

NRE (Non-Resident External) account

And

NRO (Non-Resident Ordinary) account

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BRIEF INTRODUCTION

▪ **NRI**s (Non-Resident Indians) managing income earned in India and abroad may benefit from having two different types of bank accounts in India, an **NRE** (Non-Resident External) account and an **NRO** (Non-Resident Ordinary) account. Both **NRE** and **NRO** accounts may be opened in the form of savings, current, recurring, or fixed deposit accounts, and depending on your banking needs, one or both may help you more easily manage foreign and Indian-earned incomes.

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NRE Account

An NRE account is a savings or current account held in India that allows the account holder to repatriate funds that come from outside earnings and transfer earnings to India conveniently and securely. Money transferred to an NRE account from any foreign currency is converted to INR. It permits an NRI to hold and maintain foreign currency earnings in INR. The account holder may repatriate all the funds along with the interest earned at any point of time without having to pay tax on the interest amount. Any NRI can open an NRE account.

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NRO Account

An NRO account is a savings or current account held in India that helps NRIs manage income earned in India such as rent, dividends, or pension from abroad. The account holder can deposit and manage accumulated rupee funds conveniently through an NRO account. Foreign currency deposited into the NRO account is converted into Indian Rupees. Any NRI can open a NRO account.

NRIs may also convert their existing resident savings account into an NRO account when their status changes from resident to non-resident. A minimum amount of Rs.10,000 must be maintained in an NRO account on a daily basis. Any repatriation done through this account should be reported to RBI.

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Difference between NRE and NRO Accounts

Repatriation:

Repatriation is defined as sending or bringing money back to the foreign country. You can easily repatriate funds from an NRE account including the interest earned in that account. However, RBI has made some restrictions on NRO accounts. You can remit only up to USD 1 million in a financial year (April to March). In addition, you will need a chartered accountant to complete the paperwork for you.

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TAXATION LAWS:

NRE accounts are tax exempted. Therefore, income taxes, wealth taxes, and gift taxes do not apply in India. Interest earned from these accounts is also exempt from taxes. But as per Indian Income tax laws, NRO accounts are taxable; income taxes, wealth taxes, and gift taxes do apply. Interest earned on an NRO account is also subject to taxation. However, reduced tax benefit is availed under Double Taxation Avoidance Agreement (DTAA).

DEPOSIT AND WITHDRAWAL OF FUNDS:

You can deposit funds from a foreign country (in foreign currency) in both NRE and NRO accounts, but funds originating from India (in Indian rupees) can only be deposited in an NRO account and cannot be deposited in an NRE account. Withdrawals from both NRE and NRO accounts can only be made in INR.

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FLOW OF FUNDS:

In an NRE account, repatriation is allowed outside India in any currency.

TRANSFER:

An NRE account allows you to transfer funds to another NRE account as well as to an NRO account. You can transfer funds from an NRO to another NRO account, but you cannot transfer funds from an NRO account to an NRE account.

JOINT ACCOUNTS:

Two NRIs can open both an NRE joint account or an NRO joint account. However, you cannot open an NRE joint account with a resident Indian. This facility is available only with an NRO joint account.

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MOTIVE OR PURPOSE:

An NRE account helps you transfer funds to India earned abroad and maintain them. While NRO accounts helps maintain regular flow of income earned in the form of rent, pensions, or dividends from India.

EFFECT OF EXCHANGE RATE FLUCTUATIONS:

NRE accounts are exposed to two kinds of exchange loss, namely day-to-day fluctuations in the value of INR and conversion loss. NRO accounts are not at such risk.

Choosing the right account depends on examining your and your family's financial needs. If you foresee the need to repatriate more than a million dollars or if you want to maintain savings in INR then an NRE account may be the better option. If you want to keep India-based earnings in INR, then opt for an NRO account. With both NRE and NRO accounts, managing your funds as an NRI is made much more convenient and secure.

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