

Liberalised Remittance Scheme (LRS)

Introduction

The Reserve Bank of India (RBI) is responsible for issuing currency, managing foreign exchange and regulating the financial system of the economy. It plays a key role in managing the flow of money in and out of the country. This is because for two reasons:

- The government wants to ensure that the source of such money being sent into or out of the country does not come from crime or end up being used for an illegal purpose
- To protect the local currency market from being destabilized due to the excessive outflow of the rupees.

What is LRS??

The Liberalised Remittance Scheme (LRS), introduced vide AP (Dir Series) Circular number 64, dated February 4, 2004, is one of the steps taken by the government towards easing the controls on foreign exchange movements in and out of the country in the process of liberalisation.

A remittance can be inward (i.e. when the amount comes into India from abroad) and outward (i.e. when the amount is sent from India to abroad). LRS is applicable only for the outward remittances made. This scheme is described as 'liberalised' because till the introduction of this scheme, the individuals were allowed to remit the amount abroad subject to compliances under FEM (Current Account Transactions) Rules, 2000 and with specific permission from RBI wherever required.

Under LRS,

- *A resident individual can remit the amount abroad*
- *for either of the permitted current or capital account transactions*
- *without specific approval from RBI*
- *up to USD 2,50,000 or its equivalent in other currencies for each financial year. (April to March)*

Scheme guidelines

The following can be added to the above, to make it clear:

- Minors are also eligible to remit the amount abroad, subject to signing of declaration form by natural guardian
- LRS is not available to non-residents, HUF, Trusts, Partnership firms and Corporates.
- All the remittances should be routed only through designated Authorised Dealer (AD), and no specific approval up to permitted limit is required from RBI.
- The cap of USD 2,50,000 is for the entire financial year irrespective of the number of times the amount is remitted abroad

- The threshold limit has been revised wherever required subject to changes depending upon macro and micro economic conditions and the limits are given below

Sl. No.	Effective Date	Applicable Limit (USD)
1	04-02-2004	25,000
2	20-12-2006	50,000
3	08-05-2007	1,00,000
4	26-09-2007	2,00,000
5	14-08-2013	75,000
6	03-06-2014	1,25,000
7	01-06-2015	2,50,000

- The present threshold limit of USD 2,50,000 is applicable with effect from 01.06.2015.
- The amount obtained from the loan funds cannot be used to remit under LRS.

Nature of transactions covered under LRS

Until the Government decides to waive the control on capital account transactions, LRS remains the best available way to remit the money and invest anywhere in foreign countries.

- The amount can be remitted only for such current and capital account transactions that are permissible. Few of the permitted transactions are tabulated below

Current account transactions	Capital account transactions
Private travel and tourism expenses (other than to Nepal and Bhutan)	Opening of foreign currency account with an overseas bank
Gift/ donation to an individual/ organisation outside India	Purchase of property abroad
Business trip	Making investments abroad
Maintenance of close relatives	Setting a WOS or a JV for a <i>bona fide</i> business activity
Medical treatment	Extending loans in INR to NRIs being relatives as per Companies Act 2013 (Only interest free loans with minimum maturity of one year are allowed)
Overseas education	

- Using this window, parents can remit the amount for their children studying abroad for meeting the fees and living expenses without any estimate from foreign university. Also, AD Bank is allowed to remit beyond LRS limit based on the estimate received from the institution abroad.
- Remittance for Medical treatment/ check- up whether planned or inadvertent after proceeding abroad can be made up to the limit without any estimate from the hospital. In case the cost of medical treatment exceeds LRS limit, then AD Bank after obtaining estimate from a hospital/ doctor abroad can permit the remittance under general permission. In addition, USD 250,000 is also allowed to a person who is accompanying the person for medical treatment.



Prohibitions under the scheme

1. Remittance for any purpose specifically prohibited under Schedule (like purchase of lottery tickets/sweep stakes, prescribed magazines, etc.) or any item restricted under Schedule II of Foreign Exchange Management (Current Account Transactions) Rules, 2000.
2. Remittance from India for margins or margin calls to overseas exchanges / overseas counterparty.
3. Remittances for purchase of FCCBs issued by Indian companies in the overseas secondary market.
4. Remittance for trading in foreign exchange abroad.
5. Capital account remittances, directly or indirectly to countries identified by the Financial Action Task Force (FATF) as “noncooperative countries and territories” , from time to time.
6. Remittances directly or indirectly to those individuals and entities identified as posing significant risk of committing acts of terrorism as advised separately by the Reserve Bank to the banks.
7. Gift to Resident Indians, in foreign exchange.

Documentation

The individual seeking to make a remittance should submit Form A2 to AD bank while purchasing the foreign exchange currency under LRS. The form contains particulars seeking

- basic details (applicant name, PAN, name of AD Branch and receiver details)
- purpose and its code for which the individual is remitting the amount,
- declaration by the applicant and certificate by AD that the amount remitted throughout the financial year does not exceed the limit and is not used for the prohibited purposes.

Any other declarations/ information sought by AD bank if the account in such bank is held by the individual for less than one year for ascertaining the source of funds.

Penal provisions

If any person contravenes any provision of this Act, or contravenes any rule, regulation, notification, direction or order issued in exercise of the powers under this Act, or contravenes any condition subject to which an authorisation is issued by the Reserve Bank, he shall, upon adjudication, be liable to a penalty up to thrice the sum involved in such contravention where such amount is quantifiable, or up to two lakh rupees where the amount is not quantifiable, and where such contravention is a continuing one, further penalty which may extend to five thousand rupees for every day after the first day during which the contravention continues.

Recent Changes

In order to keep a check on the outward remittances, it has made PAN as mandatory requirement for remitting the amount under this scheme. This is to trace the individual and to ensure that the total amount remitted by him through various AD banks do not exceed prescribed limit.

It has also tightened the reporting norms by initiating the daily reporting by each AD bank of the transactions undertaken under LRS which is accessible to all other AD banks.