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Economic Impact of Inward and Outward Remittances and their Tax Implications

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ABSTRACT

India being the largest recipient of international remittances in the world greatly enhances its household income, savings and investments in addition to favourably influencing GDP growth and tax receipts. Remittances maintain foreign reserves, raise living standards, and encourage local consumption. At the same time it also suffers from outward remittance on primarily its own aspiring middle class who send their children abroad for studies. Usually, inward remittances which are essential for family welfare and economic stability is left tax-free globally because of which India too has left it largely tax free. For NRIs, tax laws must be clear and uncomplicated to guarantee efficient and legal repatriation procedures too. The study examines how remittances influence the Indian economy and the impact of taxes on inward and outward remittances. The paper focuses on summarizing/analysing existing data/trends. Inward remittances enhance the welfare of recipient country families and contribute to economic growth. The flow of outward remittances are expected to be affected due to the changes in tax policy of India may impact the flow of outward remittances. The paper is based on review of existing research and policies. Future studies can include primary data with quantitative analysis. The paper shall contribute to the existing literature about remittances to/from India by summarizing statistics and identifying economic implications.

Keywords: *Remittances, Gross domestic product (GDP), Non-Resident Indian (NRI), Tax Collected at Source (TCS).*

1.0 Introduction

India faced various economic challenges in the past and till today many citizens seek better opportunities of work abroad.

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Many migrate to countries in the Middle East, Australia and Canada in search of employment. Approximately 4.75 million people join the workforce annually in India (Dewan, 2018). In 2023, over 87,000 Indians gave up their citizenship, indicating a significant number of people moving abroad for jobs and better living standards. In 2023, approximately 4.16 lakh Indians left their jobs in India to work abroad. These migrant workers often remit a portion of their earnings back to India to support their families expense needs like healthcare, ageing parents etc. contributing substantially to the country's economy.

This phenomenon helps explain why Indian communities are found globally. However, when students from prestigious institutions like the Indian Institutes of Technology (IIT) and the Indian Institutes of Management (IIM) move abroad for better job opportunities, the impact on India is both positive and negative. On the other side despite brain drain, highly skilled individuals who stay overseas, often send remittances back to India, contributing to the country's household consumption, investment and savings. Their contributions, whether financial or through knowledge transfers, can play a crucial role in improving the overall economic stability of the country. On the downside, India experiences a "brain drain" as some of its most talented and educated citizens leave the country. The loss of skilled minds potentially hinder the nation's future progress since these individuals could have contributed to future days innovation, technological advancements and economic growth. The outflow of such talents from IIT, IIM often slows down the pace at which India can achieve higher levels of development, particularly in sectors like technology, research, and entrepreneurship. Thus, while remittances offer economic benefits, the long-term impact of losing top talent to other countries presents a significant challenge for India's rapid development and sustained growth.

University/education as offering superior opportunities and pride. Consequently, parents often send their children abroad for higher education, resulting in substantial outward remittances. This trend highlights the ongoing quest for quality services and opportunities beyond India's borders. Further the healthcare facility in India although has significantly enhanced quality over the years is yet to reach the level of developed nations. A significant outward remittance is thus visible on account of healthcare. India on account of a burgeoning aspiring middle class has also contributed to a sharp increase. The main factors behind this surge are the growing number of Indians taking international holidays and the increasing number of students pursuing education abroad. Given the significance of outward remittance and often a misuse informal money, the concept of TCS was introduced with further rigour on and from 2023 (Indians spent $1.6 billion on international travel in July, 2024).

2.0 Literature review

2.1 Impact of remittances on the Indian economy

A study was conducted to analyse if remittance inflows positively affect the economic growth of India. Variables such as remittance inflows, broad money, and service sector performance, all represented as percentages of GDP were analysed for this study. It was found that positive shocks in remittance inflows significantly enhance India's economic growth in both the short and long term. Negative shocks in remittance inflows do not significantly affect India's economic growth. The service sector's performance positively impacts economic growth, while broad money does not have a significant effect. Remittances can be increased by creating attractive investment opportunities and tax benefits, promoting digital channels for transactions, reducing transaction costs, and improving financial infrastructure (Khan, 2023). The impact of economic growth, corruption control, and employer availability in the UK, USA, and UAE on remittance inflows to India was studied to provide insights for policymakers to enhance these inflows crucial for achieving SDGs.

It was found that in the UAE, changes in economic growth and corruption control significantly affect remittance outflows to India, while employer presence has minimal impact. In the UK, economic growth primarily drives remittance outflows to India, with marginal effects from corruption control and employment opportunities. In the USA, corruption control and employment opportunities significantly influence remittance outflows to India, whereas economic growth does not. Policies to fortify relationships with major remittance-contributing nations must be prioritized. Focus should be put on fostering ties through trade relations and employee exchange programs, vigilantly monitoring the economic performance of these nations, and adopting a tailored, country-specific approach with distinct strategies for each macroeconomic factor (Khan, 2024).

2.2 Impact of remittances on the Asian economy

A study was conducted to find out if remittances boost agricultural productivity in emerging Asian economies. Data on agricultural productivity per worker and several independent variables such as remittance inflows, agricultural land, fertilizer consumption, temperature change, credit supply, and labor force from eight emerging Asia economies was used for the study and it was found that remittance inflows significantly boost agricultural productivity in emerging Asian economies, agricultural land, fertilizers consumption, and credit supply positively contribute to agricultural productivity and global warming negatively impacts agricultural productivity in the long run.

The study proposed recommendations such as developing a remittance-receiving system and investment products, providing bailouts, subsidies, and tax breaks for less productive households, and implementing regulations to reduce carbon emissions and promote environmentally friendly farming methods (Chandio *et al.,* 2023). Another study was conducted to assess if workers' remittances have a positive relationship with financial development in Sri Lanka. Data on financial development, gross domestic product, and workers' remittances sourced from the World Bank database, and inflation rate sourced from the Central Bank of Sri Lanka's annual reports was used for this study and it was found that workers' remittances have a beneficial long-run relationship with financial development in Sri Lanka, there is a bidirectional causality between workers' remittances and financial development and a positive shock to workers' remittances has an immediate significant positive impact on financial development for up to 10 years.

The regulators should focus on formulating policies to attract more remittances (Aslam & Selliah, 2020). The Vietnamese economy was studied to find out the impact of international remittances on household welfare indicators such as child education, assets, durable goods, and reservation wages. Data from Vietnam Household Living Standard Surveys of 2006 and 2008 was used for this study. It was found that remittances are more likely to be invested in assets like land and housing rather than used for immediate consumption. International remittances primarily benefit non-poor families, remittances should be directed towards poor households to enhance their impact on poverty reduction (Cuong & Mont, 2012).

2.3 Impact of remittances on countries around the globe

A study was conducted to find the impact of international remittances on economic growth in developing countries, and how does this impact vary with the level of human capital. A sample of 113 developing countries was used for this study. It was found that remittances positively impact economic growth only in countries with higher than median human capital. In countries with lower than median human capital, remittances do not significantly affect economic growth. In countries with high human capital, remittances resulted in an increase in investment in physical. Human capital can be enhanced through education and training. Investments must be incentivized in growth-potential sectors like infrastructure and renewable energy, and financial literacy must be promoted to ensure remittances are used for investment purposes (Azizi *et al.*, 2023).

A study was conducted to find out if international migration, through remittances, accelerate or decelerate out-farm labor migration in developing countries. A sample of 77 developing countries was used for this study. It was found that remittances decelerate out-farm migration by supplementing farm income and consumption expenditures, a 10% increase in remittances reduces out-farm migration by 0.5% over time. The consumption effect of remittances dominates the investment effect, aligning with developmentalist views on international migration. International remittances can be used as a development policy tool. Infrastructure can be improved for more efficient and cost-effective remittance transfers, as remittances can help maintain agricultural jobs by supplementing household consumption (Seidu *et al.*, 2020).

Thirty-six developed and developing economies were studied to find if received remittances cause Dutch disease in these countries. Variables such as received remittances, real exchange rates, inflation, government expenditure, GDP growth rate, foreign direct investment, trade, and real interest rates were analysed for this study and it was found that received remittance inflows were negatively related to real exchange rate, leading to its depreciation in receiving countries.

The depreciation of the real exchange rate was primarily due to the focus on earnings from tradable goods, influenced by the resource-movement effect. It was concluded that the governments should minimize tariff rates on capital imports, promote investment incentive programs, focus on productive sectors, explore economic diversification strategies, invest remittances in infrastructure projects, adopt a holistic approach considering unique economic characteristics, improve institutional quality through transparent governance, optimize tax structures, and encourage public-private partnerships (Alshubiri *et al.,* 2024).

A study was conducted to analyse the impact of geopolitical risk on foreign remittances in top remittance-receiving countries. Data of 10 such countries was analysed and it was found that positive geopolitical risk shocks increase foreign remittances in the short term. Negative geopolitical risk shocks significantly decrease foreign remittances in the long term. The study confirms the asymmetric impact of geopolitical risk on foreign remittances. The asymmetric nature of geopolitical risk must be taken into consideration when decisions about remittance policies are being framed by the policymakers. Targeted regulations should be developed to minimize negative effects, assist migrant workers, and reduce remittance flow volatility (Kumari *et al.,* 2024).

Six countries were studied to find out how remittances affect productivity growth of prominent remittance-receiving developing nations. The study focuses on ten largest remittance receiving developing economies. It was found that remittances significantly promote technological progress and total factor productivity growth in developing countries. The effect of remittances on technical efficiency is not significant.

Governments should create favorable economic environments to increase remittance inflows, reduce remittance transfer costs to 3% as per SDG10, and enable remittance beneficiaries to invest in R&D and productive activities to enhance economic competitiveness and living standards (Oberoi *et al.,* 2024). A study conducted to investigate the differential impact of foreign and domestic remittances on household expenditure shares in Mexico found that international remittances increase expenditure shares on women’s clothes, insurances, and durable goods and domestic remittances increase expenditure shares on food, health, and education. It was also found that the ability to monitor expenditures affects how remittances are spent, with international remittances reflecting more maternal preferences (Aguayo-Téllez *et al.,* 2020).

A study was conducted to find out the impact of remittances on the economy of Ghana and it was found that financial development in Ghana is directly detrimental to endogenous growth but is crucial for attracting international migrant remittances. International migrant remittances significantly promote endogenous growth in both the short and long term, albeit marginally. It was also found that there is a bi-directional causality between financial development and remittance inflows, with remittances positively impacting growth. Transfer costs must be reduced and transfer mechanisms should be improved to attract more remittances from Ghanaians abroad (Adenutsi, 2011).

3.0 Background

3.1 Tax on inward remittance by individuals

When individual receives a remittance as a gift from a relative, it is tax exempted. If threshold of gift crosses₹50,000 and is from a non-relative, entire amount becomes taxable in the hands of recipient. Inward Remittance refers to the mechanism and related formality for receiving money into India from foreign countries which are typically sent by NRIs, migrant workers, job workers etc.

3.2 Tax on outward remittance by individuals

Tax collected at source applies when remitting money abroad. The remitting entity deducts this income tax before transferring the funds overseas. Starting October 1, 2023, any personal remittances above 7 Lakh rupees annually will incur a 20% Tax Collected at Sources (TCS) rate on the amount exceeding this threshold.

3.3 Impact on Indian economy

India receives the most foreign remittances internationally since Indian residents residing overseas send money back to their families in India. This influx of funds helps to boost India’s savings because the money is frequently used to assist domestic households and investments. As a result, this remittance has a beneficial impact on India’s GDP and tax revenues (primarily indirect on spendings). The objective of foreign repatriation includes improving household welfare, encouraging savings and investments, promoting economic growth, leveraging financial infrastructure, creating sustainable policies, boosting national development, to preserving stable foreign reserves.

Outward remittances were always discouraged since Independence through the 1991 Crisis. The same discouragement in principal continued till economy improved and Liberalized Remittance Scheme (LRS) was brought into effect by the Reserve Bank of India in 2004. According to LRS, any resident of India can remit a maximum sum of $250,000 within a given financial year to individuals living overseas. The said limit includes both capital and current account transactions. Certain specific transactions, such as the sale of immovable property, are also subject to taxes. NRIs must provide documentation, including a certificate from a Chartered Accountant, to confirm that all taxes have been paid before the remittance can be made.

4.0 Facts about Remittances

4.1 Outward remittances

Outward remittance means the transfer of money from India to another country or economic region (like Eurozone). This may be to cover tuition fees, living expenses, medical treatments abroad, buy assets, and more. Additionally, as per the provisions of the Income Tax Act, TCS (Tax Collected at Source) provisions are also applicable at specified rates for remitting funds outside India.

4.1.1 Outward remittances and TCS rate comparison

Let us understand the TCS with the help of an example below: You wish to invest ₹20 lakhs in a foreign asset and approach a money transfer agency.

Table 1: Taxation Changes on Remittances for Education Loans, Overseas Tour Packages, etc. Fall under both the New (Budget 2023) and Old TCS Rates.

\	**Old TCS rate (before Union Budget 2023)**	**New TCS rate (with effect from 1st October 2023)**
LRS for education, financed by a loan from a financial institution	None up to ₹7 lakhs	None up to ₹7 lakhs
	0.5% above ₹7 lakhs	0.5% above ₹7 lakhs
LRS for Medical treatment/ education (other than financed by loan)	Nil up to ₹7 lakhs	Nil up to ₹7 lakhs
	5% in excess of ₹7 lakhs	5% in excess of ₹7 lakhs
Purchase of an overseas tour package		5% up to ₹7 Lakh
	5% without any threshold limit	20% in excess of ₹7 lakhs
Any other purpose	Nil up to ₹7 lakhs	Nil up to ₹7 lakhs
	5% in excess of ₹7 lakhs	20% in excess of ₹7 lakhs

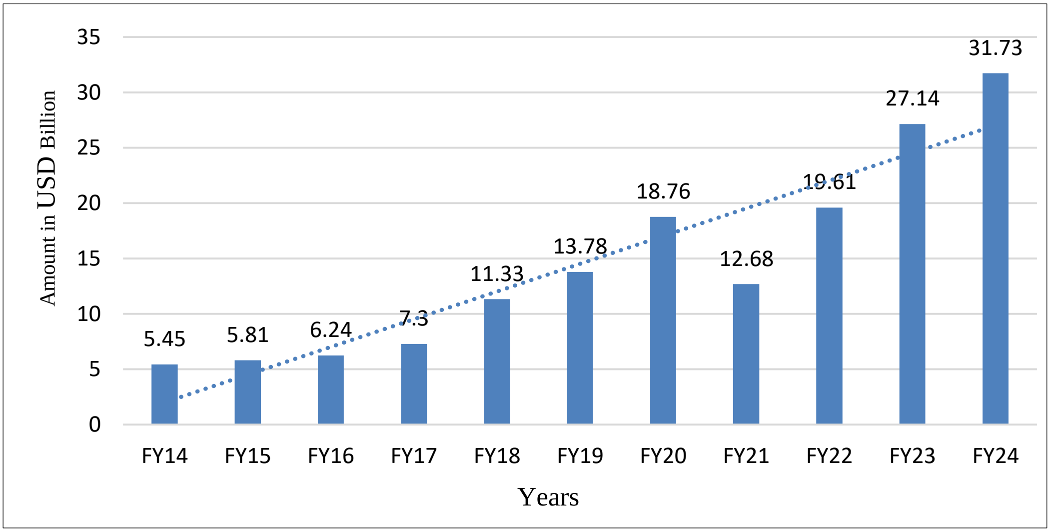
Source: https://cleartax.in/s/tax-on-foreign-remittance

According to Table 1, a 20% TCS on foreign remittance will be applicable on the amount exceeding ₹7 lakhs, i.e., ₹13 lakhs (Table 1). So, the money transfer agency will collect ₹2,60,000 (20% of ₹13 lakhs) from you as TCS and you will have to make a total payment of ₹22,60,000 to complete your investment (Biswas, 2024).

4.1.2 Last 10 years of outward remittances in India

Figure 1 shows the USD Billion outward remittances from 2014 to 2024. As evident there has been a 6X growth in remittance in 11 years (Chishti, 2007).

Figure 1: Outward Remittances in India in the Past 10 Years



Source: Chishti (2007)

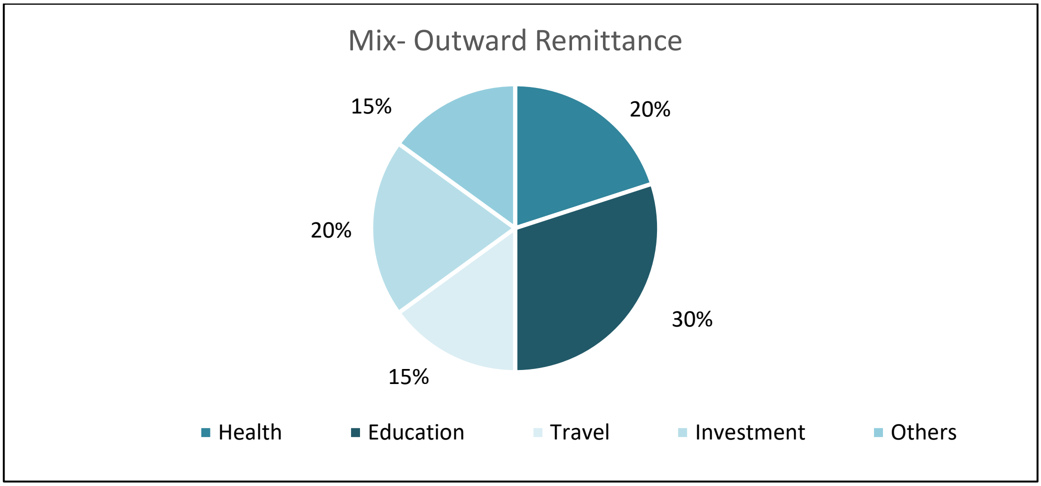
A deep dive of the total outward remittance value has been found to be broadly categorised into five sections viz. Health, Education, Travel, Investment, and others (Table 2). Over the last 10 years, the values for each of these sections have been given below. Using these total values, an overall pie chart can be created to visually represent the distribution of outward remittance across health, education, travel, investment, and others (Figure 2) (Chishti, 2007).

Table 2: End use of Outward Remittances by Fiscal Year in the Last 10 Years

Year	Health	Education	Travel	Investment	Others	Total
FY14	1.09	1.64	0.82	1.09	0.82	5.45
FY15	1.16	1.74	0.87	1.16	0.87	5.81
FY16	1.25	1.88	0.94	1.25	0.94	6.24
FY17	1.46	2.19	1.10	1.46	1.10	7.30
FY18	2.27	3.40	1.70	2.27	1.70	11.33
FY19	2.76	4.13	2.07	2.76	2.07	13.78
FY20	3.75	5.63	2.81	3.75	2.81	18.76
FY21	2.54	3.80	1.90	2.54	1.90	12.68
FY22	3.92	5.88	2.94	3.92	2.94	19.61
FY23	5.43	8.14	4.07	5.43	4.07	27.14
FY24	6.35	9.52	4.76	6.35	4.76	31.73
Total	31.97	47.95	23.97	31.97	23.97	

Source: Chishti (2007)

Figure 2: Mix- Outward Remittance



Source: Chishti (2007)

4.1.3 Outward remittances: Impact on GDP

Reduced Disposable Income due to sending money abroad can significantly impact consumer spending. Decrease in consumer expenditure (a substantial component of GDP) can lead to an overall reduction of domestic economic activities. Furthermore, outward remittances can limit the funds available for local savings and investments. Lower levels of investment can hinder economic growth and have a negative influence on GDP. Further, sudden large-scale outward remittances can cause adverse fluctuations in the exchange rate, affecting the value of the local currency and its purchasing power.

4.2 Inward remittances

An inward remittance refers to the transfer of funds into India from outside the country. As a non-resident Indian (NRI) living overseas, you may want to send money back to India to support your family, save money, invest, or meet other financial obligations. Typically, an inward remittance arrives in a foreign currency, which is then converted to Indian rupees at the prevailing exchange rate and credited to the recipient's bank account. This process plays a significant role in maintaining financial stability for many Indian households, as well as contributing to the country's economy.

4.2.1 Taxes on inward remittances

Inward remittance to India involves transferring funds from an overseas source to a domestic account, with tax implications varying by purpose, recipient's resident status, and international tax treaties. For personal transfers from family, remittances are typically tax-free.

Gifts over Rs. 50,000 from non-relatives are taxable as "Income from Other Sources" in the hands of recipient in India. Banks report significant inward remittances to tax authorities. Income earned abroad (salary or business profits) is taxed if the recipient is a resident of India, who must declare global income. Non-residents are taxed only on income generated or received in India. Double Taxation Avoidance Agreements (DTAA) help prevent double taxation, allowing for tax credits for payments made abroad.

4.2.2 Inward remittances: Impact on GDP

From a macroeconomic standpoint, inward remittances increase consumption as families' disposable earnings rise, contributing to GDP growth. Remittances contribute to India's foreign reserves, ensuring the Indian rupee's stability against US dollar and other major currencies. At the micro level, remittances boost a family's income, resulting in better nutritional results, more educational spending, increased purchasing power, higher discretionary incomes and an improved standard of living. Remittances enable receivers to improve their investments, savings, and financial literacy, as a continuous source of income from overseas can relieve credit constraints for unbanked families (Treasures, 2022).

4.2.3 Data of Inward Remittances

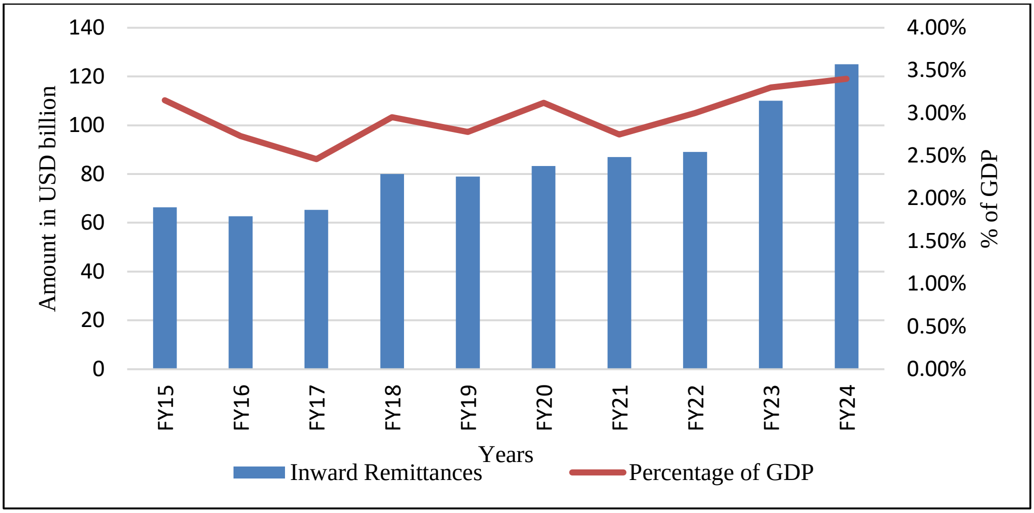
Table 3: Inward Remittances to India by Fiscal Year in the Last 10 Years

Year	Remittances	Percent GDP
2014–15	US$66.30 bn	3.15%
2015-16	US$62.70 bn	2.73%
2016-17	US$65.30 bn	2.46%
2017-18	US$80.00 bn	2.95%
2018-19	US$79.00 bn	2.78%
2019-20	US$83.30 bn	3.12%
2020-21	US$87.00 bn	2.75%
2021-22	US$89.00 bn	3.00%
2022-23	US$110 bn	3.30%
2023-24	US$125 bn	3.40%

Source: Rahim (2023)

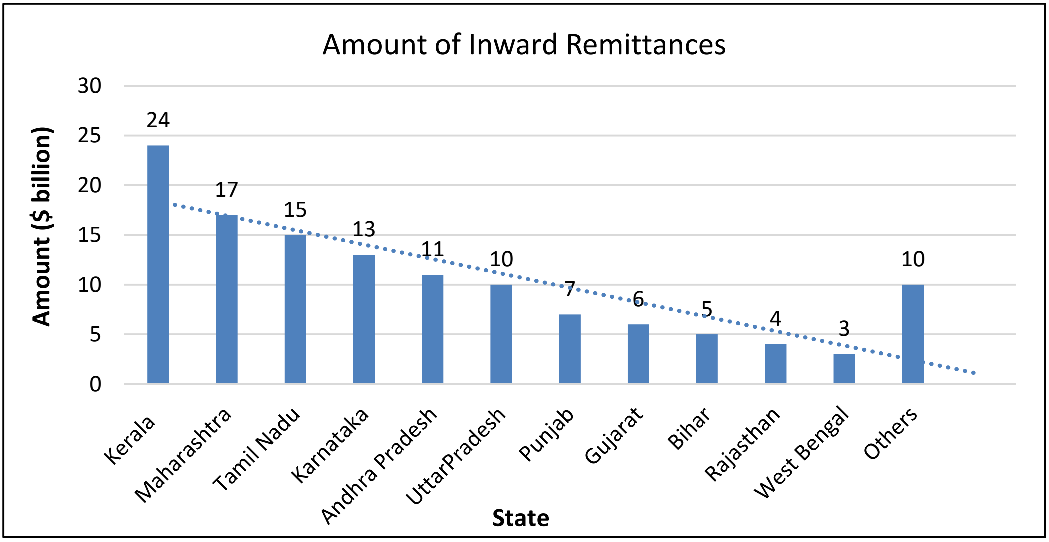
Table 3 and Figure 3 demonstrates how Indians abroad has kept on remitting higher volumes of remittance and has earned India the distinction being the record holder of Top inward remittances cross US $100 billion threshold.

Figure 3: Inward Remittances to India by Fiscal Year in the Last 10 Years



Source: Rahim (2023)

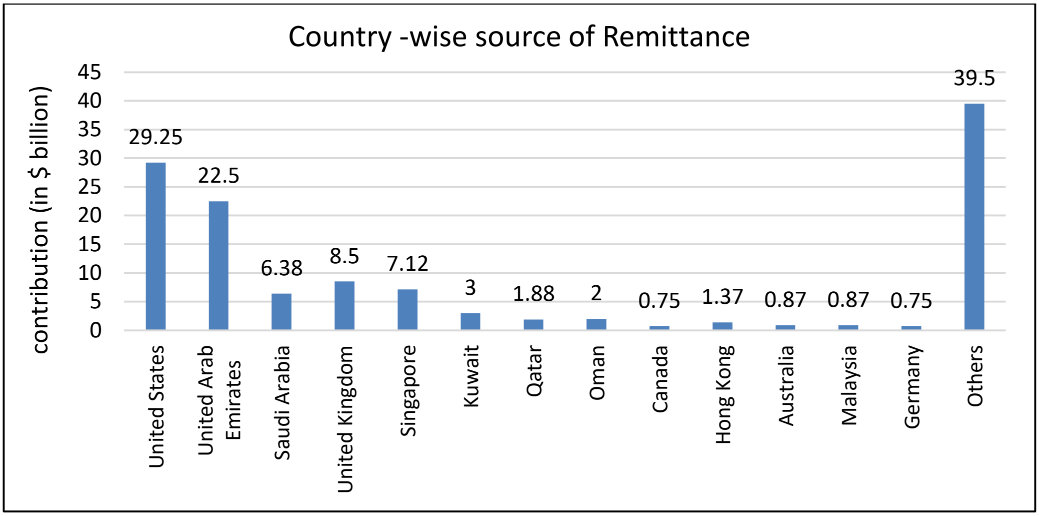
Figure 4: State-wise Recipients of Remittances in India



Source: "Remittances to India, 1970 to 2008". Archived from the original on 4 December 2010. Retrieved 28 July 2011;"India world's largest remittance recipient in 2015: World Bank". The Times of India. 14 April 2016

Figure 4 showing state-wise recipients of remittances in India for FY 24 aggregating US $125 Billion. Kerala, Maharashtra and Tamil Nadu were the top three inward remitting states.

Figure 5: Country-wise Source of Remittances in India



Source: *Rahim (2023)*

Figure 5 shows that US, UAE and Saudi were the highest remitting countries in FY 24 aggregating US $125 Billion (Rahim, 2023).

4.2.4 Application of Inward Remittances

4.2.4.1 Remittances used by the government

In 2024, India received a record $125 billion in remittances making it the largest recipient globally. These funds primarily supported households by covering expenses such as education, healthcare, and daily living costs, significantly contributing to the country's socioeconomic stability. The Indian government does not directly allocate remittance inflows for its spending. Instead, these funds enter the country as private transfers. These private transfers thus are not pooled into the government's budget for public expenditure (Radcliffe, 2022).

4.2.4.2 Remittances and bank activities

Remittance players includes Commercial banks, Money Transfer Operators (MTOs), foreign exchange bureaus, cooperative banks, India Post, various correspondent agents etc. Banks handle 60-80% of remittance inflows, primarily crediting recipient accounts, and benefit from efficient interbank infrastructure for faster processing. MTOs like Western Union and MoneyGram operate through partnerships and sub-agencies. India Post, partnering with Western Union, offers international money transfers.

4.2.4.3 Remittances used by citizens and socio-economic benefits

For many developing nations funds from remittances exceed aid sent from the developed world and foreign direct investment (FDI) which is a very healthy sign. Remittances enable countries to finance their development independently and gain experience in the effective utilization of these funds. To make the most of these resources, countries need to establish policies that encourage smart and stable growth, ensuring that such development benefits areas beyond just the cities (Jain & Jain, 2024).

In household consumption, remittances are mostly used to cover basic household needs including food, clothing, and utility bills. Healthcare funds can be utilized to cover medical treatments and expenses, leading to better health outcomes for family members. In education, remittances are often used to fund educational expenses such as school fees and college tuition. This investment in human capital may result in improved job possibilities and higher wages in the future. In savings and investments, families generally save a portion of remittances for future needs or emergencies. Investing in small enterprises or entrepreneurial initiatives promotes economic growth and self-sufficiency. Remittances for debt repayment can reduce financial stress and increase creditworthiness. Funds support social and cultural activities in India, including weddings, religious rituals, and festivals. In insurance and financial products, remittances are increasingly used to purchase insurance and other financial services, offering families financial security and investment opportunities (Afram, 2011).

Remittances significantly boost India’s socioeconomic progress. On a national level, remittances bolster foreign exchange reserves, stabilizing the currency and improving the country’s creditworthiness. Locally, they stimulate economic growth by enabling investments in small businesses and agricultural improvements. Overall, remittances improve living standards, promote social mobility, and reduce economic inequality for millions of Indians (World Bank, 2023).

5.0 Behaviour of Remittances over Business Cycles and Comparison with Other Inflows

Remittances, Foreign Direct Investment (FDI), and Official Development Assistance (ODA) each react differently to economic cycles. Inward remittances are counter-cyclical and stable, often rising during economic downturns as migrants support their families, providing a vital buffer that sustains household consumption and promotes crucial investments in education, healthcare, and small businesses. FDI, in contrast, is pro-cyclical and volatile, thriving during economic booms and significantly declining during downturns, reflecting investor sentiment and risk tolerance during uncertain times. ODA is relatively stable and less cyclical, influenced more by donor policies and geared towards long-term development and humanitarian aid (De *et al.*, 2016). Outward remittances to the extent of education and health care is relatively stable and less cyclical, whereas the remittance of travel and leisure is pro-cyclical and volatile.

6.0 Conclusion

Remittances, both inward and outward, play a significant role in the global economy, particularly in developing regions like India and Asia. Inward remittances are crucial for millions of Indian households, supporting consumption, healthcare, and education while reducing poverty and bolstering foreign reserves. However, challenges arise with outward remittances from fast-growing economies like China and the Gulf countries, which can strain local currencies. To address this, India and other Asian nations have adopted favorable tax policies, typically exempted inward remittances, while placing taxes on outward flows to control capital flight.

Globally, remittances have surpassed foreign direct investment (FDI) in many developing nations and serve as economic stabilizers during crises, such as the COVID-19 pandemic. The key challenge is ensuring that remittances are used effectively for long-term growth, with fair and development-friendly tax policies. Inward remittances play a crucial role at both micro and macro levels, enhancing the welfare of recipient country families and contributing to economic growth. However, recent tax policy changes, such as the increase in Tax Collection at Source (TCS), may impact the flow of outward remittances. While taxation is necessary for revenue generation, policymakers should ensure that such measures do not discourage outward remittances particularly healthcare and education spending. Clarity and simplicity in tax regulations, particularly for Non-Resident Indians (NRIs), are essential to facilitate smooth remittance processes and encourage compliance.

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