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Reporting Foreign Income in Income Tax Return in India: Schedule FA and Foreign Tax Credit

As globalization brings us closer together, an increasing number of Indians are earning income from abroad. Whether you are an expatriate, a non-resident Indian (NRI), or an Indian resident with foreign investments, it's essential to understand how to report foreign income in your Indian Income Tax Return (ITR). This comprehensive guide will demystify the process, outline the requirements, and explain the implications of reporting foreign income in India.

Understanding Residential Status

The taxation of foreign income in India depends primarily on your residential status, which can be classified into three categories:

Resident and Ordinary Resident (ROR)	Resident but Not Ordinarily Resident (RNOR)	Non-Resident (NR)

Resident and Ordinary Resident (ROR):
You are considered a Resident and Ordinarily Resident (ROR) in India if you meet one of these conditions:

- You have stayed in India for at least 182 days during the current financial year.
- You have stayed in India for at least 365 days over the previous four years and have stayed in India for at least 60 days in the current financial year.

Resident and Not Ordinary Resident (RNOR):
You are considered a Resident but Not Ordinarily Resident (RNOR) if you:

- Have not been an Indian resident for at least 9 out of the last 10 years, or
- Have not stayed in India for more than 729 days during the last 7 years.

Non-Resident (NR):
You are considered a Non-Resident (NR) if you do not meet any of the above conditions for being an ROR or RNOR.

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Types of Foreign Income

Foreign income can come from various sources, including but not limited to:

- **Salary:** Earnings from employment outside India.
- **Interest:** Income from foreign bank accounts or investments.
- **Dividends:** Earnings from foreign company shares.
- **Rental Income**: Income from property owned abroad.
- **Capital Gains:** Profits from the sale of foreign assets.
- **Business Income:** Earnings from business operations abroad.

Taxation Rules for Foreign Income

- **Residents (ROR):** Must report all global income, including income earned abroad, in their ITR. Double taxation can be avoided through the Double Taxation Avoidance Agreement (DTAA) between India and the foreign country.
- **RNORs and NRs:** Need to report only Indian income. However, if any foreign income is received directly in an Indian bank account, it must be reported.

Double Taxation Avoidance Agreement (DTAA)

India has DTAA treaties with many countries to avoid double taxation. Under DTAA, you can:

- **Claim Tax Credit:** Offset the tax paid in the foreign country against the tax payable in India.
- **Exemption Method:** Exempt the foreign income from tax in India if it is already taxed abroad.

It's important to consider Double Taxation Avoidance Agreements (DTAA) that India has signed with many countries. These agreements help avoid paying tax on the same income twice.

Schedule FA (Foreign Assets) – Reporting of Foreign Assets and Liabilities in ITR

Schedule FA is a section in the Indian Income Tax Return (ITR) where you must report details of any foreign assets you own. This includes things like foreign shares, mutual funds, and employee stock options from foreign companies.

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Importance of Schedule FA:

Reporting foreign assets in Schedule FA helps the Indian government prevent tax evasion and money laundering. It ensures transparency about assets held by Indian residents abroad. Additionally, it allows you to avoid double taxation on the same income by claiming relief under the Double Taxation Avoidance Agreement (DTAA).

Who Needs to Report Foreign Assets?

If you are a **resident or an ordinarily resident individual** in India, you need to file Schedule FA if you have any assets outside India. The requirement applies regardless of whether the income from these foreign assets is taxable in India or not. Specifically, you need to disclose foreign assets if you:

- Hold any foreign depository accounts (such as savings or term deposits in foreign banks).
- Own immovable property outside India (such as houses or buildings).
- Possess any other capital assets outside India (such as jewellery, vehicles, paintings).
- Have foreign bank accounts.
- Have financial interests (such as voting power in foreign companies, partnerships in LLPs outside India).
- Are an authorized signatory on any foreign accounts.
- Hold foreign custodian accounts (custodial accounts for financial assets or deposits in foreign nations).
- Have interests in trusts outside India or any other foreign source of income.
- Own foreign securities (such as restricted stock units, bonds, mutual funds, ETFs).

The disclosure pertains to assets held during the calendar year preceding the assessment year. For instance, for the Assessment Year 2024-25, you need to disclose foreign assets held from January 1, 2023, to December 31, 2023.

Foreign Tax Credit

Foreign Tax Credit (FTC) allows taxpayers to reduce their Indian tax liability by the amount of tax they have already paid in a foreign country on the same income. This helps avoid double taxation, where the same income is taxed both in India and abroad.

What is Form 67?

Form 67 is a mandatory form that must be filed by Indian residents to claim Foreign Tax Credit.

- **Eligibility**: Indian residents who have paid taxes in a foreign country on income that is also taxable in India.
- **Filing Deadline**: Form 67 must be submitted before the due date for filing the ITR for the relevant assessment year.
- **Mode of Filing**: Form 67 is filed electronically through the Income Tax Department's e-filing portal.
- **Supporting Documents**: Taxpayers must provide proof of the foreign tax payment, such as tax receipts, certificates, or returns filed in the foreign country.

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