

3 ways to avoid the 20% TCS on overseas tour packages effective July 1, 2023

By Anulekha Ray, ET Online | Last Updated: Jun 15, 2023, 03:33 PM IST

Synopsis

Starting from July 1, 2023, a tax collected at sources (TCS) of 20 per cent will apply to overseas tour packages. If you are planning to take an international trip soon, you must understand this new rule and how you can use it in the most efficient way to save your hard-earned money. Here are the 3 ways to avoid 20% TCS during your next international trip



For international debit or credit cards, the aggregated threshold exemption limit will be Rs 7 lakh in a financial year

Be ready to shell out more on your next foreign vacation from the coming month. Starting from July 1, 2023, a tax collected at sources (TCS) of 20 per cent will apply to overseas tour packages. At present, if you book a foreign tour package, you have to pay a [TCS](#) of 5 per cent. From next month, you will have to bear a higher upfront cost while travelling. While you can claim a refund on TCS while filing your income tax return, your refund amount will be locked till the time your claim for refund is processed in the next financial year.

However, did you know that you can prevent this avoidable outgo as there are ways of saving this additional cost? Read on to find out.

Know new TCS rule that kicks in from July 1, 2023

TAP TO WATCH

If you are planning to take an international trip soon, you must understand this new rule and how you can use it in the most efficient way to save your hard-earned money.

If you are booking a foreign trip with an Indian tour operator, it will levy a TCS of 20 per cent on the entire tour package from July 1, 2023. For instance, you are booking a trip to Europe that costs Rs 3,00,000 through your local travel agent. Then the agent will be required to collect a TCS of 20 per cent on the tour package. So, you have to pay an additional amount of Rs 60,000 as TCS initially while booking the tour.

The standalone cost of the tour package remains the same but the overall cost for you will increase, thanks to TCS levied at 20 per cent.

TCS will also apply if you book your overseas tour from domestic online travel aggregators such as MakeMyTrip, Yatra, and EaseMyTrip.

Keep in mind that when it comes to overseas tour packages, the responsibility of collecting and remitting TCS is with the travel agent or the authorised dealer. So, if you are booking a foreign tour package from an offline or online travel agent in India and paying in rupees, even then the travel agent will deduct the TCS. Even if you purchase foreign currency from an authorised dealer for your international holiday, you have to pay a TCS of 20 per cent. Similarly, if you load a forex card before your trip to spend it overseas, a TCS of 20 per cent will be levied on it.

Here are the 3 ways to avoid 20% TCS during your next international trip

1) Use the Rs 7 lakh limit of international debit or credit card

As you can see, you have to bear the cost of a hefty amount of TCS if you book your foreign trip through domestic travel agents or online portals. But, if you book a tour package offered by international websites and pay for it through an international debit and credit card, there will not be any TCS if the payments are within the threshold of Rs 7 lakh. On May 19, 2023, the finance ministry said that no TCS will be levied on individual payments using international debit or credit cards of up to Rs 7 lakh in a financial year from July 1, 2023. Do keep in mind the threshold is Rs 7 lakh.

"When planning international travel, the chosen method of booking could influence the applicability of TCS. One could either book through an Indian travel agent by making a domestic payment or utilise an international travel website with an international credit card. In both scenarios, TCS is typically applied. However, a potential exemption could be found when using a credit card to book through an international tour operator. In this instance, TCS will not be charged for transactions up to a limit of Rs 7 lakh as it would be levied by a credit card company. Thus, TCS can be avoided up to the amount of Rs 7 lakh when booking online via an international travel website," said Ankit Jain, Partner, Ved Jain & Associates.

2) Separate booking and payments can help you save TCS

Another point you must note is that a TCS of 20 per cent is imposed on overseas tour packages. "The definition of what constitutes a tour package under the law is not entirely clear. In light of the proposed increase in TCS, individuals may opt to book their flights, hotels, and sightseeing separately, to avoid forming a package and attracting the TCS levy," explained Jain. So, if you directly purchase your flight ticket from Air India or Vistara, or IndiGo, there will be no TCS. Similarly, if you book your hotel directly from the respective hotel website and pay through a debit or credit card, you don't have to pay a TCS if the amount is within the threshold of Rs 7 lakh.

"If you book your international air tickets, hotels, and other expenses independently (not as part of a tour package), it will not attract any TCS as long as the merchants selling such tickets and stays to you when you are in India. However, if you are in India and making payments in a foreign currency for your air tickets and hotel bookings, TCS provisions will apply," clarified Pallav Pradyumn Narang, Partner, CNK.

By going for segregated booking, you can use the Rs 7 lakh limit separately of your friends or family especially when you

are going in a group. This will help you divide the total cost in such a way that each person utilises the Rs 7 lakh limit.

3) Buy foreign exchange by June 30, 2023 to avoid high TCS

A lot of people prefer buying foreign currency or using a forex card rather than using their debit or credit card while they are on international trips.

You can buy foreign currency or a forex card by June 30, 2023, to avoid paying higher TCS. Explaining this, Sudarshan Motwani, Founder & CEO, of BookMyForex.com, said, "The Reserve Bank of India (RBI) allows you to purchase foreign currencies or forex travel cards up to 60 days before your travel date. If you are planning to travel anytime from now until the end of August, you can buy your foreign currencies or forex travel cards before the end of June and save 20 per cent on TCS."

Do note that there might be a surge in people rushing to exchange currency in June, which could potentially result in delays in currency delivery. Therefore, make sure you exchange your currency well in advance before heading to the airport to save both time and money, he added.

For international debit or credit cards, the aggregated threshold exemption limit will be Rs 7 lakh in a financial year. If you cross this threshold, TCS will be applicable at 20 per cent. So, you can use multiple debit or credit cards for booking your flight or hotel, but you have to keep the total payment through all cards taken together within the limit of Rs 7 lakh to avoid 20 per cent TCS.

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