



Tax Flash News



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Ministry of Finance notifies New Foreign Exchange (Compounding Proceedings) Rules, 2024

Executive summary



The Ministry of Finance (Department of Economic Affairs) has issued the Foreign Exchange (Compounding Proceedings) Rules, 2024 dated 12 September 2024 which supersede the existing Foreign Exchange (Compounding Proceedings) Rules, 2000. The New rules apply prospectively. Whilst most of the provisions have remain the same, the key changes in the New Rules are outlined below:

Key highlights



(a) Increase in compounding filing fees and facility of digital payment.

The fees for filing compounding application have been increased from Rs 5,000 to Rs 10,000 (plus GST). Further, the application fees and compounding amount(s) can now be paid by digital mode as compared to Bank Demand Draft prescribed earlier.

¹Notification no. G.S.R 566 (E) issued by Ministry of Finance (Department of Economic Affairs) on 12 September 2024



(b) Compounding Form

The Form for filing compounding application now requires more elaborate details about the Applicant, their history and the contravention(s) to be compounded.

(c) Introduction of Rule 9 for cases where contravention cannot be compounded.

The cases of contraventions which cannot be compounded expanded to included cases where (i) Section 37A of FEMA 1999 is applicable; (ii) where an order has already been passed imposing penalty under Section 13; (iii) where compounding authority is of the view that further investigation by ED is required to ascertain the amount of contravention.

(d) Revision in threshold limits for RBI's compounding authorities.

The limits for compounding the contraventions by RBI authorities are as below.

Compounding Contravention Amount	RBI Authority grade
≤ Rs. 60 lakh	Assistant General Manager or above.
≤ Rs. 2.5 cr	Deputy General Manager or above.
≤ Rs. 5 cr	General Manager or above.
> 5 crore	Chief General Manager or above.

(e) Taking of necessary Actions:

The Compounding Authority is now empowered to ask the Applicant to take necessary actions as may be required with respect to the transaction involved in the contravention.

Our comments



The New Compounding Rules aim to expedite and streamline the processing of compounding and focus on simplification and rationalization. The amendment of paying of filing fees / compounding levy in digital mode is a welcome initiative. The Compounding Authority can now ask the Applicant to take necessary action as may be required and this should expedite the compounding and contravention resolution process.

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