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How US' 1% Remittance Tax Echo Through Indian Economy?

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Read on: How Will US' 1% Remittance Tax Echo Through Indian Economy? – Outlook Business

Article Content:

The US' new 1% tax on remittances may at first sound like a one-paisa-on-the-rupee fee, inconsequential enough to go unnoticed. But for the millions of Indian households that rely on remittance sent by family abroad, the small levy has turned into a big talking point.

The remittance tax was introduced in President Donald Trump's expanding spending package—the 'One Big Beautiful Bill Act' (OBBBA). Initially, lawmakers proposed a hefty 5% tax on money transfers abroad by non-US citizens. This was whittled down to 3.5% in the House of Representatives and the Senate eventually slashed it to 1%. Earlier this month, the bill narrowly passed Congress, cementing a 1% excise tax on overseas remittances. It will come into effect on January 1, 2026.

The Tax Structure

The final version of OBBBA spares many routine remitters. It exempts transfers made through formal banking channels or US-issued debit and credit cards and primarily targets cash transfers, money orders and similar services used by non-citizens on work visas, student visas and green cards. In effect, the levy is designed to hit undocumented workers and others sending cash, a political nod to anti-illegal immigration goals.

The US-based think tank the Centre for Global Development (CGD) estimates that if formal remittance volumes remain steady, the tax could bring in roughly $4.6bn annually to the US.

"Frankly, the US doesn't need this very small amount of money at all; it's simply a way to discourage foreign visa holders from working in the US," says Russell A Stamets, partner at law firm Circle of Counsels.

Shock Absorbers

At 1%, the hit per transaction is modest, as sending $1,000 would incur $10 in tax. However, even a small margin matters for households that depend on remittances to pay school fees or medical bills. World Bank data reveals that India continues to remain the top recipient of remittances since 2008, with its share in world remittances rising from around 11% in 2001 to about 14% in 2024.

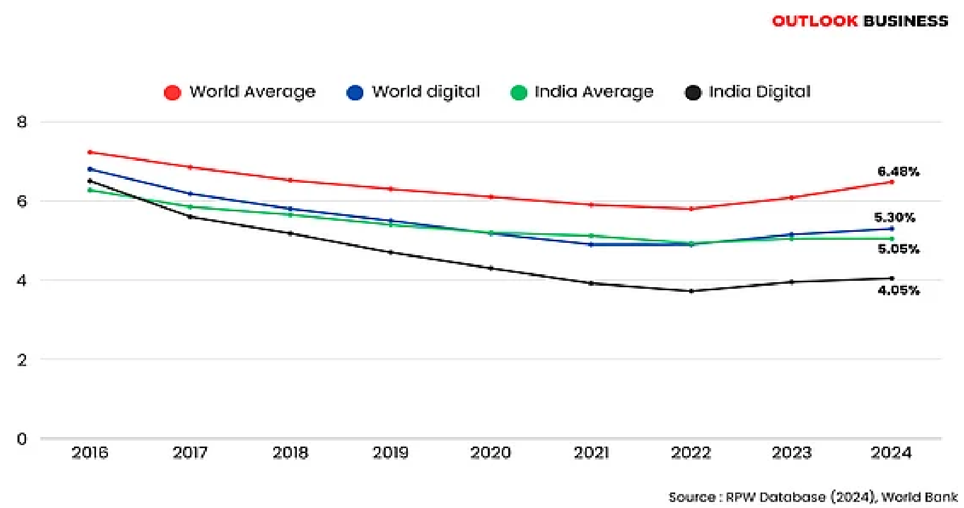
The RBI also follows a similar line and says that remittances to India are likely to remain elevated and are in fact projected to increase to around $160bn in 2029. India's remittances have hovered at around 3% of GDP since 2000.

Shravan Shetty, managing director and cofounder of Primus Partners, a management-consulting firm, highlights that currently, remitters incur around 5% in transfer fees and exchange rate mark-ups on funds sent from the US. Hence, an additional 1% is unlikely to deter remittance flows meaningfully as these funds support essential household expenses, he adds.

Echoing a similar sentiment, Gaura Sengupta, chief economist at IDFC First Bank expects the impact to be timing-related instead. Many NRIs may front-load remittances before the tax kicks in, making transfers more concentrated in the quarters ahead of January 2026, she notes.

"The micro-level effect of the US' 1% remittance levy would be felt most by households that depend on remittances from lower-income migrants to finance their immediate consumption needs. Current estimates suggest that around 75% of remittance flows are used by recipient households to meet immediate consumption needs like education, health and housing, while the remaining 25% is typically allocated to savings and investment, including starting a business and buying real estate," explains Swathysree S S, assistant professor of economics at IMI, Delhi.

She warns that due to the levy, households could end up prioritising immediate consumption needs and reducing the share of remittances allocated to savings and investment.



Macro Ripples

Still, every dollar counts. When a 5% tax was on the table, New Delhi-based trade think-tank, Global Trade Research Initiative, predicted India could lose up to $18bn in remittances and see the rupee weaken by ₹1–1.5 per US dollar. For now, that doomsday scenario is over. At 1%, CGD's modelling suggests a 1.6% drop in remittance volumes globally, and with that, India stands to lose around $500mn in formal remittances each year on account of the new tax.

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Yet, remittances are more than just family matters. They are also a pillar of India's external economy. For example, in 2024–25, the volume of money from Indians abroad not only covered the entire goods and services trade gap of $98.4bn, but left a $26bn surplus, *The Indian Express* has highlighted. This surplus is a key reason India's current account deficit has stayed manageable and the rupee has avoided sharper depreciation.

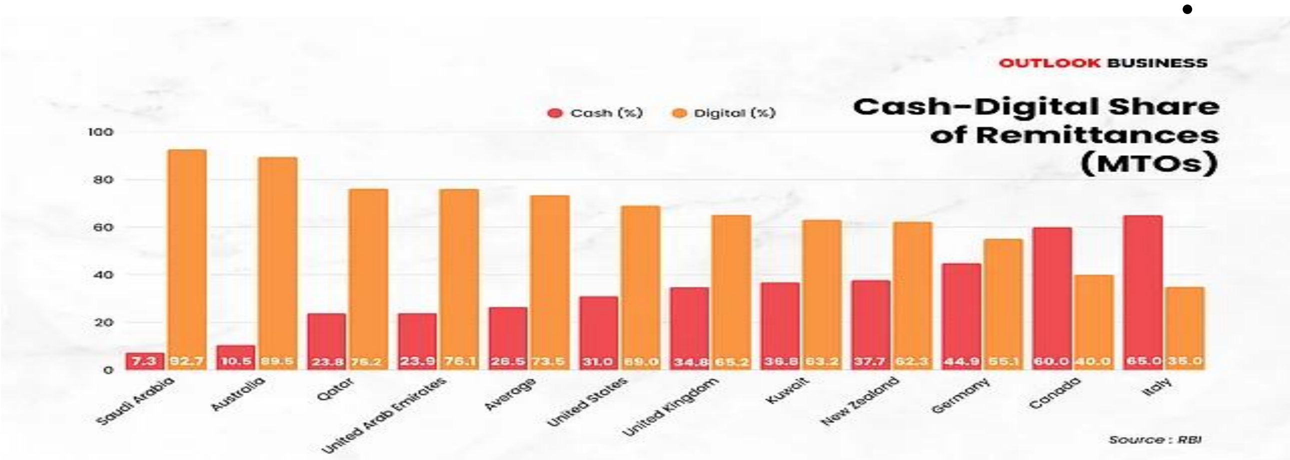
Shetty sees some moderation in discretionary or investment-linked remittances at a macro level; however, the overall impact is likely to remain limited. Swathysree likewise expects a minor drop in net dollar inflows because of this extra cost.

Hawala and Other Channels

This move by the Trump administration casts another shadow—the *hawala* network—which operates beyond formal banking channels. Shetty points out that remitters already use informal methods like *hawalas*, parcel carriers or even cryptocurrency to remit money. "Since the tax has been levied on cash transfers and not bank/card transfers, this may fuel *hawala* networks, undermining India's AML [anti-money laundering] efforts," warns Shetty.

On the other hand, Swathysree adds that it could also undermine India's terror financing control measures, heightening risks of misuse since these methods lack transaction records and remittance flows become harder to track.

However, Stamets of the Circle of Counsels is not convinced it will trigger a mass shift. Since 9/11, the US has sharpened its scrutiny of informal financial networks. "Given the Trump administration's demonstrated willingness to put money and resources toward its vision of dealing with non-citizens, anyone trying to bypass the taxation system almost certainly risks their visa status and right to remain in the US. Is that risk worth 1% savings? Of course, not everyone will be caught, but the risk is very real," he notes.



Easing the Blow

Going ahead, Indian policymakers could focus not only on mitigating any negative fallout but also on seizing any silver linings. India will have to ensure that remittances keep flowing through official channels. On the other, India might double down on its efforts to make sending money home cheaper, faster and more convenient.

Experts suggest that India could cushion the impact of the remittance levy by incentivising the use of levy-exempt digital channels and by partnering with fintechs and banks to offer lowcost, user-friendly transfer options. "As India has already engaged with Project Nexus by the Bank for International Settlements (BIS), this could also serve as an additional way to cut down inefficiencies and costs associated with cross-border payments," Swathysree suggests.

Stamets feels that the best way for India to deal with this reform is to negotiate relief. "Indian visa holders are very important contributors to the US economy and particularly important in technology and medicine. The Indian government has a good argument for seeking special treatment for Indian citizens remitting their hard-earned money, on which they've already paid income taxes," he explains, proposing domestic tax credits or reliefs on inbound remittances as compensation.

The 1% remittance levy appears to be less a thunderclap and more a subtle pressure system. It will not upend the monsoon of money that Indian expatriates send to their motherland, but it does add a drizzle of cost and complexity. Perhaps the greatest significance of this episode lies in the questions it raises. Is this the start of a trend where wealthy nations tax the earnings of migrant workers to shore up their own finances?