

# CAN A RESIDENT INVEST ABROAD?

## Liberalised Remittance Scheme (LRS)

Yes, a resident in India can invest abroad, but there are certain regulations under the Liberalised Remittance Scheme (LRS) of the Reserve Bank of India (RBI) and other applicable laws.



# Key Provisions Under LRS for Individuals



## 01

### Annual Limit:

An Indian resident can remit up to USD 250,000 per financial year (April-March) for permitted capital and current account transactions.

## 02

### Permitted Investments:

- Buying shares or debt instruments of foreign companies
- Investing in mutual funds, ETFs, bonds, and real estate abroad
- Setting up wholly owned subsidiaries (WOS) or joint ventures (JVs) abroad (subject to Overseas Direct Investment (ODI) regulations)

## 03

### Restricted Transactions:

- Investment in entities engaged in real estate business or trading in financial products linked to commodities.
- Remittances to countries identified as non-cooperative by FATF or restricted by the Government of India.

### For Companies & Firms (ODI Route):

Indian companies and partnerships can invest abroad through the Overseas Direct Investment (ODI) route, subject to RBI and FEMA guidelines.



# INVESTMENT IN REAL ESTATE

## Key Regulations

**Limit of USD 250,000 per financial year (April-March) per individual under LRS.**

- A family of four can collectively remit USD 1 million per year ( $4 \times 250,000$ ).

### Permitted Purposes:

- Buying residential or commercial property abroad.
- Gifting property to relatives abroad.
- Paying for property maintenance, mortgage, or other related expenses.

### Restrictions:

- Cannot buy property in countries identified as non-cooperative by FATF.
- Cannot use loans from Indian banks or NBFCs for remittances under LRS.
- Cannot invest in real estate for trading or speculative purposes (e.g., flipping properties).

If an Indian resident wants to invest more than USD 250,000 in real estate abroad, the additional amount cannot be remitted under the Liberalised Remittance Scheme (LRS) in a single financial year.

**There Are Alternative Ways To Structure The Investment Legally:**

**Using Family Members' LRS Limits**

**01**

- Since each resident Indian has an individual limit of USD 250,000 per financial year, a family can pool their limits.
- Example: A family of four (husband, wife, and two adult children) can collectively remit USD 1 million per year (4 × 250,000).

**Remitting Over Multiple Financial Years**

**02**

- You can split the payments over multiple financial years to stay within the limit.
- Example: If a property costs USD 500,000, you can remit USD 250,000 in Year 1 and the balance in Year 2.

**Loan from Foreign Banks**

**03**

- You can finance a part of the investment using a foreign mortgage or loan from a foreign financial institution.
- However, Indian banks & NBFCs are not allowed to give loans for direct real estate investment abroad.

**Investment Through an Overseas Entity (ODI Route)**

**04**

- If you are a business owner, you can invest in real estate abroad by setting up a foreign subsidiary or joint venture (JV) under the ODI route.
- This requires RBI approval and adherence to Foreign Exchange Management Act (FEMA) and Overseas Direct Investment (ODI) regulations.

**Gifting from Relatives Abroad**

**05**

- If you have relatives residing abroad, they can gift you funds, which you can use for the investment.
- However, gift tax rules apply, and reporting in the ITR is required



## Process for Buying Property Abroad

Choose a country where you want to invest and check local laws on foreign ownership.

Open a foreign bank account (if required by the country).

Remit funds through an Authorized Dealer (AD) Bank in India under LRS.

Report the transaction in your Indian Income Tax Return (ITR) and comply with FEMA regulations.

Pay applicable taxes in India and the foreign country (Double Taxation Avoidance Agreement may apply).

## Tax Implications in India

- **Income Tax:** Rental income from foreign property is taxable in India but can be adjusted for taxes paid abroad under DTAA.
- **Capital Gains Tax:** If you sell the property, capital gains tax applies in India.
- **Wealth Tax:** No wealth tax in India, but check for any wealth tax in the foreign country.

# INVESTING IN MUTUAL FUNDS, ETFs, BONDS

## Investment Limit:

- Individuals can remit up to USD 250,000 per financial year under LRS.
- A family can pool funds (e.g., a family of 4 can invest up to USD 1 million per year).

## Permitted Investments:

- Foreign Mutual Funds: Actively managed global mutual funds.
- ETFs: Index-based funds like S&P 500 ETFs, Nasdaq ETFs, Gold ETFs (e.g., SPY, QQQ, VOO).
- Foreign Bonds: Government bonds, corporate bonds, or fixed-income securities.

## Restrictions:

- Cannot invest in derivatives, leveraged products, or margin trading.
- Certain high-risk instruments may be restricted under FEMA.
- Investment in crypto ETFs or unregulated funds is subject to RBI scrutiny.

## How to Invest in Foreign Mutual Funds, ETFs, and Bonds?

### 1. Through Indian Brokerage Firms

- Some Indian brokers (e.g., Zerodha, ICICI Direct, HDFC Securities) allow investment in international mutual funds and ETFs.

### 2. Using International Brokerage Accounts

- Open an account with brokers like Interactive Brokers, TD Ameritrade, Charles Schwab, Fidelity.
- Transfer funds under LRS and start investing in ETFs, bonds, and mutual funds.

### 3. Investing via Indian Mutual Funds with Global Exposure

- Some Indian mutual funds offer international investment options.
- Example: Parag Parikh Flexi Cap Fund, Motilal Oswal S&P 500 Index Fund, Franklin India Feeder - US Opportunities Fund.
- No LRS required since money stays in India.

### 4. Investing in Foreign Bonds

- Buy sovereign bonds, corporate bonds, or municipal bonds of foreign countries through brokers or fund houses.
- Some platforms also allow fractional bond investing.

# Tax Implications in India



#### Capital Gains Tax

- Short-term (holding < 36 months) → Taxed as per your income tax slab.
- Long-term (holding ≥ 36 months) → Taxed at 20% with indexation.

#### Dividend & Interest Income Tax

- Dividends from ETFs & Mutual Funds are taxed as per your income tax slab.
- Interest from Bonds is taxable under Income from Other Sources.
- Some foreign countries may deduct TDS (withholding tax) (DTAA benefits can apply).

#### ITR Reporting

Foreign investments must be declared in Schedule FA (Foreign Assets) of your ITR.

#### RBI & FEMA Compliance

- All remittances must go through an Authorized Dealer (AD) Bank.
- No prior RBI approval is needed unless investing beyond LRS limits.
- Maintain proper records for Income Tax and FEMA compliance

# SETTING UP A WHOLLY OWNED SUBSIDIARY (WOS) OR JOINT VENTURE (JV) ABROAD – RBI OVERSEAS DIRECT INVESTMENT (ODI) REGULATIONS

Indian residents, including individuals and businesses, can invest abroad by setting up a Wholly Owned Subsidiary (WOS) or Joint Venture (JV) under the Overseas Direct Investment (ODI) framework, governed by the Foreign Exchange Management Act (FEMA) and RBI regulations.



# Who Can Invest Under ODI?

- Indian Companies (Private Limited, LLPs, and Public Companies)
- Registered Partnership Firms & LLPs
- Resident Individuals (with restrictions)

**Note: Proprietorships, Trusts, And Ngos Are Not Allowed To Invest Under ODI.**

## Investment Routes Under ODI

### 1. Automatic Route (No RBI Approval Required)

- Investment up to 400% of net worth (for companies) as per the latest audited balance sheet.
- Individuals can invest under the Liberalised Remittance Scheme (LRS) (max USD 250,000 per financial year).

### 2. Approval Route (RBI Approval Required)

- If investment exceeds the limits under the Automatic Route.
- If investing in financial services abroad or restricted sectors.

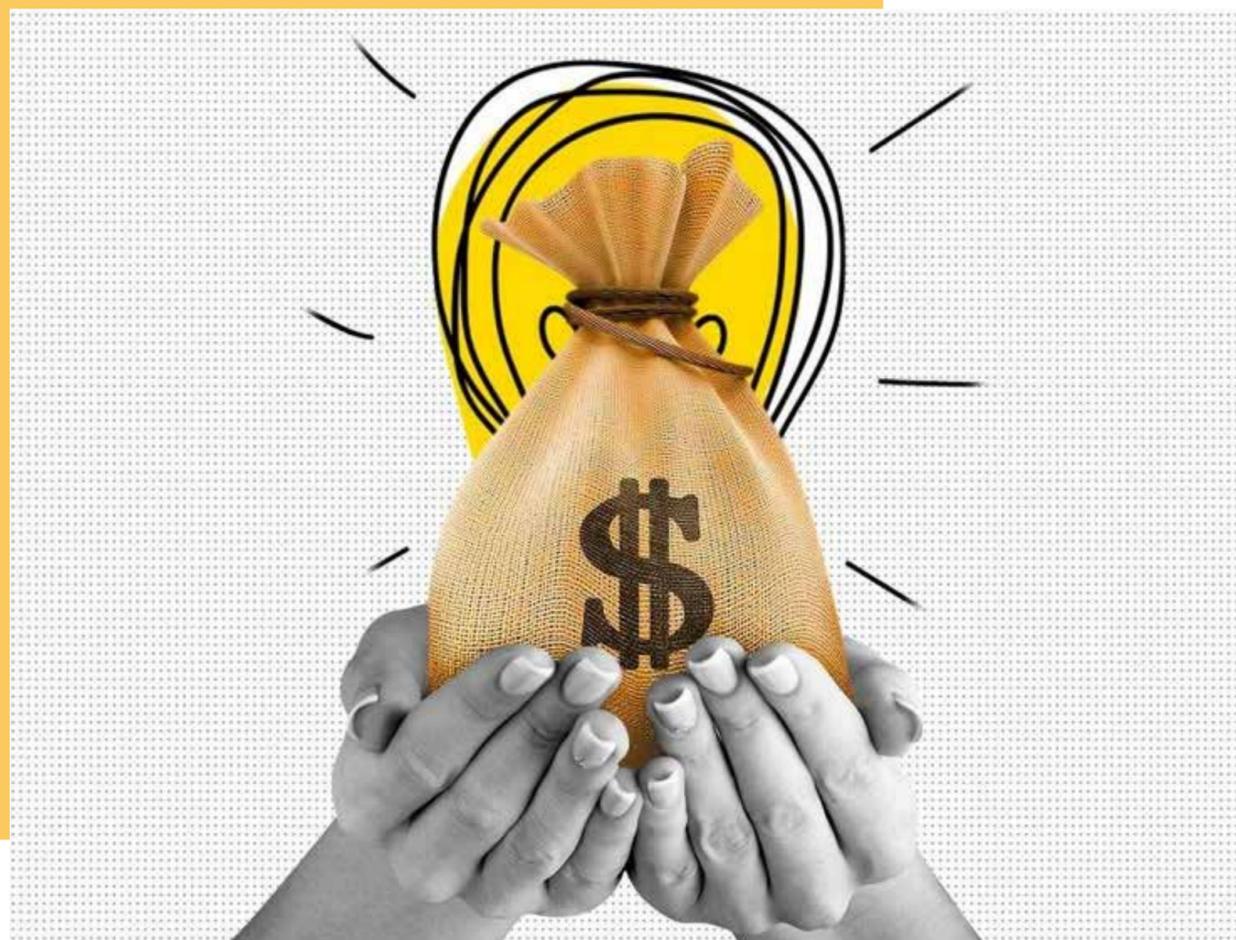
## Eligible Sectors for Overseas Investment

### ✓ Permitted:

- Technology, IT, and Startups
- Manufacturing & Trade
- Consulting & Professional Services
- Renewable Energy, Healthcare, Infrastructure

### ✗ Not Allowed:

- Real Estate (for speculative purposes)
- Banking & Financial Services (without RBI approval)
- Gambling, Casinos, or Lottery Businesses



# Process for Setting Up a WOS or JV Abroad

## Step 1: Choose the Right Country & Business Structure

- Consider factors like tax benefits, ease of business, local regulations, and trade agreements.
- Popular destinations: USA, UAE, Singapore, UK, Netherlands.

## Step 2: Register the Company Abroad

- Incorporate the company in the foreign country as per local laws.
- Appoint directors and ensure compliance with local corporate governance rules.

## Step 3: Remit Funds Through an Authorized Dealer (AD) Bank

- File Form ODI (Overseas Direct Investment Form) with the AD bank.
- Comply with FEMA & RBI reporting.

## Step 4: Maintain Compliance in India & Foreign Country

- File Annual Performance Report (APR) with RBI.
- Report financial transactions & earnings in India.



# Tax Implications for WOS/JV Investments

## 1. Corporate Taxation Abroad

- The foreign country will impose taxes based on local corporate tax laws.

## 2. Tax on Repatriation of Profits to India

- Dividends received in India are taxable.
- Capital Gains Tax applies if shares of the foreign subsidiary are sold.

## 3. Double Taxation Avoidance Agreement (DTAA)

- If the foreign country has a DTAA with India, tax credits may apply to avoid double taxation.

## 4. Indian ITR Filing Requirements

- Foreign investments must be reported in Schedule FA (Foreign Assets) of the Income Tax Return (ITR).
- Companies must disclose overseas investments in their financial statements.

## Key Compliance Requirements Under FEMA & RBI

- Filing Form ODI: Before remitting funds for overseas investment.
- Annual Performance Report (APR): To report financials of the foreign subsidiary/JV.
- Foreign Liabilities and Assets (FLA) Return: Annual reporting of foreign investments to RBI.



While every effort has been made to ensure accuracy, readers are encouraged to consult with professionals for specific guidance tailored to their circumstances.

---

41/924B3, Pipeline Rd, Padivattom, Edappally, Ernakulam, Kerala 682024

Phone: 0484 - 35 95 369