ESSENTIAL STEPS AFTER BECOMING AN NRI

Change bank, demat account to non-resident; update MF KYC

Pay tax on income generated in India if it crosses the basic exemption limit

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LEVERAGE DTAA TO LOWER TAX BURDEN

- Double taxation arises when the same income is taxed in both the country of residence and the source country
- Many countries have signed bilateral Double Taxation Avoidance Agreements (DTAAs) with India to prevent such tax overlap
- Non-resident Indians (NRIs) earning income in India, such as capital gains, interest, or dividends, may be eligible for lower tax rates under DTAA
- To avail of DTAA benefits, NRIs must furnish a valid Tax Residency Certificate (TRC), Form 10F, and/or a self-declaration confirming the absence of a permanent establishment in India

The Pension Fund Regulatory and Development Authority (PFRDA) has issued new guidelines for National Pension System (NPS) subscribers who renounce Indian citizenship. Those without an Overseas Citizen of India (OCI) card must promptly inform the NPS Trust, after which their account will be closed. Individuals transitioning from resident to non-resident status need to make several other changes on the financial front.

Bank accounts

Upon acquiring non-resident status, resident bank accounts must be redesignated as Non-Resident Ordinary (NRO) accounts. Proof of overseas address must be submitted to the bank for this purpose. A Non-Resident External (NRE) account should also be opened.

NRO accounts are used to receive income (like rent) generated in India. "An NRE account should be used to invest in India income earned abroad. It is repatriable and allows a person to transfer the money back to their adopted country," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

Interest from NRO accounts is taxable, while interest earned in an NRE account is tax-exempt.

Mutual fund compliances

Investors must update their mutual fund (MF) status from resident to non-resident. Existing MF folios must be linked to an NRO account. Fresh investments using money earned abroad should be made in Indian MFs through an NRE account.

NRIs need to undergo a more comprehensive KYC by submitting updated information to a Sebi-registered KYC registration agency (KRA). The KYC form must be submitted with proof of identity, NRI status (visa, work permit, residence permit, OCI card, etc.), Indian contact address, and overseas residence proof. Existing systematic investment plans can continue thereafter.

"An NRI from the US needs to give a Foreign Account Tax Compliance Act (FATCA) declaration, while one from the UK, Canada and 100 other nations must give a Common Reporting Standard (CRS) declaration," says Nehal Mota, co-founder and chief executive officer, Finnovate.

Some fund houses are not compliant with FATCA and CRS. "They bar investors from jurisdictions (that demand those compliances) from investing in their funds," says Mota.

Taxation of MFs is the same for residents and NRIs. "Redemption proceeds are only paid to NRIs after deducting tax at source (TDS)," says Mota. MF earnings may be taxed both in India and the country of residence. "Partial relief can be obtained if India has a double taxation avoidance agreement (DTAA)," says Mota.

Demat account

The existing demat account must be converted to a non-resident account. Investors must update their KYC with their brokers.

"Log in to the Income Tax Department's website and update your status as an NRI. Notarisation of documents is required if the person is not physically present in India or is not visiting a broker's branch in person," says Kazi Rahman, head NRI sales, Zerodha.

To convert an existing account, inform the broker, and submit updated KYC documents—NRI KYC form, PAN, passport, visa, and overseas address proof. An NRO non-Portfolio Investment Scheme (PIS) trading and demat account is opened. All current holdings are transferred to it. Repatriation from the NRO account is capped at US $1 million per financial year. "There is no restriction on repatriation from an NRE account," says Rahman.

Futures and options (F&O) trading can be done through the NRO non-PIS account via a custodian, but not through the NRE PIS account. "NRIs cannot engage in intraday equity trading. Some brokers allow buy-today-sell-tomorrow (BTST) trades in NRO non-PIS accounts," says Rahman. NRIs are also barred from short selling and trading in commodities, currencies, and sovereign gold bonds.

PPF, EPF and insurance

An existing Public Provident Fund (PPF) account can be continued till maturity. "But it cannot be extended once the 15-year tenure ends," says Dhawan.

Interest from the Employees' Provident Fund becomes taxable. "The NRI must decide whether to continue or close the account," says Dhawan.

Life and health insurers must be informed about the change in status. Some policies may not provide coverage in certain countries.

Residential status and tax liability

Tax residency in India is determined annually based on citizenship and days of physical presence in India. "A person qualifies as a tax resident if they spend 182 days or more in India in a financial year, or spend 60 days or more in a financial year and 365 days or more over the preceding four years," says Suresh Surana, a Mumbai-based chartered accountant. Consult a tax expert to understand the nuances beyond these basic criteria.

Non-residents are taxed only on income sourced or received in India. They must file a tax return if their Indian income exceeds the basic exemption limit. "Even if income does not cross this limit, a return must be filed if a person has long-term capital gains, and to claim TDS refund or to carry forward losses," says Surana.