

Exchange Rates Applicable in Income Tax

The foreign exchange rates applicable under Income Tax Act are prescribed under the Income Tax Rules. Rule 26 prescribes exchange rates for T.D.S purpose, Rule 115 A prescribes exchange rates in respect of Capital gains in case of capital gains arising from the transfer of a capital asset being shares in, or debentures of, an Indian company, in the case of an assessee who is a non-resident & for Other incomes exchange rates are prescribed under Rule 115.

Rule 115:

The rate of exchange for the calculation of the value in rupees of any income accruing or arising or deemed to accrue or arise to the assessee in foreign currency or received or deemed to be received by him or on his behalf in foreign currency shall be the telegraphic transfer buying rate of such currency as on the specified date. As illustrated in the table below:-

INCOME CHARGEABLE UNDER THE HEAD	RATE APPLICABLE	SPECIFIED DATE
Salary Income	Telegraphic Transfer Buying Rate.	The last day of the month immediately preceding the month in which the salary is due or in advance or in arrears.(e.g.: salary if due or paid in May T.T.R as on 30 th April will be considered.)
Income by way of interest on securities	Telegraphic Transfer Buying Rate.	The last day of the month immediately preceding the month in which the income is due.
Income from House Property	Telegraphic Transfer Buying Rate.	The last day of the previous year of the assessee.
Profits and Gains from Business and Profession (excl. income of N.R engaged in the business of operation of ships)	Telegraphic Transfer Buying Rate.	The last day of the previous year of the assessee.
Income from other sources (not being income by way of dividends & interest on securities)	Telegraphic Transfer Buying Rate.	The last day of the previous year of the assessee.

'Profits & Gains From Business and Profession' in the case of N.R engaged in the business of operation of ships	Telegraphic Transfer Buying Rate.	The last day of the month immediately preceding the month in which such income is deemed to accrue or arise in India
Income by way of dividends	Telegraphic Transfer Buying Rate.	The last day of the month immediately. Preceding the month in which dividend is declared, distributed or paid by the company.
Capital Gains (excl. capital gains arising from the transfer of a capital asset being shares in, or debentures of, an Indian company, in the case of an assessee who is a non-resident Indian)	Telegraphic Transfer Buying Rate.	The last day of the month immediately preceding the month in which the capital asset is transferred.

Rule 115 A:-**Rate of exchange for conversion of rupees into foreign currency and reconversion of foreign currency into rupees for the purpose of computation of capital gains under the proviso to clause (a) of sub-section (1) of section 48 of the Income-tax Act, 1961.**

For the purpose of computing capital gains arising from the transfer of a capital asset being shares in, or debentures of, an Indian company, in the case of an assessee who is a non-resident Indian, the rate of exchange shall be :—

- (a) for converting the cost of acquisition of the capital asset, the average of the telegraphic transfer buying rate and telegraphic transfer selling rate of the foreign currency initially utilized in the purchase of the said asset, as on the date of its acquisition;
- (b) for converting expenditure incurred wholly and exclusively in connection with the transfer of the capital asset referred to in clause (a), the average of the telegraphic transfer buying rate and telegraphic transfer selling rate of the foreign currency initially utilized in the purchase of the said asset, as on the date of transfer of the capital asset;
- (c) for converting the full value of consideration received or accruing as a result of the transfer of the capital asset referred to in clause (a), the average of the telegraphic transfer buying rate and telegraphic transfer selling rate of the

foreign currency initially utilized in the purchase of the said asset, as on the date of transfer of the capital asset;

- (d) for reconverting capital gains computed in the foreign currency initially utilized in the purchase of the capital asset into rupees, the telegraphic transfer buying rate of such currency, as on the date of transfer of the capital asset.

Illustration:-

Mr. Peter, a non resident remits 10000 US\$ to India in April 4 1990. This amount is partly utilized in purchasing shares of an Indian Co. on April 10, 1990. Mr. Peter transfers these shares on June 25th 2009 for a total consideration of Rs. 250,000/- Transfer expenses incurred for the shares Rs.9,000/- .Find out the capital gains chargeable to tax in A.Y 2010-11.On the assumption that the telegraphic transfer buying and selling rate of US\$ adopted by SBI.

<u>Date</u>	<u>Buying (1 US \$)</u>	<u>Selling (1 US \$)</u>
April 4, 1990	26.20	26.80
April 10, 1990	27.50	28.10
June 25, 2009	42.30	43.10

Solution:

Particulars	Amount (\$)
Sale Consideration	5720.82
[250000/(42.30+43.10/2)]	
Less: Cost of Acquisition	(863.31)
[24000/ (27.5+28.10)/2]	
Less: Transfer Expenses	(210.77)
[9000/(42.30+43.10)/2]	
Long Term Capital Gain (in US\$)	4646.74
Long Term Capital Gains in Rs.	198415.80
(Offered to tax in India)	

Rule 26:**Rate of exchange for the purpose of deduction of tax at source on income payable in foreign currency.**

For the purpose of deduction of tax at source on any income payable in foreign currency, the rate of exchange for the calculation of the value in rupees of such income payable to an assessee outside India shall be the telegraphic transfer buying rate of such currency as on the date on which the tax is required to be deducted at source under the provisions of Chapter XVIIIB by the person responsible for paying such income.

***Explanation:** For the purposes of this rule,

- (i) **“telegraphic transfer buying rate”**, in relation to a foreign currency, means [the rate or rates of exchange] adopted by the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955), for buying such currency [, having regard to the guidelines specified from time to time by the Reserve Bank of India for buying such currency,] where such currency is made available to that bank through a telegraphic transfer.]

- (ii) **“telegraphic transfer selling rate”**, in relation to a foreign currency, means the rate of exchange adopted by the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955), for selling such currency where such currency is made available by that bank through telegraphic transfer.]

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