

NRI TAXATION 2025

In an increasingly globalised world, many Indians choose to live and work abroad, but they still maintain financial ties with India. Whether it's through real estate, investments, or family businesses, understanding NRI taxation is crucial for managing your wealth smartly and staying compliant. With new regulations and tax updates for FY 2025, this guide breaks down what income is taxable for NRIs in India, what is exempt, and how you can make informed financial decisions.

UNDERSTANDING WHO QUALIFIES AS AN NRI

Before diving into the specifics of NRI taxation, it's important to clarify who is considered a Non-Resident Indian under Indian tax laws.

RESIDENCY CRITERIA FOR NRIS (FY 2025)

According to the Income Tax Act of India, you are an NRI if:

- You were in India for less than 182 days during the financial year
- OR**
- You were in India for less than 60 days in the financial year AND less than 365 days in the past four financial years.

However, recent amendments include additional checks, especially for high-income earners, such as deemed residency and taxation for stateless individuals, which we'll touch on later.

INCOME THAT IS TAXABLE FOR NRIS IN INDIA

As per Indian tax law, only income that is earned or accrued in India is taxable for NRIs. Here's a closer look at what falls into this category:

1. Income from Salary (if received in India)

If you're working for an Indian company and receiving salary in an Indian bank account, it is taxable in India even if you're located overseas.

2. Income from Property in India

If you own residential or commercial property in India and earn rental income, that income is taxable. The property can also attract capital gains tax if sold.

3. Capital Gains from Indian Assets (As of July 2025)

Whether it's shares, mutual funds, or real estate, any capital gains made on the sale of Indian assets are taxable in India.

- **Shares & Equity-Oriented Mutual Funds (Listed)**

Short-Term Capital Gains (STCG) - Holding Period: 12 months or less

For listed equity shares and equity-oriented mutual funds (where STT is paid), STCG is taxed at a flat rate of 20% (plus applicable surcharge and cess). This rate became

effective from July 23, 2024, replacing the previous 15%. There is no slab rate application for this specific type of STCG, nor is there a ₹1.25 lakh threshold for STCG.

Long-Term Capital Gains (LTCG) - Holding Period: More than 12 months

LTCG on listed equity shares and equity-oriented mutual funds is indeed taxed at 12.5% (plus applicable surcharge and cess). However, this tax applies only to gains exceeding ₹1.25 lakh in a financial year. Gains up to ₹1.25 lakh are exempt. This rate became effective from July 23, 2024, replacing the previous 10%.

- **Unlisted Shares (e.g., from startups)**

Short-Term Capital Gains (STCG) - Holding Period: 24 months or less

STCG on unlisted shares is taxed at the NRI's applicable income tax slab rates (which can go up to 30% plus surcharge and cess).

Long-Term Capital Gains (LTCG) - Holding Period: More than 24 months

LTCG on unlisted shares is taxed at a flat rate of 12.5% (plus applicable surcharge and cess). Importantly, no indexation benefit is available for NRIs on unlisted shares. This rate is effective from July 23, 2024, replacing the previous 10%.

- **Real Estate (Immovable Property)**

Short-Term Capital Gains (STCG) - Holding Period: 24 months or less

STCG on immovable property is taxed at the NRI's applicable income tax slab rates (which can go up to 30% plus surcharge and cess).

Long-Term Capital Gains (LTCG) - Holding Period: More than 24 months

LTCG on immovable property is taxed at 12.5% (plus applicable surcharge and cess), without indexation benefit for transfers made on or after July 23, 2024.

Transitional Rule: If the property was acquired before July 23, 2024, and sold after this date, the taxpayer (NRI) has the option to choose between the older rate of 20% with indexation or the new rate of 12.5% without indexation, whichever is more beneficial.

- **Debt Mutual Funds, Gold, Bonds, etc.**

Short-Term Capital Gains (STCG) - Holding Period: 24 months or less (for most, but some debt funds acquired after April 1, 2023, are taxed at slab rates regardless of holding period).

STCG is generally taxed at the NRI's applicable income tax slab rates.

Long-Term Capital Gains (LTCG) - Holding Period: More than 24 months (for most)

LTCG for these assets (if held for more than 24 months, or 36 months for certain older debt funds) is taxed at 12.5% (plus applicable surcharge and cess) without indexation benefit for transfers made on or after July 23, 2024. (Similar transitional rules might apply for assets acquired before this date).

4. Interest Income from NRO Accounts

Interest earned on an NRO (Non-Resident Ordinary) account is taxable at 30% (plus surcharge and cess).

5. Dividend Income

Earlier, dividends were tax-free in the hands of the recipient. But now, dividends received from Indian companies are taxable at your applicable slab rate.

Income That Is *Not* Taxable in India

1. Foreign Income

Any income you earn outside India, such as salary, business income, or rental income from overseas property, is not taxable in India as long as you qualify as an NRI.

2. Interest on FCNR and NRE Accounts

Interest earned on NRE (Non-Resident External) and FCNR (Foreign Currency Non-Resident) accounts is fully exempt from tax in India, provided you maintain your NRI status.

3. Gifts Received from Relatives

NRIs receiving money from relatives (as defined by tax law) are exempt from tax up to ₹50,000 in a financial year. Any amount above this, if from non-relatives, becomes taxable.

IMPORTANT CHANGES FOR FY 2025 EVERY NRI SHOULD KNOW

1. Deemed Residency Rule for High-Income NRIs

If you are not taxed in any other country and your Indian income exceeds ₹15 lakh, you may be treated as a resident but not ordinarily resident (RNOR), meaning your global income still remains exempt, but scrutiny increases.

2. New Tax Reporting Obligations

The Indian government is increasingly focusing on cross-border tax compliance. You may be required to disclose foreign assets and bank accounts, even if they're tax-exempt in India.

3. TDS on Property Transactions Involving NRIs

If you sell property in India, the buyer must deduct TDS at 12.5% (LTCG - without indexation benefit) or 30% (STCG). Advance planning is key to avoid cash flow issues.

What NRIs Should Do in 2025?

Here are a few steps to take in light of the new NRI taxation updates:

- Review your residential status annually based on travel and income
- Plan your investments, consider NRE and FCNR deposits for tax-free growth
- Consult a tax advisor if your income situation is complex or includes assets in multiple countries
- Ensure timely filing of your ITR to avoid penalties and stay compliant

Final Thoughts

NRI taxation in 2025 is evolving with India's push for better compliance and global transparency. While it may feel complex, being proactive and staying informed will help you manage your finances with confidence. Understanding what income is taxable in India and what is not allows you to make smarter decisions and avoid surprises.

Whether you are an NRI salaried professional in Dubai or a high-net-worth investor in London, your financial strategy should include a solid understanding of your tax obligations in India.

Section 89A: Relief from Double Taxation on Foreign Retirement Income

Section 89A was introduced to address a common challenge faced by Non-Resident Indians (NRIs)—double taxation on foreign retirement income. In many countries, retirement benefits such as pensions are taxed at the time of withdrawal. However, under Indian law, they could be taxed when they accrue, leading to a mismatch in tax treatment across jurisdictions.

This section enables eligible Non-Resident Indians (NRIs) to defer taxation in India until the income is received, aligning it with the tax regime of the foreign country. It applies explicitly to NRIs who have income from notified foreign retirement funds and are residents in India during the relevant financial year. To avail of the benefit, a declaration must be filed in the prescribed form before the due date for filing the income tax return. This provision offers significant relief by preventing unfair double taxation and making post-return financial planning more efficient.

Section 115H: Tax Benefits for NRIs Returning to India

Section 115H of the Income Tax Act provides tax benefits to Non-Resident Indians (NRIs) who return to India and become residents. It allows them to continue enjoying the special tax rates applicable to NRIs on certain income—such as interest or dividends—from foreign assets even after changing their residential status.

This benefit is available for the period during which income continues to accrue from foreign sources acquired while the person was a non-resident. To claim this, the individual must declare the income in their return and opt for taxation under Chapter XII A of the Income Tax Act.

Section 115H ensures a smoother financial transition for returning Non-Resident Indians (NRIs) by providing continuity in tax treatment for foreign investments and reducing the overall tax burden during the adjustment phase.

Tax Deductions and Exemptions Available to NRIs

Non-resident Indians (NRIs) are entitled to several tax deductions and exemptions under Indian tax laws, just like resident taxpayers. However, some benefits are restricted or limited based on the nature of income and eligibility. Deductions under Sections 80C, 80D, 80G, and 80TTA are commonly available to Non-Resident Indians (NRIs) for investments, insurance premiums, donations, and interest on savings accounts. It's essential for NRIs to carefully choose eligible financial instruments and plan accordingly to maximise tax savings while remaining compliant with Indian regulations.

Major Sections Under Which NRIs Can Claim Tax Benefits, Including 80C, 80D, etc.

- **Section 80C:** Deductions up to ₹1.5 lakh for investments like ELSS, life insurance premiums, PPF (existing account only), and principal on home loans.

- **Section 80D:** Deduction for health insurance premiums—₹25,000 (₹50,000 for senior citizens).
- **Section 80G:** Donations to eligible charitable institutions can qualify for tax benefits under Section 80G.
- **Section 80TTA:** Deduction up to ₹10,000 on interest from savings accounts in India

Tax Filing for NRIs: Key Rules and Deadlines

ITR Form Applicable to NRIs

- **ITR-2** is typically applicable for NRIs with income from capital gains, rent, or foreign assets.
- Use **ITR-1** only if income is from salary, one house property, or interest, and the total income is below ₹50 lakh.
- NRI taxpayers cannot use ITR-4 (for presumptive taxation).

Advance Tax Requirement

- Non-resident Indians (NRIs) must pay advance tax if their tax liability exceeds ₹10,000 in a financial year.
- Payments are made in four instalments during the year (June, September, December, and March).
- Non-payment attracts interest under Sections 234B and 234C.

Due Dates for Filing ITR

- The standard due date for NRIs is 31st July of the assessment year.
- If accounts require an audit (for business or profession), the due date is 31st October.
- Belated returns can be filed by 31st December, with penalties.

How to Avoid Double Taxation: DTAA Explained

India has signed Double Taxation Avoidance Agreements (DTAAs) with over 90 countries. These treaties help NRIs avoid being taxed twice—once in India and again in the country of residence. Under a Double Taxation Avoidance Agreement (DTAA), NRIs can claim a tax credit, exemption, or reduced tax rate, depending on the agreement's terms. To avail of these benefits, NRIs must provide a Tax Residency Certificate (TRC) and relevant disclosures while filing their Indian tax return. Proper use of DTAA provisions ensures compliance while minimising tax outflow.

KEY POINTS TO REMEMBER FOR NRIS

- Only income earned or received in India is taxable for non-resident Indians (NRIs).
- Foreign income is not taxed unless you become a resident.
- Deductions under sections 80C and 80D are allowed, subject to certain restrictions.
- File returns using the correct ITR form to avoid notices.
- Ensure proper disclosure of foreign assets and accounts, if applicable.

Comparison Between Section 89A and Section 115H

Sections 89A and 115H of the Income Tax Act offer specific relief to NRIs—but they cater to different situations. While Section 89A addresses the issue of double taxation on foreign retirement income, Section 115H provides continued tax benefits.

ASPECT	SECTION 89A	SECTION 115H
PURPOSE	Avoids double taxation on foreign retirement income	Continues NRI tax benefits after becoming a resident
TARGET GROUP	NRIs receiving income from notified foreign retirement funds	Returning NRIs with income from foreign assets
APPLICABILITY	Applicable when NRI becomes a resident in India	Applicable from the year of return to India
CONDITION	Income taxed on receipt basis, not accrual basis	Must opt for Chapter XII A in ITR to claim benefit
BENEFIT	Aligns tax timing with foreign laws	Allows lower NRI tax rates on eligible income

Both provisions are designed to ease tax obligations for NRIs but serve different stages of the NRI journey. Section 89A benefits those transitioning back to India with foreign retirement income, while Section 115H helps returning Non-Resident Indians (NRIs) continue to enjoy tax benefits on investments made abroad.

FAQs on NRI Taxation, Section 89A & Section 115H

What is the income claimed for relief under Section 89A?

Section 89A provides relief on income earned from foreign retirement benefit accounts. It allows such income to be taxed in India in the year of receipt (not on an accrual basis), aligning with the tax rules of the foreign country and avoiding double taxation for returning non-resident Indians (NRIs).

Who is eligible for benefits under Section 115H of the Income Tax Act?

Any NRI who has returned to India and becomes a resident can claim benefits under Section 115H. This section allows them to continue enjoying concessional tax rates on income earned from foreign assets acquired. At the same time, they were non-residents, provided they opted for this in their income tax return (ITR).

Do Non-Resident Indians (NRIs) need to pay tax in India on their foreign income?

No, NRIs are taxed in India only on income earned or received in India. Foreign income is not taxable in India unless the NRI becomes a resident under Indian tax law and meets conditions under the residential status rules.

What are the significant tax exemptions for NRIs in India?

NRIs can claim exemptions under Section 10(4) (interest on NRE accounts), Section 10(15)(i) (certain interest income), and tax relief under Double Taxation Avoidance Agreement (DTAA) agreements. Other deductions under Sections 80C, 80D, and 80G are also available, albeit with certain limitations.

Which ITR form should an NRI use for filing returns?

Most non-resident Indians (NRIs) should use ITR-2—especially if they have capital gains, multiple properties, or foreign assets. ITR-1 is applicable only if income is below ₹50 lakh from salary, one house property, and Indian interest income. ITR-4 is not allowed for NRIs.

FAQs About NRI Taxation

Q: Is income from mutual funds in India taxable for NRIs?

Yes. The gains from mutual funds are taxable depending on the type of fund (equity or debt) and the holding period. Also, TDS is applicable at source.

Q: Can I claim double taxation relief?

Yes. If India has a Double Taxation Avoidance Agreement (DTAA) with your country of residence, you can claim relief to avoid paying tax twice on the same income.

Q: Do I need to file an income tax return in India?

If your total taxable income in India exceeds ₹2.5 lakh, you must file an ITR even if you are an NRI.