & tax laws**, individuals and businesses can **remit funds legally & hassle-free**.

Indo-Nepal Remittance Scheme

The **Indo-Nepal Remittance Facility Scheme** was launched in **May 2008** by the **RBI & Nepal Rastra Bank** to create a **secure and efficient cross-border remittance system** for Nepalese migrants working in India.

24x7 1/2 Hourly 48 Batches

It utilizes **National Electronic Funds Transfer (NEFT)** to **speed up money transfers from India to Nepal** with **enhanced safety** and **low transaction costs.**

Example: A **Nepali worker in Delhi** can **quickly and securely send money to his family in Kathmandu** via this scheme, without needing a bank account.

Key Features of the Indo-Nepal Remittance Scheme

Feature	Details
Target Group	**Nepali migrant workers in India** sending money home.
One-Way Remittance	**Only India → Nepal** (No reverse remittance).
Maximum Transfer Limit	**₹2,00,000 per transaction**.
Cash Remittances for Non-Account Holders	Allowed up to **₹50,000 per transaction**, max **12 times per year**.

Currency Exchange	India → INR, Nepal → NPR (Nepalese Rupees)
Available for Account & Non-Account Holders	A **Nepali worker** can **send money even without a bank account**.

Example: A **Nepali laborer in Mumbai** without a bank account can **walk into an SBI branch, show his ID, and send ₹30,000 to his family in Nepal.**

How the Indo-Nepal Remittance Works?

Step 1: Remittance initiated in India

- The sender **visits a bank** and provides required details.
- **If non-account holder:** Must show ID (Passport, PAN, Driving License, Employer Certificate, etc.).

Step 2: Processing via NEFT in India

₹50,000/Transaction

- **NEFT system in Mumbai** processes the remittance in batches.

Step 3: Transfer to Nepal via SBI Payment Gateway

- **State Bank of India (SBI)** acts as the **payment gateway** to **send money to Nepal.**
- Funds are transferred to **Nepal SBI Ltd. & their authorized agents.**

Step 4: Receiving Money in Nepal

- The beneficiary in Nepal receives **Nepalese Rupees (NPR)** at their bank branch.
- If the beneficiary **does not have a bank account**, they can **collect cash from a local SBI agent**.

Example: A **Nepali security guard in Kolkata** sends **₹20,000 to his wife in Pokhara** via **SBI Indo-Nepal remittance.** She can collect the cash from **a Nepal SBI agent near her home.**

Security & Compliance in Indo-Nepal Remittance

KYC & Anti-Money Laundering (AML) Measures

- Banks **must verify sender details** to **prevent fraud.**
- Address & mobile numbers of **both sender & receiver** are **captured during the transaction.**

Identification Requirements for Non-Account Holders

- **Mandatory Documents (Any One):**
  - **Passport**
  - **PAN Card**
  - **Driving License**
  - **Utility Bills (Telephone, Electricity, etc.)**
  - **Employer Certificate with Photo & ID Details**

Example: A **Nepali construction worker in Chennai** walks into a bank to send ₹40,000 to his family. **Since he has no bank account,** he **provides his Driving License** as proof of identity and completes the remittance.

Summary Table: Indo-Nepal Remittance Scheme

Feature	Details
Launched By	**RBI & Nepal Rastra Bank (2008)**
Remittance Flow	**Only India to Nepal** (No reverse remittance).
Maximum Transfer Limit	**₹2,00,000 per transaction**
Non-Account Holders (Cash Transfer)	**₹50,000 per remittance, max 12 per year**
Payment Gateway	**SBI (India) → Nepal SBI Ltd. & Agents**
Currency Exchange	**INR (India) → NPR (Nepal)**
Who Can Use It?	**Both Account Holders & Non-Account Holders**
Required Documents (For Non-Account Holders)	**Passport, PAN, Driving License, Utility Bill, Employer Certificate**
Security Measures	**KYC, AML Compliance, Customer Due Diligence**

Conclusion

The **Indo-Nepal Remittance Scheme** is a **fast, secure, and affordable** solution for **Nepali migrant workers in India** to **send money home** . It provides **financial access even for those without bank accounts**, ensuring **quick and hassle-free transfers** through **SBI & Nepal SBI Ltd.**

Q1

1. The shift from FERA to FEMA in 2000 brought several fundamental changes in foreign exchange regulation in India. Which of the following statements is NOT a correct representation of this shift?

A) FEMA decriminalized foreign exchange violations, making them civil offenses instead of criminal offenses.

B) FEMA streamlined foreign exchange transactions and aligned them with WTO norms.

Ans C) FEMA imposed stricter capital account transaction restrictions compared to FERA.

D) FEMA provided greater flexibility in foreign exchange management, promoting external trade.

Q2

2. Under FEMA, which of the following is considered a capital account transaction?

A) Payment for overseas education

B) Interest on loans received from abroad

C) Remittances for medical treatment abroad

Ans D) Investment by an Indian resident in a foreign company

Q3

3. Which category of Authorized Dealers (AD) is permitted to handle both current and capital account transactions under FEMA?

~~A) AD Category I~~ Ans

B) AD Category II

C) AD Category III

D) Full-Fledged Money Changer (FFMC)

Q4

4. A non-resident Indian (NRI) wishes to remit funds outside India. Under FEMA, which of the following factors will determine if the remittance is permissible?

A) The source of funds and compliance with FEMA guidelines Answer

B) The foreign currency exchange rate at the time of remittance

C) Whether the remittance is done through a foreign bank

D) The citizenship status of the sender

Q5

5. The Liberalized Remittance Scheme (LRS) allows Indian residents to send up to USD 250,000 per financial year abroad. Which of the following is NOT a permitted use under LRS?

A) Foreign education

B) Medical treatment abroad

C) Investment in foreign real estate

~~D) Investing in foreign cryptocurrency markets~~ Answer

Q6

6. Under FEMA, foreign currency accounts maintained by Indian residents are classified as:

A) Non-Resident External (NRE) Accounts NRI ✗

B) Resident Foreign Currency (RFC) Accounts Resident Indian Ans

C) Non-Resident Ordinary (NRO) Accounts NRI ✗

D) Foreign Portfolio Investment (FPI) Accounts ✗

Q7

7. Which of the following transactions requires prior RBI approval under FEMA?

A) Receiving foreign gifts below USD 10,000

B) Remitting above USD 250,000 for business investment abroad Answer

C) Sending funds abroad for medical treatment

D) Paying foreign university tuition fees

Q8

8. Which of the following categories of individuals is classified as a "Person Resident in India" under FEMA?

A) A foreign national staying in India for 100 days in a financial year

B) An Indian citizen staying abroad for employment for an indefinite period

Stays in India for 182d or + PFY

C) A foreign national staying in India for 185 days in the last financial year

D) A student studying in the USA for two years

Q9

9. Which of the following foreign transactions is strictly prohibited under FEMA?

A) Investing in a foreign listed company

B) Sending remittances for purchasing a foreign lottery ticket Answer

C) Receiving foreign salary in India

D) Buying property abroad through foreign currency loans

Q10

10. A Full-Fledged Money Changer (FFMC) is permitted to:

A) Conduct capital account transactions

B) Issue foreign exchange for international investments

C) Purchase and sell foreign exchange for non-trade purposes Answer

D) Approve foreign direct investments (FDIs)