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US' 1% remittance tax to have limited impact on India, but adds to cost of transfers

According to US-based non-profit Center for Global Development, India stands to lose slightly less than $500 million in formal remittances due to the imposition of the tax.

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The 1 per cent tax on remittances in the One Big Beautiful Bill Act (OBBBA) will come into effect from January 1, 2026. (AP Photo)

Sending money back home for Indians and other expatriates working in the US will possibly get a little more expensive after American lawmakers in the Senate on Tuesday and the House of Representatives on Thursday narrowly passed President Donald Trump's 'big, beautiful' spending bill containing a proposal to impose a new 1 per cent tax on remittances.

The 1 per cent tax on remittances in the One Big Beautiful Bill Act (OBBBA) will come into effect from January 1, 2026. Originally proposed as a 5 per cent tax on non-commercial money transfers sent overseas, the rate was cut to 3.5 per cent and finally to 1 per cent.

Crucially, the version passed by the Senate made some important exclusions which can soothe the pain. For one, the tax only applies to remittances sent using cash, money orders, cashier's checks, or where the sender provides "any other similar physical instrument" to service providers. This means, the tax – which will only apply to transfers of more than $15 – will not be levied on transfers made through bank accounts or US-issued debit and credit cards. The tax will also not apply if the sender can prove US citizenship.

According to Gaura Sen Gupta, Chief Economist at IDFC FIRST Bank, the impact of the tax on money sent to India is likely to be distributional in in 2025-26, with remittances "frontloaded and more concentrated" in the first three quarters of the fiscal given that the tax will only come into effect in January 2026. "But the fact that it's a much lower rate than what was proposed earlier means the impact should be limited," Sen Gupta added.

Meanwhile, US-based non-profit Center for Global Development estimates India stands to lose slightly less than $500 million in formal remittances due to the US imposing the tax, only second to Mexico, which faces a hit of more than $1.5 billion.

India's record remittances

A tax on remittances can be a big headache for India given that it is the top recipient country. According to the latest data released by the Reserve Bank of India (RBI) last week, personal transfers from abroad in 2024-25 were up 16 per cent from the previous year at $124.31 billion on a net basis. In gross terms, they were up 14 per cent at $132.07 billion.

Of course, not all of India's remittances come from the US. However, the world's largest economy is the biggest source, accounting for 27.7 per cent of remittances India received in 2023-24, as per the RBI's latest remittances survey. Given that the gross personal transfers in 2023-24 stood at $115.55 billion, India got roughly $32 billion from the US that year.

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What is worth noting here is not so much the amount of remittances from the US but the fact that a larger and larger share of the money India gets from abroad is coming from the US.

Back in 2016-17, the US' share of remittances into India was 22.9 per cent.

The importance of remittances India receives cannot be overstated: in 2024-25, not only did net remittances fully cover the country's goods and services trade deficit of $98.39 billion, but there was another $26 billion or so left after doing so.

Costlier transfers

Even if remittances into India from the US don't decline by much, the tax represents a new hurdle for cross-border payments. But just how costly is it to send money into India?

According to the World Bank, the average cost of sending $200 to India in October-December 2024 was 5.3 per cent compared to the global average of 6.6 per cent. The cost of making international payments rises depending on the number of intermediaries, or correspondent banks, involved, with fees being charged and operational delays possible at every stage. These costs and delays have been a key driver of central banks exploring the use of their digital currencies to make cross-border transfers.

Another route to cut down on time and cost inefficiencies in current cross-border payments has been the linking of national instant payment systems, something which India has already started doing by connecting its Unified Payments Interface with Singapore's PayNow. Project Nexus of the Bank for International Settlements, a global organisation of central banks, takes matters to another level by focusing on "cheaper, faster, more transparent and accessible" cross-border payments. The RBI joined Project Nexus last year.

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