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NRI MIGRATION TOOLKIT · PDF 6 OF 8

NRO/NRE **Optimization Guide**

The definitive playbook for structuring your Indian bank accounts as an NRI. Minimize TDS, maximize repatriation, and stop leaving money on the table.



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1. NRO vs NRE — At a Glance

Two accounts, fundamentally different tax treatments. Understanding this distinction is the single most important step in NRI banking.

FEATURE	NRO ACCOUNT	NRE ACCOUNT
Full Form	Non-Resident Ordinary	Non-Resident External
Currency	INR	INR (funded in foreign currency)
Source of Funds	Indian income (rent, dividends, pension, FD interest)	Foreign earnings (salary, business income abroad)
Repatriation	Up to \$1M per FY (after tax clearance)	Fully repatriable (principal + interest)
Tax on Interest	Taxable at 30% + cess = 31.2% (or 12.5% with DTAA)	Tax-free in India
TDS on Interest	Yes — 31.2% default, 12.5% with DTAA	No TDS
Joint Holding	With resident or NRI	Only with another NRI
Power of Attorney	Can authorize resident Indian	Can authorize resident Indian
Convertibility	Cannot convert to NRE directly	Can convert to NRO
On Return to India	Converts to regular savings	Must be redesignated within reasonable time

Key Takeaway

NRE = tax-free interest + full repatriation. NRO = taxed interest + capped repatriation. The single biggest lever in NRI banking is maximizing what sits in NRE.

2. When Do You Need Each Account?

Most NRIs need both accounts. The question is not "which one" but "how much goes where."

You Need NRO When...

- You earn **rental income** from Indian property
- You receive **dividends** from Indian companies
- You have a **pension** credited in India
- You earn **business income** sourced from India
- You have **FD interest** or capital gains from Indian assets

You Need NRE When...

- You want to **park foreign salary** savings in India
- You have **overseas business profits** to remit
- You want **tax-free interest** on your Indian deposits
- You need **freely repatriable** funds in India
- You want to **fund investments** in India from abroad

Common Mistake

Keeping all your money in NRO and paying 31.2% TDS on interest when eligible funds could sit in NRE earning tax-free interest. On a 1 Crore deposit at 7%, that is the difference between earning 7 lakhs tax-free (NRE) vs. netting only 4.82 lakhs after TDS (NRO).

Best Practice

Open both accounts with the same bank. This simplifies internal fund transfers, consolidated statements, and relationship management. Most major banks (SBI, ICICI, HDFC, Axis) offer linked NRO-NRE account pairs.

3. Repatriation Rules

Getting your money out of India is where most NRIs face friction. NRO and NRE have fundamentally different repatriation mechanics.

NRO Repatriation

Limits

Maximum **\$1 million per financial year** under RBI guidelines (this is separate from the Liberalised Remittance Scheme, which applies to resident Indians).

Required Documents

- **Form 15CA:** Online declaration filed on the Income Tax e-filing portal. This is a self-declaration of the remittance details and tax paid.
- **Form 15CB:** Certificate issued by a practicing Chartered Accountant confirming that applicable taxes have been paid and the remittance is in compliance with the Income Tax Act.

Bank May Also Request

- Income Tax Return (ITR) acknowledgment
- CA certificate confirming source of funds
- Source of funds declaration
- Copy of PAN card

Processing Time

Typically 3–7 business days after all documentation is submitted and verified.

NRE Repatriation

- **Fully and freely repatriable** — no annual limits
- **No Form 15CA/15CB needed** — zero documentation overhead
- **No tax clearance required** — since interest is already tax-free
- **Instant transfer** — can wire to any foreign account immediately

Important Clarification

The \$250K LRS (Liberalised Remittance Scheme) limit is for **resident Indians** sending money abroad. NRO repatriation of \$1M per FY is governed by separate RBI rules. Do not confuse the two.

Repatriation Comparison at a Glance

PARAMETER	NRO	NRE
Annual Limit	\$1M per FY	Unlimited
Documentation	Form 15CA + 15CB + CA cert	None required
Tax Clearance	Required	Not required
Processing Time	3-7 business days	Instant

4. Tax Treatment Deep Dive

Tax is where the real money is made or lost. Understanding these mechanics can save you lakhs every year.

NRO Interest — Tax Breakdown

- **Default rate:** 30% + 4% health & education cess = **31.2%**
- **With DTAA (India-UAE treaty): 12.5%** — but you must file Form 10F and hold a valid Tax Residency Certificate (TRC)
- **Surcharge:** Applicable if total Indian income exceeds 50 lakhs (10% surcharge) or 1 crore (15% surcharge)
- **TDS is deducted at source** — the bank deducts before crediting interest
- **Must still file ITR** in India and report this income

NRO Interest: The Impact of DTAA

31.2%

NRO TDS without DTAA

12.5%

NRO TDS with DTAA
(Form 10F + TRC filed)

NRE Interest — Tax Treatment

- **Completely tax-free** under Section 10(4)(ii) of the Income Tax Act
- **No TDS deducted** — you receive the full interest amount
- **Not reportable in ITR** — classified as exempt income
- This is one of the **single biggest advantages** of NRE accounts and a core reason to maximize NRE balances

Capital Gains — Special Rules

Sale proceeds of Indian assets (property, shares, mutual funds) go into NRO only. They **cannot** be deposited directly into NRE. To move funds from NRO to NRE, the path is: NRO → foreign account → NRE, or use your bank's internal transfer facility if available. Taxes and compliance must be cleared first.

The DTAA Filing Stack

To claim the reduced 12.5% rate under the India-UAE DTAA, you need three documents in place **before** the interest is credited:

- **Form 10F:** Filed online on the income tax portal — declares treaty eligibility
- **Tax Residency Certificate (TRC):** Issued by UAE's Federal Tax Authority
- **No Permanent Establishment declaration:** Self-declaration that you do not have a PE in India

5. Optimization Strategies

Five proven strategies to extract maximum value from your NRO/NRE structure. Each one can save you lakhs per year.

1 Maximize NRE, Minimize NRO

The foundational rule: keep only Indian-sourced income in NRO. Move all foreign-earned savings to NRE where interest is completely tax-free.

The Math:

- 2 1 Crore in NRE at 7% = 7L interest, **tax-free**
- 3 1 Crore in NRO at 7% = 7L interest, TDS of 2.18L (31.2%) = net 4.82L
- 4 **Annual difference: 2.18 lakhs per crore**

5 Apply DTAA on Every NRO Account

If you must keep funds in NRO, always apply the Double Taxation Avoidance Agreement. For UAE residents, this reduces TDS from 31.2% to 12.5%.

- 6 Savings: **1.31 lakhs per year** per 1 Crore in NRO FD (at 7%)
- 7 Requires Form 10F + TRC to be filed before interest credit date
- 8 Must be renewed annually — do not let it lapse

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NRO to NRE Internal Transfer

Some banks allow internal NRO to NRE fund transfers. This is **not repatriation** — it is re-designation of funds within the same bank.

- 10 Once funds are in NRE, all future interest becomes **tax-free**
- 11 Conditions: funds must be from eligible sources and all applicable taxes must be paid
- 12 Not all funds qualify — capital gains proceeds have restrictions
- 13 Check with your bank's NRI desk for specific eligibility criteria

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Ladder FDs for Liquidity

Instead of locking everything into a single large FD, create multiple smaller FDs with staggered maturity dates.

- 15 Provides periodic liquidity without breaking the entire deposit
- 16 Avoids premature withdrawal penalties on the full amount
- 17 Apply DTAA to each NRO FD individually
- 18 Example: 5 FDs of 20L each, maturing every 3 months

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Sweep Accounts for Higher Returns

Several banks offer NRO/NRE sweep account facilities that automatically move excess savings balance into FDs for higher interest rates.

- **20** Maintains liquidity in savings while earning FD-level returns
- **21** Ensure DTAA is applied on NRO sweep FDs — banks may not do this automatically
- **22** Set a threshold balance to keep in savings for daily needs

6. Common Mistakes

These seven errors cost NRIs lakhs every year. Each one is entirely avoidable with the right structure in place.

#	MISTAKE	CONSEQUENCE
1	Keeping foreign earnings in NRO	You lose the tax-free interest benefit of NRE. Foreign-sourced income belongs in NRE, not NRO.
2	Not applying DTAA on NRO	Paying 31.2% TDS instead of 12.5%. File Form 10F and get your TRC before your next interest credit date.
3	Forgetting to convert accounts when becoming NRI	Resident savings accounts must be redesignated to NRO upon becoming an NRI. Banks may charge penalties for delayed conversion.
4	Not informing banks of NRI status	Legal requirement under FEMA. Non-compliance can attract penalties.
5	Attempting NRO repatriation without Form 15CA/15CB	The bank will reject the request outright. Always have your CA prepare Form 15CB before initiating the transfer.
6	Maintaining a resident savings account as an NRI	Direct violation of FEMA. Convert all resident accounts to NRO or close them.
7	Not checking FD maturity dates before filing Form 10F	DTAA benefit must be in place before the interest credit date. Filing Form 10F after interest is credited means you have already been charged 31.2% TDS.

FEMA Compliance Is Non-Negotiable

Mistakes #3, #4, and #6 are not just financially costly — they are regulatory violations. The RBI and FEMA impose penalties for non-compliance, including compounding charges of up to three times the amount involved. Get your account structure right on day one.

7. Account Opening Checklist

Everything you need to open your NRO and NRE accounts. Gather these documents before approaching the bank.

NRO Account — Documents Required

- Passport (with valid visa)
- PAN card
- Overseas address proof
- Passport-size photographs
- NRO account opening form (bank-specific)
- Existing resident account details (for conversion)

NRE Account — Documents Required

- Passport (with valid visa)
- PAN card
- Overseas address proof
- Passport-size photographs
- Proof of overseas employment or income
- Foreign address proof

DTAA Compliance — Annual Filing

- Obtain Tax Residency Certificate (TRC) from UAE Federal Tax Authority

- File Form 10F on Income Tax e-filing portal

- Submit No Permanent Establishment self-declaration

- Provide above documents to each bank holding NRO accounts

- Confirm DTAA rate applied before next FD interest credit date

- Set calendar reminder for annual renewal

Open From Abroad

Many major banks (SBI, ICICI, HDFC, Axis, Kotak) allow NRE account opening through their online portals or overseas branches. You do not need to be physically present in India. Check your preferred bank's NRI services portal for the digital application process.

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