

OPERATIONAL ASPECTS OF NRI BUSINESS

PPB MODULE A Chapter 9 PART 1 By Ashish Sir

FEMA Guidelines on Bank Accounts for NRIs & PIOs

The Foreign Exchange Management Act (FEMA) grants the Reserve Bank of India (RBI) the power to regulate, restrict, and prohibit the maintenance of deposits between persons resident in India and persons resident outside India.

Permitted Accounts for NRIs & PIOs

Special accounts have been designed to cater to the needs of Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs) to manage India's foreign exchange resources effectively. These include:

- 1 Non-Resident (External) Rupee Account (NRE)
- 2 Foreign Currency (Non-Resident) Account (FCNR-B)
- 3 Non-Resident (Ordinary) Rupee Account (NRO)

Non-Resident (External) Rupee (NRE) Account

Who Can Open?

NRIs and PIOs (including Overseas Citizen of India (OCI) cardholders).

Authorised Banks

Can be opened with **Authorised Dealers (ADs)** and **other RBI-approved banks** (including cooperative banks).

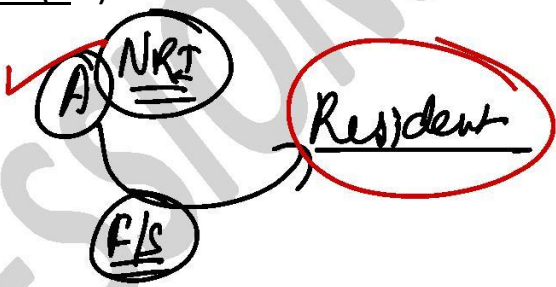
Key Features & Regulations

1 Types of Accounts Permitted /NRO

Savings, Current, Recurring, Fixed Deposit (FD).

✓ 2 Joint Accounts

Permitted with:

- Two or more NRIs/PIOs.
 - One NRI/PIO with a resident relative (only on 'former or survivor' basis).
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3 Operating Modes

PoA Holder (resident) can:

- Withdraw for local payments.
- Remit funds to the NRI/PIO account holder.
- Make permitted investments in India.

PoA Holder (resident) **CANNOT**:

Open an NRE account.

Repatriate funds abroad (except to the account holder).



Gift payments to a resident on behalf of the NRI.

Transfer funds to another NRE account. X

4 Permitted Transactions

NRO → NRE

1mn USD

Credits (Deposits Allowed)

~~Foreign Inward Remittances~~ in any permitted currency.

~~Cash Deposits (Foreign Currency)~~ (subject to declaration on Currency Declaration Form).

Interest Earned on NRE deposits.

~~Income Earned in India~~ (rent, dividends, pension, etc.) ~~after paying applicable taxes.~~

Transfers from other NRE/FCNR (B) accounts.

Refunds from cancelled property purchases (if paid via NRE/FCNR (B) account).

Debits (Withdrawals Allowed)

Local payments in India.

NRE A/C

Remittance outside India (free repatriation of funds).

Transfers to NRE/FCNR (B) accounts of another NRI/PIO.

5 Interest Rates & Deposit Terms

Minimum Tenor: 1 year for NRE Fixed Deposits (TDs).

Interest Rates: As per RBI's *Interest Rate on Deposits Directions*, 2016.

Ceiling on Interest Rates:

- Cannot exceed domestic rupee term deposit rates of similar tenor.

- Interest credited quarterly or shorter intervals.

Premature Withdrawal:

NRI → Indian Citizen

- Allowed but subject to penalty (except in case of conversion to Resident Foreign Currency (RFC) account).
- No penalty for:
 - ✓ Conversion to RFC Account.
 - ✓ Transfer to another bank due to business reasons.

On Death of Account Holder:

~~(A) Joint~~ (N) resident

- Resident nominees get domestic TD rates on maturity.
- Non-resident nominees can repatriate funds abroad.
- Resident nominee's remittance outside India requires RBI approval.

6 Loan Facilities Against NRE Deposits

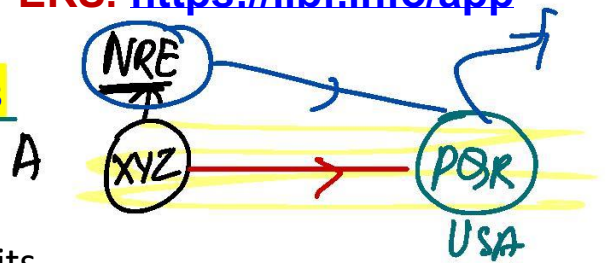
In India:

Loans can be given against NRE deposits.

No premature withdrawal if deposit is used as loan collateral.

Abroad:

Correspondent banks overseas can lend against NRE deposits.



7 Tax Benefits & Repatriation

No Wealth Tax & Income Tax on NRE deposits.

Interest earned is tax-free in India.

Funds can be fully repatriated (principal & interest).

Taxes

Why Open an NRE Account?

- ✓ Freely repatriable (can send funds abroad anytime).
- ✓ Fully tax-free interest.
- ✓ Best for managing foreign income in India.

Ideal for NRIs looking to invest in India (property, stocks, etc.).

Loans Against NRE Deposits

NRIs & PIOs can take loans in India & abroad against NRE deposits, but

NO lien on NRE Savings Accounts. α

A. Loans in India

Who can take the loan?

NRI/PIO account holder

Third party in India (e.g., family, friends, business partners)

Loan Amount

updated

No limit!

Margin Requirement

Bank rules apply as per their policy

Where can you use this loan?

Personal or Business use

Investment in Indian companies (non-repatriation basis)

Buying home/flat for own residence

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Loan Repayment

From NRE deposits

Remittance from abroad

NRO account balance



B. Loans Outside India

Who can take the loan?

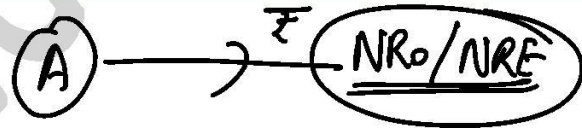
NRI depositor or third party for bonafide purposes

Loan Repayment

Allowed through **bank remittance from India**

Foreign Currency (Non-Resident) Account (FCNR-

B) Scheme



NRIs & PIOs can **keep foreign currency deposits in India under FCNR (B) scheme!**

Which banks allow it?

All Authorized Dealers (ADs) & RBI-approved banks

Which currencies are allowed?

Any freely convertible foreign currency

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Type of Account?

NO Recurring Deposits (RDs)

1. Deposit Terms & Interest Rates

Minimum & Maximum Period

~~Minimum: 1 Year~~

~~Maximum: 5 Years~~

Interest Rates

Floating Rate
LIBOR/MIBOR + spread

Floating & Fixed rates allowed

~~Reset period for floating rate: 6 months~~

How is interest calculated?

~~360-day year base~~

~~Compounded at 6-monthly rests~~

Interest on Maturity & Renewal

Maturity date 5.10%
14th day
4.80% lower

Renewed **within 14 days** Lower rate of renewal date or maturity

date

Renewed after 14 days Treated as a fresh deposit

Interest After Death of Depositor

Paid till maturity at the contracted rate

Pre-maturity withdrawal No penalty

NRE → FCNR → Resident

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⚠ Interest on Return to India

FCNR (B) continues till maturity

RFC

← maturity

On maturity, converted to Resident Rupee or RFC Account

Premature Withdrawal Rules

Allowed as per board policy

Penalty may apply

No penalty if converted to RFC account

2. Loans Against FCNR (B) Deposits

In India

Banks allow loans against FCNR (B) deposits

Lien on deposits is permitted

Outside India

Loans can be availed from banks abroad against FCNR (B) deposits

Loan Repayment

By adjusting FCNR (B) deposit balance

Inward remittance from abroad

5000 → 4500

Why Open an FCNR (B) Account?

Best for NRIs to Save in Foreign Currency

Tax-Free Interest in India

Freely Repatriable (Send Money Abroad)

Higher Interest Rates than Savings Accounts

Can be held up to 5 Years

inward remittance
NRE Balance
NRO → /mn usd

Summary Table

Feature	NRE Account	FCNR (B) Account
Who Can Open?	✓ NRIs & PIOs	✓ NRIs & PIOs
Currency Allowed?	INR	<u>Foreign Currency</u>
Types of Accounts?	Savings, Current, FD	Only Fixed Deposit
Minimum Deposit Period?	1 Year <u>FD</u>	<u>1 Year</u>
Maximum Deposit Period?	No Limit	5 Years
Interest Rate?	As per domestic INR rates	<u>Based on foreign currency benchmarks</u>
Tax on Interest?	✓ Tax-Free in India	✓ Tax-Free in India
Repatriation?	✓ Freely Repatriable	✓ Freely Repatriable
Loans Allowed?	Yes	Yes

Latest Updates & Key Takeaways

FCNR (B) deposits now available in multiple freely convertible foreign currencies

NRE deposits continue to enjoy tax-free interest in India

Loans available against both NRE & FCNR (B) deposits, but usage restrictions apply

[Agricultural/plantation, Real estate, on lending]

Premature withdrawal penalty applies in most cases (except conversion to RFC or account transfer)

FCNR (B) deposits are ideal for NRIs looking to park foreign income in India without currency risk

CA/SF/RO/FO

Local credit

A → Local
NRI

Non-Resident (Ordinary) Account (NRO) Scheme

NRIs & PIOs must keep their Indian income (rent, dividends, pension, etc.) in an NRO account as per FEMA rules.

1. Who Can Open an NRO Account?




NRIs & PIOs

Foreign Nationals Visiting India

X address proof
\$ 1000 US
[foreign students] → *Stamps*

Example: Rahul Sharma, an IT engineer working in the USA, owns a flat in Mumbai that he rents out. The rental income must be deposited in an NRO account, as it is Indian income.

2. Which Banks Offer NRO Accounts?

-  Authorized Dealer (AD) Banks ✓
-  Other Banks Permitted by RBI ✓
- ✓  Post Offices in India ✓

Example: Suppose Suresh Patel, an NRI in the UK, wants to open an NRO account. He can approach SBI, HDFC, ICICI, or even a post office branch in India.

3. Types of NRO Accounts

- Savings Account (SB) – Best for regular transactions
- Current Account (CA) – Used for business transactions
- Fixed Deposits (TDs) – Higher interest rates on locked deposits
- Recurring Deposits (RDs) – Monthly savings option

4. Joint Account Rules

NRI + NRI or PIO

Example: Rajiv, an NRI in Canada, has an NRO account with his father in India as a joint account holder. His father can manage local payments like society maintenance bills from the account.

5. Fixed Deposit (FD) Rules

Minimum Deposit Period: 7 Days

Interest Rate: As per RBI rules

6. Interest on Deposits

Savings Deposit Interest: Same as domestic SB interest rates

Term Deposit Interest:

Varies by tenor

Higher rates for bulk deposits (₹2 Cr & above)

Senior Citizen & Staff Extra Interest NOT Allowed


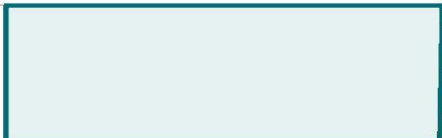
Same as NRE

Interest Payout Frequency

Quarterly or shorter intervals

7. Permitted Transactions

Type	What's Allowed?	Example
Deposits (Credits)	<u>Rent, pension, dividends,</u> <u>inward remittances, gifts</u> <u>from relatives</u>	An NRI receives ₹50,000/month rent from his Bangalore property into his NRO account.
Withdrawals (Debits)	<u>Local payments,</u> <u>investments, bill</u> <u>payments</u>	An NRI's father pays electricity bills in India from the NRO account.

<p>Repatriation</p> 		<p>A Dubai-based NRI transfers \$50,000 from his NRO to his NRE account after paying tax.</p>
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8. Loans Against NRO Deposits

Loans available in India against NRO deposits

Loan amount based on bank's usual margin rules

Loan cannot be used for:

~~Money lending business~~

~~Agricultural & Plantation Activities~~

~~Investment in Real Estate (Buying Land for Sale)~~

Example: Manoj, an NRI in Germany, wants a loan of ₹10 lakhs against his NRO fixed deposit of ₹15 lakhs in HDFC Bank. He can take the loan but cannot use it for real estate business.

9. NRO Account Rules for Returning NRIs

Returning NRI? Your NRO account will be converted to a resident account

Existing resident account? It will be converted into an NRO account when you become NRI

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Power of Attorney (PoA) Holder Can Operate NRO Account?

Allowed for local payments

Cannot repatriate outside India without proper approval

Example: *Vikas, an NRI in the USA, gave PoA to his brother in India to manage his NRO account. His brother can pay school fees but cannot transfer funds abroad.*

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