

NRI

C O N N E C T

April 2022



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NRIs and Income Tax

Are NRIs (Non-Resident Indians) required to file their income tax returns in India and if yes, then what income is subject to tax in India? This is a question that would arise in the minds of most NRIs.

The residential status of a person is the primary determinant of the income tax payable in India and an individual could either be a Resident, Non-Resident or a Resident but not ordinarily resident in India. The income tax liability in India is not dependent upon his/her citizenship and hence even a non-citizen of India is subject to Indian income tax if he/she is resident in India.

An individual becomes non-resident for an assessment year, if in the previous year, if he/she meets the following criteria:

- If he/she has not been in India for 182 days or more
- If he/she has been in India for 60 days or more during the year, but has not been in India for 365 days or more during the four years preceding the previous year

However, in respect of an Indian citizen and a person of Indian origin who visits India during the year, the period of 60 days as mentioned in (2)

above shall be substituted with 182 days. The similar concession is provided to the Indian citizen who leaves India in any previous year as a crew member or for the purpose of employment outside India.

The Finance Act 2020, w.e.f. Assessment Year 2021-22 has amended the above exception to provide that the period of 60 days as mentioned in (2) above shall be substituted with 120 days, if an Indian or a person of Indian origin whose total income, other than income from foreign sources, exceeds Rs.15 lakh during the previous year.

As per the Income Tax Act 1961, income tax is payable on the total income received or deemed to have been received in India or the income that accrues or is deemed to have accrued in India during the financial year. This broadly means that only income earned or accrued in India for an NRI is liable to income tax in India and no tax is payable on the NRI's foreign income.

So, if a person is an NRI and has earned or accrued income from his investments or other sources in India, then he/she is required to file the income tax returns in India.

What are the categories of income of an NRI that are liable for income tax in India?

- **Income from bank accounts and deposits:**

The income tax liability in India for an NRI is dependent on the type of bank account and deposit. Interest earned on Non Resident External (NRE) accounts and deposits is completely exempt from Indian income tax. Interest earned on foreign currency non resident (FCNR) deposit is also exempt from Indian income tax. However, Non Resident Ordinary (NRO) accounts and deposits are subject to a tax. Currently, the income tax is deducted at source (TDS) at the rate of 30% and an additional surcharge & cess of 1.20% totalling to 31.20%. If the NRI is resident in any of the countries with whom India has a double taxation avoidance agreement (DTAA), then the TDS will be as per the DTAA agreement between India and that particular country. The NRI will have to produce a tax residency certificate from the regulatory authority of the country of residence to claim for the reduced TDS. For eg. If the NRI is resident in Kenya, then as per the DTAA between India and Kenya, the TDS on the NRI's NRO deposits or accounts in India will be at 10% and an additional surcharge & cess of 0.40% totalling to 10.40%, instead of the usual 31.20% subject to the NRI submitting the tax residency certificate. An NRI should also be cognizant of the income tax applicability in his country of residence since in some countries like the USA, the global income is taxable. So, even if the interest on the NRE or FCNR deposit is exempt from Income tax in India, the interest earned on the deposit is to be declared to the tax authorities in the country of residence and applicable tax has to be paid.

- **Income from Property** – NRIs are permitted to purchase an immovable property in India, except agricultural/ plantation or a farm house and are also permitted to hold or transfer immovable property that was acquired prior to the attainment of the NRI status or if the same has been inherited from a resident Indian. An NRI is eligible to claim all deductions available to a resident Indian for a residential property purchase.

An NRI can make income either from capital gains of say, a residential house property or can earn income by letting out the property for rent.

Let's now see what happens when an NRI makes a capital gain from a residential house property. If an NRI sells a residential house property after a period of 3 years from the purchase date, then a long term capital gains tax of 20% and an additional surcharge & cess of 0.80% totalling to 20.80% is applicable. The capital gain is the difference between sale value and indexed cost of purchase i.e the cost of purchase adjusted to inflation. But, if the entire long term capital gains are reinvested in another residential house property within 2 years after the date of sale, then the entire long term capital gain is exempted from income tax in India. If the long term capital gain is more than the cost of the new property, then the excess of the capital gain over the purchase cost of the new property will be taxable. If the property is sold in less than 3 years from the purchase date, then a short term capital gain tax at 30% and an additional surcharge & cess of 1.20% totalling to 31.20% is applicable. NRIs should also be aware of the restrictions on repatriability of such sale proceeds, which is restricted to a maximum of only 2 properties. Also, the amount that is being repatriated should not exceed the amount paid for purchase of the property.

The other kind of income from property is when the property is rented out. The rental income earned by an NRI is taxable in India. The tenant is to deduct the tax at source while making the rental payment. The tenant should make the TDS at 31.20% (inclusive of surcharge and education cess) and also issue the TDS certificate. NRIs can get deduction of 30% towards maintenance expenses, repairs etc. Exemption is also available for Municipal/ corporation tax paid. If the property has been purchased through a home loan, then the interest paid towards the home loan can also be deducted. An NRI can also claim deduction for repayment of the principal amount of upto Rs.150000/- p.a and stamp duty, registration charges etc. paid at the time of purchase of property. Since tax is to be deducted at source and the same income might also be subject to tax in the country where the NRI is residing, the NRI might avail of the benefit of DTAA, if it is applicable, and avail of a lower rate of TDS and claim credit of the taxes paid in India.

- **Capital gains From Shares & Mutual funds:** Profits earned through sale of share, debentures, mutual funds and other securities are taxed as "capital gains" under the Income tax Act, 1961.

If the profit is on shares of a company, equity or equity oriented mutual funds that are subject to securities transaction tax (STT) and are held for more

than 12 months, then such profits are determined as Long term capital gain and are exempt from Indian income tax. Dividends received on shares of domestic companies is also exempt from Income tax in India. Long term capital gains from unlisted securities or debt mutual funds shall be taxed at 10% with an additional surcharge & cess of 0.40% totalling to 10.40%

If these have been held for less than 12 months, then such gains are termed as short term capital gains and are taxed at normal rates of tax as applicable to the total taxable income. Short term capital gains are taxable as applicable to the total income of the NRI. In the case of short term Capital Gains due to sale of listed equity shares or units of an equity oriented fund which is subject to STT,

the tax rate applicable is 15% with an additional surcharge & cess of 0.60% totalling to 15.60%

Salary: If an NRI or anyone on behalf of the NRI receives a salary income in India, then the salary paid to the NRI is taxable. A salary paid in India in an Indian account will be treated as salary paid for services rendered in India. So, such salary payment will be subject to taxation at the tax slab as applicable.

(All views expressed are the writer's personal views and do not in anyway represent his organization's interests or opinions).

- Anand Subramaniam
Head- NRI Business
South Indian Bank

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Indian Economy

India's GDP has grown dramatically over the years. It is now at the sixth position worldwide. As mentioned above, it is expected that this economy would be within the world's top two economies in the next thirty years. The GDP forecast for the next five years suggests the economy would grow at a pace of around 6.5% to 7%. The stability in the economy reduces the risk of investment on the other hand. At present, India is having a stable government at the centre as well. So, politically the economy is also in a stable state which, in turn, reduces the volatility in the financial market.

So, the NRIs can diversify their investment very well with multiple assets. The interest rate you receive is higher in India than in many other developing countries and far better than in developed countries. While it is around 4% in India, it is 0.50% in the US, in the UK it is 0.75%. So, we can see the huge difference in the interest rate in these countries. Thus, if an NRI invests in India, they can get great returns compared to the countries they are living in.

The investment options for the NRIs are fixed deposits, mutual funds, direct equity, real estate, Bonds and Non-Convertible Debentures, Government Securities, Certificate of Deposits, and

National Pension Scheme.

There are three main types of fixed deposit accounts that serve as NRI investment options in India:

1. **Non-Resident External Account (NRE)** –
The money of such an account is kept in rupees. It's easy to return the money to dollars. Interest rates on these accounts vary depending on the deposit size and/or bank. You can expect interest rates to be around 6% to 7% per year.
2. **Non-Resident Ordinary Account (NRO)** –
This account type is generally used by NRI's to control their Indian income. Rent income, dividends from investments, or pension funds can be paid into these accounts. These accounts have a current limit of \$1 million that is allowed to be transferred from this account to a US account per year. Take note the interest earned on an NRO fixed deposit is taxed at a rate of 30%.
3. **Foreign Currency Non-Resident (FCNR)** –
Foreign currencies are stored in these accounts.

It helps to avoid the currency fluctuations that take place in financial markets. The currency you deposit into the account will determine the interest rate of it. Dollars should cause an interest rate of between 2% to 3%. You can take money from this account at any time and it is not taxed by the Indian government.

An NRI needs an NRE, NRO, or FCNR account in India to be able to invest in an Indian mutual fund.

However, income earned in India by Non-Resident Indians is taxable and is subject to TDS (Tax deducted at source). The rate of the tax depends on the source of income. The source can be salary received in India or payments for services provided in India, real estate income, capital gains on transfer of assets located in India, income from fixed deposits or interest on savings accounts, etc.

Interest earned on the NRE account and FCNR account is not taxed. However, interest on the NRO account is taxable.

The surcharge on LTCG on all types of assets including real estate, irrespective of the capital gain amount, is capped at 15%. Capital gains are not applicable to an inherited property as there is no sale. However, if an NRI decides to sell the property, any profit arising from the sale will attract capital gain tax.

Despite all of that, NRIs may leave their country for occupation or vocation but the country never leaves their hearts or minds.

- Parnali Kshirsagar
(Research Analyst - Treasury
South Indian Bank)



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Liberalised Remittance Scheme (LRS)

The Scheme was introduced on February 4, 2004, with a limit of USD 25,000. The LRS limit has been revised in stages consistent with prevailing macro and micro economic conditions. Presently under the Liberalised Remittance Scheme, all resident individuals, including minors, are allowed to freely remit up to USD 2,50,000 per financial year (April – March) for any permissible current or capital account transaction or a combination of both. Further, resident individuals can avail of foreign exchange facility for the purposes mentioned in Para 1 of Schedule III of FEM (CAT) Amendment Rules 2015, dated May 26, 2015, within the limit of USD 2,50,000 only.

Purposes under FEM (CAT) Amendment Rules, 2015, under which a resident individual can avail of foreign exchange facility within the LRS limit of USD 2,50,000.

- Private visits to any country (except Nepal and Bhutan)
- Gift or donation
- Going abroad for employment
- Emigration
- Maintenance of close relatives abroad
- Travel for business, or attending a conference or specialised training or for meeting expenses for meeting medical

expenses, or check-up abroad, or for accompanying as attendant to a patient going abroad for medical treatment/ check-up

- Expenses in connection with medical treatment abroad
- Studies abroad
- Any other current account transaction which is not covered under the definition of current account in FEMA 1999.

In case of remitter being a minor, the LRS declaration form must be countersigned by the minor's natural guardian. The Scheme is not available to corporates, partnership firms, HUF, Trusts etc.

Prohibited purposes under the LRS facility.

- Remittance for any purpose specifically prohibited under Schedule-I (like purchase of lottery tickets/sweep stakes, proscribed magazines, etc.) or any item restricted under Schedule II of Foreign Exchange Management (Current Account Transactions) Rules, 2000.
- Remittance from India for margins or margin calls to overseas exchanges / overseas counterparty.

- Remittances for purchase of FCCBs issued by Indian companies in the over seas secondary market.
- Remittance for trading in foreign exchange abroad.
- Capital account remittances, directly or indirectly, to countries identified by the Financial Action Task Force (FATF) as

“non- cooperative countries and territories”, from time to time.

- 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.

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LIST OF CORRESPONDENT BANKS WITH SWIFT ARRANGEMENT

Currency Details	Bank & Address	SIB's A/c no. with them	SWIFT Code
USD (US Dollar)	The Bank of New York Mellon (BNY Mellon), 240 Greenwich Street NY 10286, USA ABA ROUTING NO: 021000018	803-3162-716	IRVT US3N
	Standard Chartered Bank, One Madison Avenue, New York, NY 10010-3603 ABA ROUTING NO: 026002561	3582021649001	SCBLUS33
GBP (Pound Sterling)	Standard Chartered Bank, 1 Basinghall Avenue, London EC2V 5DD, United Kingdom IBAN Number: GB88 SCBL 6091 0412 6928 56	01269285601	SCBLGB2L
EURO	Commerzbank AG, Frankfurt AM Main Germany	400 875107500EUR	COBADEFF
	Standard Chartered Bank (Germany) GMBH, Franklinstrasse 46-48 60486 Frankfurt /Main, Germany, IBAN:DE40512305000018160002	018160002	SCBLDEFX
JPY (Japanese Yen)	Standard Chartered Bank, 21st Floor Sanno Park tower Tower 2-11-1 Nagatacho, Chiyoda-ku Tokyo 100-6155 Japan	23762101110	SCBLJPJT
CAD (Canadian Dollar)	The Bank of New York Mellon(BNY Mellon), 240 Greenwich Street NY 10286, USA	8033060042	IRVTUS3N (Intermediary bank:- Royal Bank of Canada, Toronto ROYCCAT2
CHF (Swiss Franc)	Zurcher Kantonalbank, Hardstrasse 201, Zrich (Prime Tower) IBAN Number : CH9500700070001284444	0-0700-01284444	ZKKBCHZZ80A
AUD (Australian Dollar)	State Bank of India, Suite 31.02, Australia Square,264, George Street Sydney,NSW 2000, Australia	30113039120001	SBINAU2SXXX
AED (UAE Dirham)	Mashreq Bank, P O Box1250, Riqa, Diera Dubai, UAE, IBAN No : AE960330000019030000172	019030000172	BOMLAEAD
SGD (Singapore Dollar)	DBS Bank Ltd 12 Marina Boulevard, Marina Bay Financial Centre Tower 3, Singapore-018982	037-003682-0	DBSSSGSG
SAR,, (Saudi Riyal)	Al Rajhi Bank, Head Office, Al Olayia Main Street – Riyadh, Al Akaria Building 3, P.O. Box 28, Riyadh – 11411 Saudi Arabia.	IBAN: SA0780000100608010055456	RJHISARI

LIST OF EXCHANGE HOUSES/BANKS HAVING RUPEE DRAWING ARRANGEMENT WITH SOUTH INDIAN BANK

Country	Name of the bank/ Exchange Company	Remittance facility
UAE	Hadi Express Exchange, P.O Box 28909, Dubai, UAE, Ph: 00971-43537650	SIB Express
	UAE Exchange Centre LLC, Head office, P.O Box 170, Abudhabi, UAE, Ph: 00971-26322166	SIB Express
	Al Ahaliya Money Exchange Bureau, P.O Box 2419, Abu Dhabi, UAE, Ph: 00971-26270004	SIB Express
	Al Ahaliya Money Exchange Bureau, P.O Box 2419, Abu Dhabi, UAE, Ph: 00971-26270004	SIB Express
	Al Rostamani Exchange, P.O Box 10072, Al Rostamani Bldg. (Above 1st gulf Bank) Mezzanine Floor, Bur Dubai, UAE, Ph: 00971-263223222	SIB Express
	Al Fardan Exchange Company, P.O Box 498, Abudhabi, UAE, Ph: 00971-26223222	SIB Express
	Al Ansari Exchange, Head office, P.O Box 6176, Dubai, UAE, Ph: 00971-26224421/ 26108888/43772666	SIB Express
	Sharaf Exchange LLC, P.O Box 29040, Dubai, UAE, Ph: 00971-43554560	SIB Express
	Lulu International Exchange LLC, P.O Box 4059, Plot No. C-210, Muroor Road, Abu Dhabi, UAE, Ph: 00971-26421800	SIB Express
	Joy Alukkas Exchange, P.O Box 171468, Bur Dubai, UAE, Ph : 00971-42522900	SIB Express
	GCC Exchange, P.O Box 41704, Al Sabkha, Deira, Dubai, UAE	SIB Express
	Delma Exchange, P.O Box 129869, Abu Dhabi, UAE, Ph: 00971-26225511/26225544	SIB Express
	Federal Exchange, Mohammed Bin Zayed City, P.O. Box 29407, Abu Dhabi, UAE. Tel : +971 2 555 8851	SIB Express
	Muthoot Exchange, P O Box 123387, Ayal Nasar, Naif Road, Deira, Dubai, Tel: +9714 2726339	SIB Express
Kuwait	UAE Exchange Centre, Kuwait, P.O Box 26155, Postal Code: 13122, Safat, Kuwait, Ph: 00965-22459417	SIB Express
	National Exchange Co., P.O Box 11520, Postal Code: 15355, Dasma, Kuwait Ph: 00965-5736603	SIB Express
	M/s Kuwait Asian International Exchange Co W.L.L, Office No. 48 Adel & Anwar Mustafa Thunayan Al Ghanim Complex, Street 7 Block 73, Fahaheel Area, Kuwait, Tel: +965-23912944	SIB Express
	M/s Wall Street Exchange Co WLL, P.O. Box : 29942, Safat, 13160, Kuwait Tel: +965 1822055 Ext. #115	SIB Express
Oman	Joyalukkas Exchange LLC (formerly Majan Exchange LLC) P.O Box 583, Postal Code: 117, Sultanate of Oman. Ph: 00968-24794017	SIB Express
	Musandam Exchange, P.O Box 2155, Postal code: 112, Ruwi, Sultanate of Oman Ph: 00968-24794127	SIB Express
	Oman International Exchange, P.O Box 994 Postal Code: 114, Hay Al mina, Sultanate of Oman, Ph: 00968-24834954	SIB Express
	Hamdan Exchange Co., Head Office, P.O Box 190, Postal code: 211, Salalah, Sultanate of Oman, Ph: 00968-23211258/24830893	SIB Express
	Lulu Exchange Co LLC (formerly Asia Express Exchange Co. LLC), P.O Box 881, Ruwi, Postal Code: 112, Sultanate of Oman, Ph: 00968-24788787	SIB Express
Bahrain	N.E.C BSC (c) (formerly Nonooo Exchange Co.), P.O Box 11970, Manama, Bahrain Ph: 0097317230905	SIB Express
	Zenj Exchange Co., P.O Box 236, Manama, Bahrain, Ph: 0097317224352	SIB Express

LIST OF EXCHANGE HOUSES/BANKS HAVING RUPEE DRAWING ARRANGEMENT WITH SOUTH INDIAN BANK

Country	Name of the bank/ Exchange Company	Remittance facility
Qatar	Al Fardan Exchange Co., P.O Box 339, Doha, Qatar, Ph: 00974-4335117	Draft Drawing SIB Express
	Gulf Exchange Co., P.O Box 4847, Doha, Qatar, Ph: 00974-4383222	SIB Express
	City Exchange Co., Near Arab Roundabout/Souq Al Najadah, P.O Box 16081, Doha, Qatar Ph: 00974-4435060	SIB Express
	M/s Al Dar for Exchange Works W.L.L, P.O Box 24048, Nuaijah, IBA Building, C-Ring Road, Doha, Qatar, Ph: 00974-4566514	SIB Express
	M/s Islamic Exchange Co., P.O Box 80925, Doha, Qatar, Ph: 00974-4422718	SIB Express
	Al Sadd Exchange, Post Box.17127, Al Ameer Street, Fareej Al Soudan , Doha – Qatar Ph: +974 44323334	SIB Express
	Doha Bank, P.O Box 3818, Grand Hamad Avenue, Doha, Qatar, Ph: 00974-44456600	Draft Drawing TT (Swift)
Saudi Arabia	Al Rajhi Bank, P.O Box 28, Riyadh 11411, Kingdom of Saudi Arabia, Ph: 0096612116000	TT (Swift)
	Arab National Bank, P.O Box 56921, Riyadh 11564, Saudi Arabia, Ph: 00966590302887	TT (Tele Money)
Singapore	International Exch. Co. (S) Pte Ltd., 111, North Bridge Road, #01-17/18, Peninsula Plaza, Singapore-179098, Ph: 006563387749	SIB Express
Australia	Flyworld Money Exchange Pty Ltd, 49 Princes Highway, Dandenong Vic, 3175, Australia. Ph: 0449 891 010	SIB Express
	PFG Forex Pty Ltd, 189 B South Center Road, Tullamarine, VIC 3043, Australia. Ph: +61-3-9001 5864	SIB Express
	Remit International Pty Ltd, Australia, 1/100 Oaks Ave Dee WHY , NSW Australia 2099. Ph: + 61402098618	SIB Express
Canada	Buckzy Payments INC. 67 Young Street. Suite 701, Toronto, ON M53 1J8. Ph: 91 98470 41060	SIB Express
United Kingdom	M/s GCC Exchange UK Ltd, 90, High Street, Southall, Middlesex-UB1 3DB, United Kingdom, Ph : +442085712065	SIB Express
	M/s Direct Remit Limited, 444 Edgware Road, London, W2 1G, Ph +971 527553421, +971 553407625	SIB Express

Representative Office, Dubai

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