US Remittance Tax Impact on India: Limited Losses but Higher Costs

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US Remittance Tax Impact on India Latest News

The United States has enacted a 1% tax on certain outbound remittances under the **One Big Beautiful Bill Act**, raising concerns about its impact on India's remittance inflows.

Introduction to the New US Remittance Tax

- A newly passed US legislation, the **One Big Beautiful Bill Act (OBBBA)**, has introduced a **1% tax on certain outbound remittances**, sparking concern among countries that rely heavily on money sent back by expatriates.
- The tax, effective from **January 1, 2026**, is expected to marginally affect India, the world's largest recipient of remittances, primarily through higher costs rather than a significant decline in remittance volumes.

Key Features and Exemptions

- Originally proposed as a **5% tax**, the remittance levy was later reduced to **1%** after bipartisan negotiations. However, key exemptions in the Senate-passed version limit its reach:
    - **Applies only to physical modes of transfer** like cash, money orders, and cashier's checks.
    - **Bank account transfers or payments through US-issued debit/credit cards are exempt.**
    - **Transfers under $15 are not taxed.**
- **US citizens sending remittances are not subject to the tax.**
- These exclusions will mitigate the adverse impact for a large portion of Indian-origin remitters using digital channels.

Implications for India's Remittance Economy

- According to the **Centre for Global Development**, India may lose just under **$500 million in formal remittance inflows**, second only to Mexico, which could lose over $1.5 billion.
- Although this is a small portion of the $124.31 billion India received in **net remittances during 2024-25**, the tax is a symbolic reminder of increasing policy barriers to international money flows.
- Moreover, **remittances from the US account for nearly 27.7%** of India's total, approximately **$32 billion** in 2023-24.
- While the proportion of cash-based transfers is low, even a slight disruption can impact rural households relying on such inflows.
- **Distributional and Timing Effects**
    - According to economists, the **impact will be frontloaded** into the first three quarters of FY2025-26, as senders might advance transfers to avoid the tax.
    - However, the **lower-than-expected rate (1%)** means that the overall **long-term impact will remain limited** and primarily felt in transaction costs rather than volume reductions.

Broader Trends in Remittance Flows

- India's remittance receipts have been growing steadily:
    - **Net remittances in FY2024-25:** $124.31 billion (up 16%)
    - **Gross inflows:** $132.07 billion (up 14%)
    - **US share of remittances:** Grew from 22.9% in 2016-17 to 27.7% in 2023-24
- Notably, in FY2024-25, **net remittances not only covered India's entire trade deficit of $98.39 billion** but also left a **$26 billion surplus**, underlining their macroeconomic significance.

Growing Costs of Cross-Border Transfers

- Even before this new tax, sending money to India has involved significant transaction costs. As per **World Bank data**, the average cost of sending $200 to India in Q4 2024 was **5.3%**, compared to the **global average of 6.6%**.
- The tax could push these costs further up, particularly in channels involving multiple intermediaries or non-bank methods.
- Moreover, **delays and fees from correspondent banking chains** are an ongoing concern, making remittance infrastructure innovation all the more essential.

India’s Payment Infrastructure as a Cushion

- India has proactively worked on **reducing frictions in cross-border payments**:
  - **UPI-PayNow Link**: Seamless money transfer between India and Singapore
  - **RBI participation in Project Nexus** (by BIS): Aims to enable “cheaper, faster, more transparent” global transfers
- Such efforts will be critical in **mitigating the impact of policy changes abroad** and improving the ease of formal remittance channels for the Indian diaspora.

Source: IE | TH
