Policy Brief No. 8

The Impact of Remittance Tax Proposed by USA on Indian Economy

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INTRODUCTION:

The trump administration has taken different route starting from imposing sector tariffs addressing national security to applying reciprocal tariff to reduce trade deficit, trump administration has proposed a new bill called "The One, Big, Beautiful Bill" where a 5 percent tax on remittances has to be paid by sender on all outward remittances from US irrespective of the amount sent. This tax will be applicable to all types of immigrants be it green card holders or a holder of H1B or F1 Visa.

The recent decision by the United States government to impose a 5% tax on remittances sent abroad specifically affecting outflows to countries like India marks a significant development in cross-border financial policy. For India, which consistently ranks as one of the top recipients of global remittances, the implications are both immediate and far-reaching.

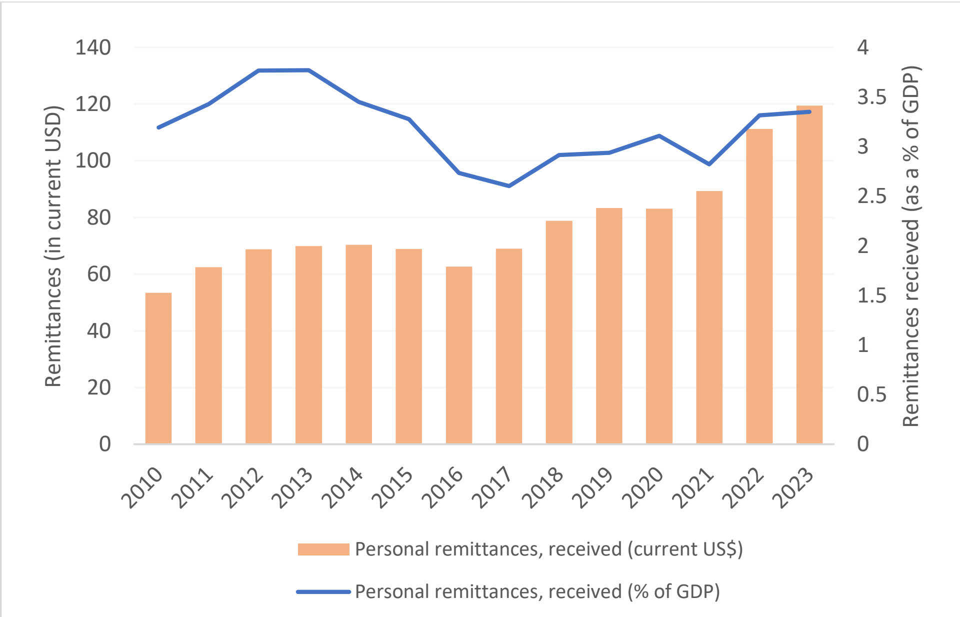
India is among the top countries in the world in remittances inflows which accounts for 129 USD billion in 2024. In recent years, the share of US, in India's inward remittances has risen from 22.9% in FY2017 to 27.7% in FY2024. Imposition of 5% tariff not only increases the cost burden on senders, but also risks reducing the overall volume of transfers. The policy move by US could have multiplying effects on the economy including tightening household budgets in India, slowing local consumption, reduced returns from physical and financial assets due to lower investment and weakening one of the country's most resilient sources of foreign exchange. This brief aims to explore the multifaceted impact of this tax by assessing its broader economic implications in India's domestic economy.

Why Remittances are important for India?

Figure 1 illustrates the significant and growing role of remittances in India's economy between 2010 and 2023. India has witnessed a steady increase in personal remittances received, rising from approximately 55 billion USD in 2010 to nearly 120 billion USD in 2023. Simultaneously, remittances as a share of India's GDP have remained relatively stable, fluctuating between 2.5% and 3.5%, demonstrating their sustained contribution to macroeconomic stability.

Remittances received are mostly used for personal consumption, savings and investments in the form of financial and physical assets. Reduced remittance inflows can have a direct and adverse impact on both domestic savings and investment in financial and physical assets in India, particularly at the household and community levels. A portion of these funds is typically saved or invested in financial instruments such as bank deposits, insurance, mutual funds, and gold, or in physical assets like housing, land, and small-scale business infrastructure.[1] When remittance inflows decline, households are likely to prioritize consumption needs (e.g., food, healthcare, and education) over savings and investment. This shift effects the overall economy of India by reducing the pool of funds available for productive investment in the economy.

Figure 1: Remittances inflow to India from World



Data Source: World Bank estimates

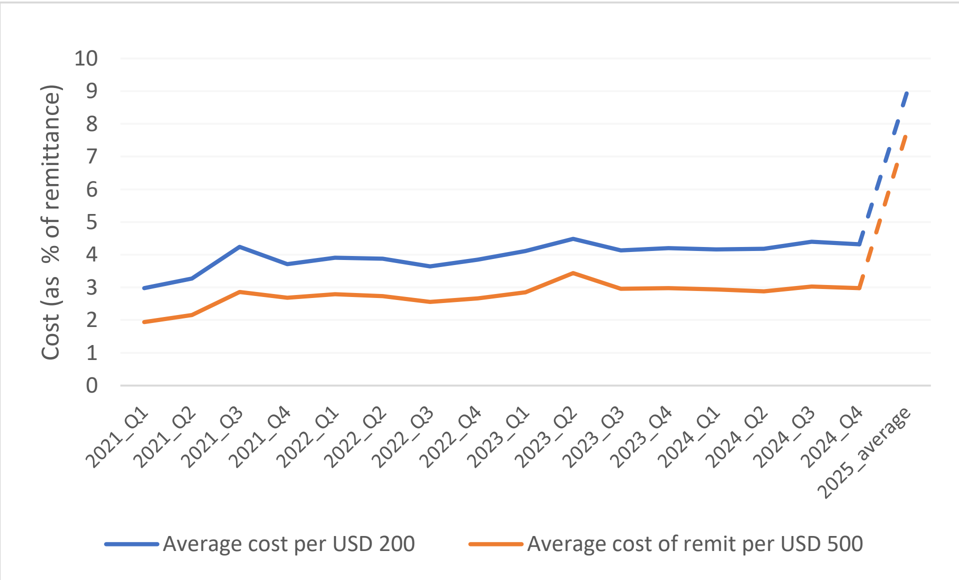
[1] Agarwalla, S., et al. "Savings, Borrowings and Remittance Behaviour of Migrant Workers in Urban India." (2016).

Cost Burden for Indians to remit from USA

Figure 2 analyses the average cost of sending 200 USD and 500 USD from the United States to India between Q1 2021 and a projected average for 2025 which is expressed as a percentage of the remittance amount. Between 2021 and 2024, remittance costs remained relatively stable, averaging around 3–4% for 200 USD transfers and 2–3% for 500 USD transfers. This difference reflects typical remittance pricing structures, where higher transfer amounts benefit from lower proportional fees. However, a sharp projected increase in 2025 is evident from the chart, with the cost for a 200 USD remittance nearing 9% and for a 500 USD remittance approaching 7%. This projected surge aligns with the anticipated impact of the recently introduced 5% U.S. tax on outward remittances, which would compound existing service and transaction fees.

The implications of this increased cost are significant. For senders in the U.S., particularly lower-income earners and migrant workers, the added burden may discourage frequent or high-value transfers. For recipients in India, the net amount received will decline, reducing disposable income available for consumption, education, healthcare, or investment. Additionally, the higher cost may incentivize the use of informal and unregulated remittance channels, increasing risks and undermining financial transparency.

Figure 2: Quarter Wise Average Cost to Remit from USA to India



Data Source: remittance prices World Bank

METHODOLOGY

To assess the potential economic loss to India resulting from the proposed 5% remittance tax by the United States, future remittance inflows has been forecasted using historical data from 2005 to 2024. In recent years, the United States has accounted for approximately 25% of India's total remittance inflows, and this share has been used as the basis for estimating the impact.

Currently, the average cost of remitting money from the US to India is around 3.45%. With the imposition of the additional 5% tax on the sender, this cost is expected to rise to approximately 8.45%. The increased cost is likely to discourage remittances, thereby reducing the overall volume of funds sent to India.

The potential decline in remittance inflows is expected to affect household investments across three primary categories:

1. Real estate and other physical assets
2. Bank savings
3. Capital market investments

In India, on an average 15% of the household disposable income goes into investment in physical and financial assets[2]. Out of these, about 44% of their total savings to physical assets, with 77% of those assets being in real estate. The remaining savings are invested in financial assets, where recent trends show 37% of financial savings are placed in bank deposits, and 8% in capital markets[3].

To estimate the potential loss to the Indian economy, the opportunity cost of the foregone remittances has been calculated. This is based on:

1. The proportion of remittance inflows invested in the three key categories
2. Historical patterns of household investment behaviour
3. The average growth rates of these investment avenues over the years

The detailed growth assumptions and allocation shares used in the estimation are presented in the table below:

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[2] Data Source: Statista, Business Standard – Average of middle income and higher income group savings

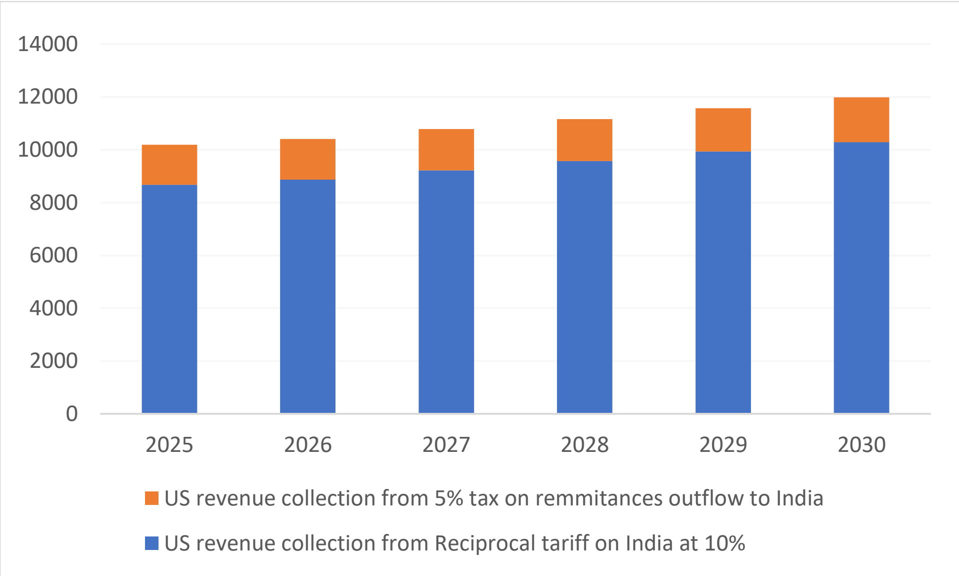
[3] https://www.livemint.com/market/stock-market-news/real-estate-dominates-indian-household-savings-with-highest-allocation-report-11708337956937.html

Asset Category	Sub- Category	Average Return	
Real Estate		Capital Gain	Rental Yield
	Residential (70% Weightage)	8-10%	2-3%
	Commercial (30% Weightage)	10-14%	4-5%
Average yearly return on real estate		**13%**	
Savings in Banks		Average Return	
	Savings Account	4%	
	Fixed Deposits	7%	
Average yearly return from Savings in Banks		**5.50%**	
Capital Market		Average Return	
	Mutual Funds	12.50%	
	SIP: XIRR (Equity)	14.25%	
Average yearly return from Capital Market		**13.50%**	

Data Source: Bajajfinserv[4], finedge[5]

How big is the 5% remittance tax for India?

Figure 3: Projected US revenue collection from tariff and remittances tax from India in Million USD



Data Source: Author's own calculation using World Bank and USITC data

The chart indicates that while revenue from the reciprocal tariff constitutes the bulk of the total projected revenue collection each year which will rise steadily from just over 9 billion USD in 2025 to above 10 billion USD by 2030. Also the revenue from the remittance tax is significant and grows by 150 million USD over the same period. However, while the tariff revenue is tied

[4] https://www.bajajfinserv.in/investments/mutual-fund-returns
[5] https://www.finedge.in/blog/sip-investing/what-is-the-average-sip-return-in-10-years

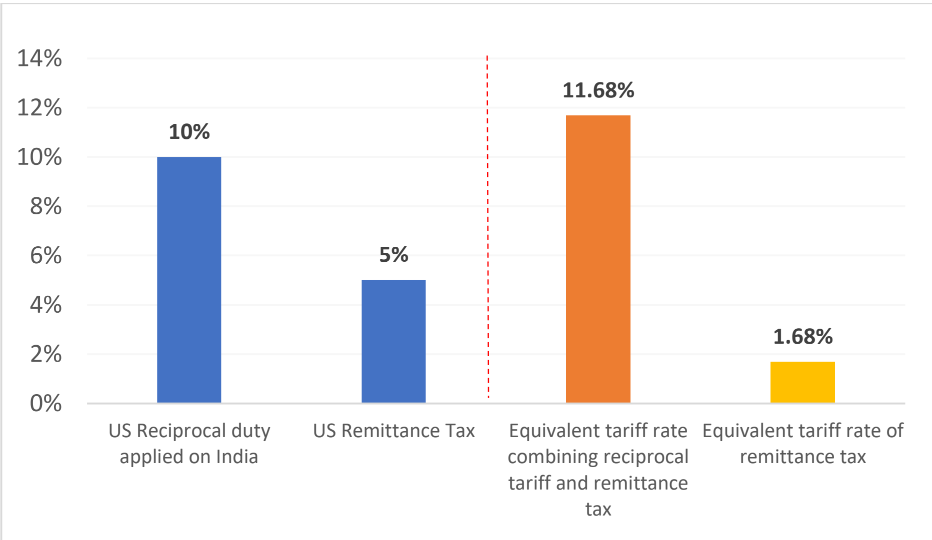
to trade flows and may have broader economic implications, the remittance tax revenue although smaller in comparison is directly impacting individuals and households, particularly those with family ties to India. So in a way the revenue that will be generated by the US government through their new taxation policies will be the foregone earnings by India which could have been circulated in the domestic economy.

Potential Impact on India

Until now, under the Trump administration's second term referred to as Trump 2.0, the administration had largely emphasized reciprocal tariffs, including a 10% tariff on imports from several countries. While such tariffs primarily influence global trade flows and supply chains, the introduction of a remittance tax would directly affect the economies with large immigrant populations in the U.S., India being a key example.

Between 2019 and 2024, remittance inflows from the United States to India totalled approximately USD 154 billion. Based on these current trends, this figure was projected to rise to USD 190.5 billion over the next six-year period (2025–2030).

Figure 4: Tariff equivalence of remittance tax



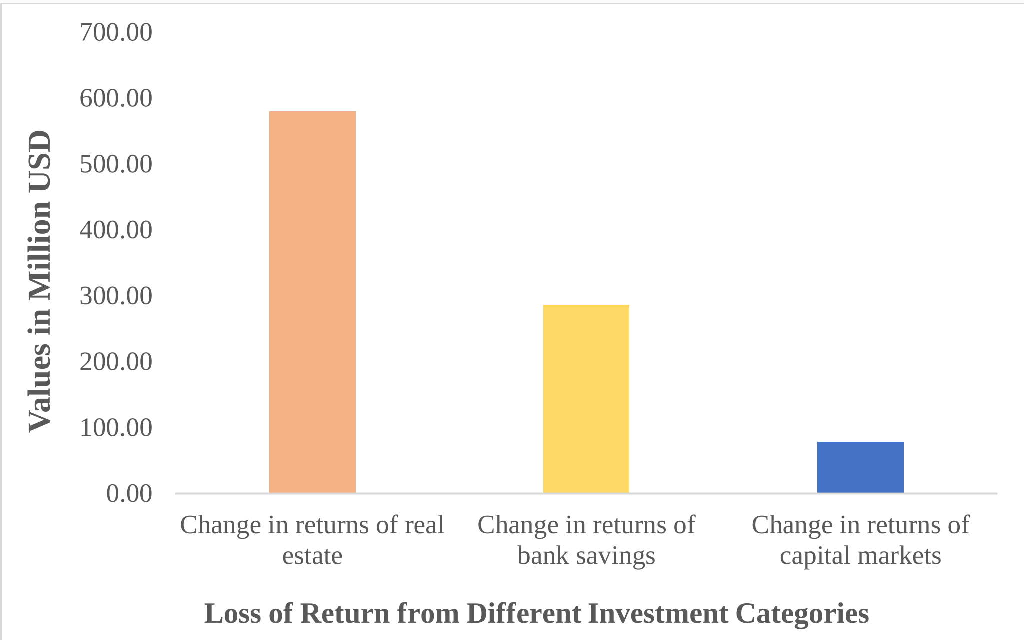
Data Source: Author's own calculation using World Bank and USITC data

In recent years, the United States' merchandise imports from India have averaged around USD 85 billion annually. For the period 2025–2030, cumulative imports are projected to reach approximately USD 565 billion. While a 10% reciprocal tariff has been proposed on these imports as part of the broader trade strategy, the introduction of a 5% tax on remittances adds a new layer to the overall economic burden. When this remittance tax is considered alongside the 10% tariff on goods, the effective tax rate on India, relative to its merchandise exports to the US, rises to 11.68%. This additional 1.68 percentage points may seem modest, but it is significant, as it represents nearly half of the previous average MFN tariff in the United States on non-agricultural products prior to the announcements of Trump 2.0.

If the proposed 5% remittance tax is implemented, remittance inflows to India are expected to decline from the projected USD 190.5 billion to approximately USD 180.9 billion over 2025–2030. This reduction is likely to generate significant opportunity costs for recipient households in India, particularly in terms of lost investment returns in key areas such as:

- Returns from Real Estate: Estimated loss of USD 580 million in potential returns
- Returns from Bank Savings: Estimated loss of USD 286 million
- Returns from Capital Markets: Estimated loss of USD 77 million

Figure 5: Cumulative Projected Impact (loss) (2025-2030)



Data Source: Author's own calculation using World Bank and data insights from MINT

At a macroeconomic level, lower household savings can negatively affect the overall domestic savings rate, which is a crucial source of capital for national investment. This may, in turn, limit the availability of funds for lending by financial institutions, leading to reduced credit flow to small businesses and infrastructure projects. In the long term, diminished investment in physical assets such as real estate or machinery can slow down asset formation and economic development. Moreover, a decline in financial asset accumulation may weaken financial inclusion efforts and limit the growth of India’s formal financial sector. Therefore, a sustained reduction in remittance inflows could erode the foundation of household wealth-building and constrain broader economic growth through weakened domestic capital formation.

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ABOUT THE AUTHOR

Dr. Pritam Banerjee is the Head of the Centre for WTO Studies (CWS) at the Centre for Research in International Trade (CRIT), Indian Institute of Foreign Trade (IIFT), New Delhi, where he leads advisory efforts on trade remedies and policy space.

With over 15 years of experience in economic policy and trade facilitation, he has previously served as a Consultant with the Asian Development Bank (ADB) and as Senior Director for Public Policy at Deutsche Post DHL Group, overseeing the South Asia region. He has also led Trade Policy at the Confederation of Indian Industry (CII) and worked with the World Bank.

Dr. Banerjee has been a member of the National Council for Trade Facilitation (2016-2023) and a special invitee to the Committee on Ease of Doing Business Reforms under the Ministry of Commerce. He holds a PhD in Public Policy from George Mason University and a Master's in Economics from Jawaharlal Nehru University. He has published extensively on international trade, regional integration, and logistics.

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ABOUT THE CENTRE

About CRIT

India's Foreign Trade Policy (FTP) Statement 2015-20 suggested a need to create an institution at the global level that can provide a counter-narrative on key trade and investment issues from the perspective of developing countries like India. To fill this vacuum, a new institute, namelythe Centre for Research on International Trade (CRIT), was set up in 2016. The vision and theobjective of the CRIT were to significantly deepen existing research capabilities and widen them to encompass new and specialised areas amidst the growing complexity of the process of globalization and its spill-over effects in domestic policymaking. Secondly, enhancing the capacity of government officers and other stakeholders in India and other developing countriesto deepen their understanding of trade and investment agreements.

About CWS

The Centre for WTO Studies which is a constituent Centre of CRIT, pre-dates the CRIT since it was created in 1999 to be a permanent repository of WTO negotiations-related knowledge and documentation. Over the years, the Centre has conducted a robust research program with a series of papers in all spheres of interest at the WTO. It has been regularly called upon by the Government of India to undertake research and provide independent analytical inputs to help it develop positions in its various trade negotiations, both at the WTO and other forums such as Free and Preferential Trade Agreements and Comprehensive Economic Cooperation Agreements. Additionally, the Centre has been actively interfacing with industry and Government units as well as other stakeholders through its Outreach and capacity-building programs by organizing seminars, workshops, subject-specific meetings, etc. The Centre thus also acts as a platform for consensus-building between stakeholders and policymakers. Furthermore, the inputs of the Centre have been sought after by various international institutions to conduct training and studies.

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