Quick guide to bank accounts for non-resident Indians (NRIs)

Here is a quick guide on bank account options for NRIs

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The rush to get Aadhaar linked to bank accounts, before the Supreme Court deferred its implementation, was an eye-opener to a lot of non-resident Indians (NRIs) settled overseas. Emotions ranged from panic, as there were no plans to visit India and thus no way to get an Aadhaar, to the operational process for linking Aadhaar to bank accounts. We had a hard time explaining to NRIs that this does not apply to them at all. NRIs are not supposed to have an Aadhaar in the first place. After all, there is a declaration that needs to be signed to obtain an Aadhaar that you were resident in India for 182 days, in the preceding 12 months or more, which would not be true for NRIs.

While this may seem like an aberration, we find many NRIs, even though they have lived overseas for years, have questions on even the types of banking accounts that are allowed for them. This lack of understanding is a continuous cause of stress for them and their family members, who help them with their money management back home. So here is a quick guide to your bank account options as NRIs.

Non-resident ordinary (NRO) accounts:

Most NRIs, before they leave the country, have already got resident bank accounts. As they tend to be rather busy with their farewell dinners and multiple purchases and preparation to move overseas, personal finances tend to take a backseat, as it is in the important but not urgent category. Over a period of time, some of these bank accounts become dormant or some continue to be operated as resident accounts. This is not permitted as NRIs cannot hold resident accounts. Their resident accounts need to be converted to NRO accounts. NRO accounts are rupee accounts that allow credits from all sources, and are typically best used for money received locally like rentals or dividends. Money from a NRO account is non-repatriable in the normal course and is ideally used to support local spends. Interest earned on NRO accounts is subject to a tax deduction at source (TDS) of 31.2%. You can choose to have either a NRO savings account for regular use, or a NRO fixed deposit in case you are seeking to lock in your money for a longer period at a better rate of return.

Non-resident external (NRE) accounts:

Repatriation of funds tends to be a critical need for many NRIs, especially those who have decided to settle overseas or are likely to do so. NRE accounts are ideally suited for this purpose as they permit outward remittances very efficiently. NRE accounts are denominated in rupees, but allow restricted sources of credit like overseas remittances or transfers from your NRE or foreign accounts. Thus, while money in NRE accounts is exposed to currency risk as they are maintained in rupees, the account is flexible to convert to foreign currency whenever desired. Interest earned on NRE accounts is tax free in India, though it may be taxable in the country in which the NRI lives. A lot of NRIs are unaware of this, as the bank they deal with is specifically referring to the tax free nature of NRE interest from an Indian tax perspective, and not considering the cross border tax implications of the same. NRE accounts can be both savings and fixed deposits.

Foreign currency non-resident (FCNR) accounts:

These are fixed deposits maintained in foreign currencies including US dollar, pound, euro, Japanese yen, Australian dollar, Canadian dollar, among other currencies. The interest earned on them is also in foreign currency and deposits are for periods ranging 1 to 5 years. Since these are maintained in foreign currency, there is no currency risk and funds are also easy to repatriate.

Resident foreign currency (RFC) account:

These accounts are typically used by returning Indians/NRIs to park their foreign currency when they move back after living overseas. Since the money is held in a foreign currency, it is not exposed to foreign exchange risk. The money held in these accounts can be converted back to NRE/FCNR accounts if the individual becomes a NRI once again. The interest earned is also fully repatriable.

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