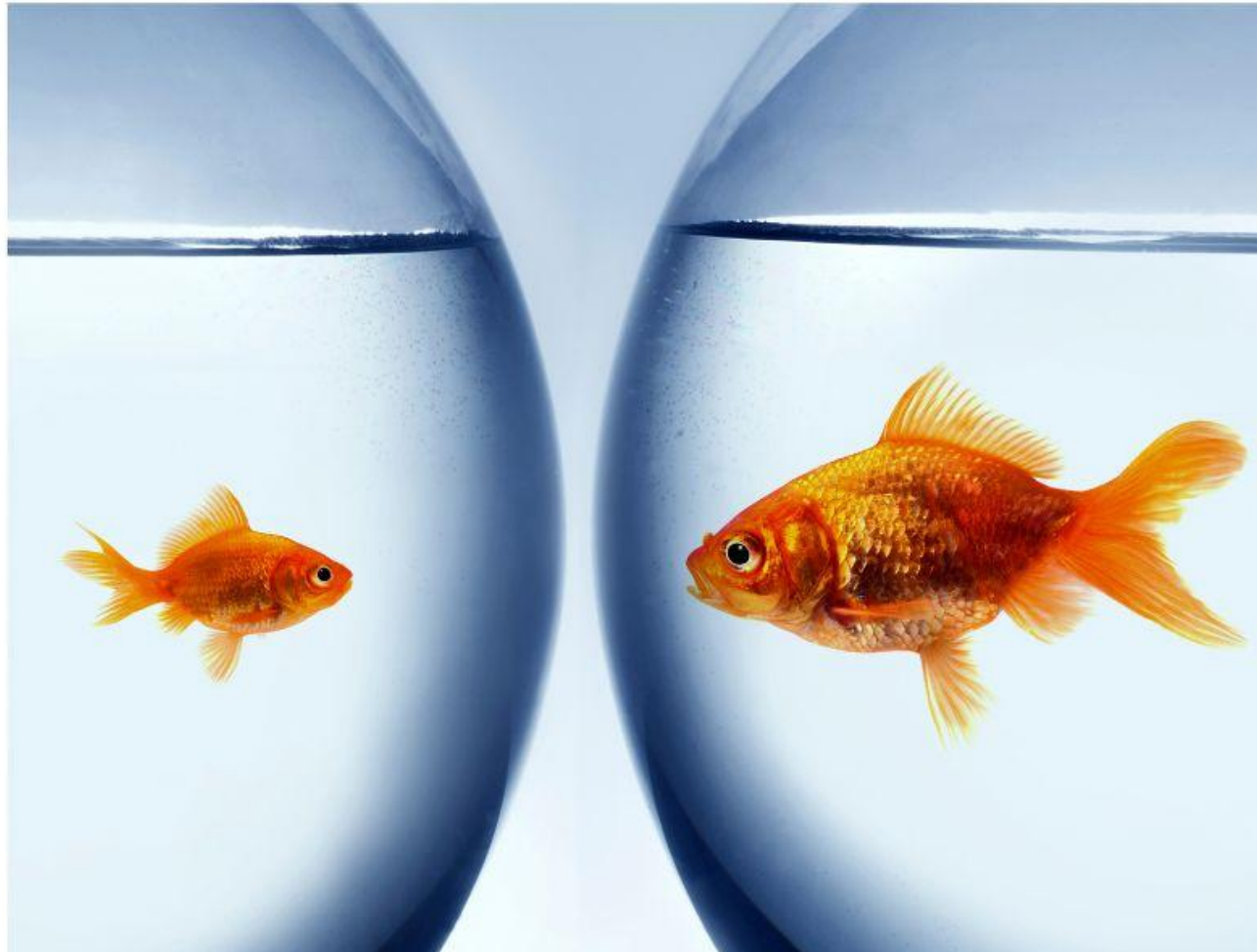


Income Tax filing of Capital Market Transactions

By CA Subin VR

Number of Demat Accounts



7 crores
Mar 2020

15 crores
Mar 2024

Growth due to Covid

Jobless.....

Social Media
Impact

Work from
Home

More than 1
crore Demat
Account

Before covid
40 lakhs on
an average

Income Heads of Share Trading/Investments





Long term Capital
Gain - 10%



Short Term Capital
Gain - 15%



Business Income -
FNO & Intraday - at
Slab Rate



Dividend - at Slab
Rate

Tax Rate

Delivery based Transactions Capital Gains or Business Income ?



Circular No 6/2016 dated 29th Feb, 2016

- Intends to reduce litigation and uncertainty in distinguishing between capital assets and stock-in-trade
- Instructions to Assessing Officers:
 - Income from listed shares held over 12 months can be capital gains if desired by Assessee
 - Otherwise, treated as business income if held as stock-in-trade
- Emphasizes consistency and application of relevant tax provisions

**Delivery based Transactions
Capital Gains or Business Income ?**

Capital Gains



111A & 112A - STCG & LTCG

Equity Shares,
Equity Oriented
Fund, Unit of
Business Trust

&

Chargeable to
Securities
Transaction Tax
(STT)

Sec 111A - Short Term

Holding period <
One year

Tax Rate - 15%

Basic Exemption
available to
Resident

87A Rebate
available

Chapter VI A
Deductions not
available

Sec 112A - Long Term

Holding period -
One year or
more

Tax Rate - 10%

Basic Exemption
available to
Resident

87A Rebate **NOT**
available

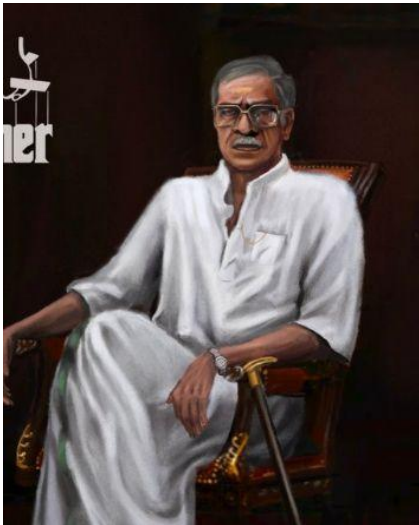
Chapter VI A
Deductions **NOT**
available

Indexation
benefits **NOT**
available

Rs.1 lakh
exemption
available to all

Exemption
Under Sec 54F
available

LTCG - Grandfathering



Introduction of Sec 112A from FY 2018-19 and Non- Applicability of Sec 10(38)



The grandfathering rule under section 55 calculates cost of acquisition for LTCG.



Assets acquired on or after 01/02/2018 - COA as usual



Assets acquired before 1st February 2018 - COA as...



FMV on 31/01/2018 or COA whichever is Higher, Subject to Consideration

Grandfathering - Illustration

Scenarios	Actual cost of shares acquired before 31 January 2018 (A)	FMV of such share as on 31 January 2018 (B)	Sale value of such share on or after 1 April 2018 (C)	Cost of acquisition is to be higher of: <ul style="list-style-type: none">• A ; and• Lower of<ul style="list-style-type: none">- B- C (D)	LTCG/LTCL (C) – (D)
1	100	200	250	200	50
2	100	200	150	150	0
3	100	50	150	100	50
4	100	200	50	100	(50)

Sec 48 - How to Compute Capital Gains

Consideration - (Cost of Acquisition + Expenditure on Transfer)

Cost of Acquisition & Expenditure on Transfer Includes

Cost of Shares, MF

Brokerage Charges

Stamp Duty

Exchange Transaction Charges

SEBI Turnover Fee

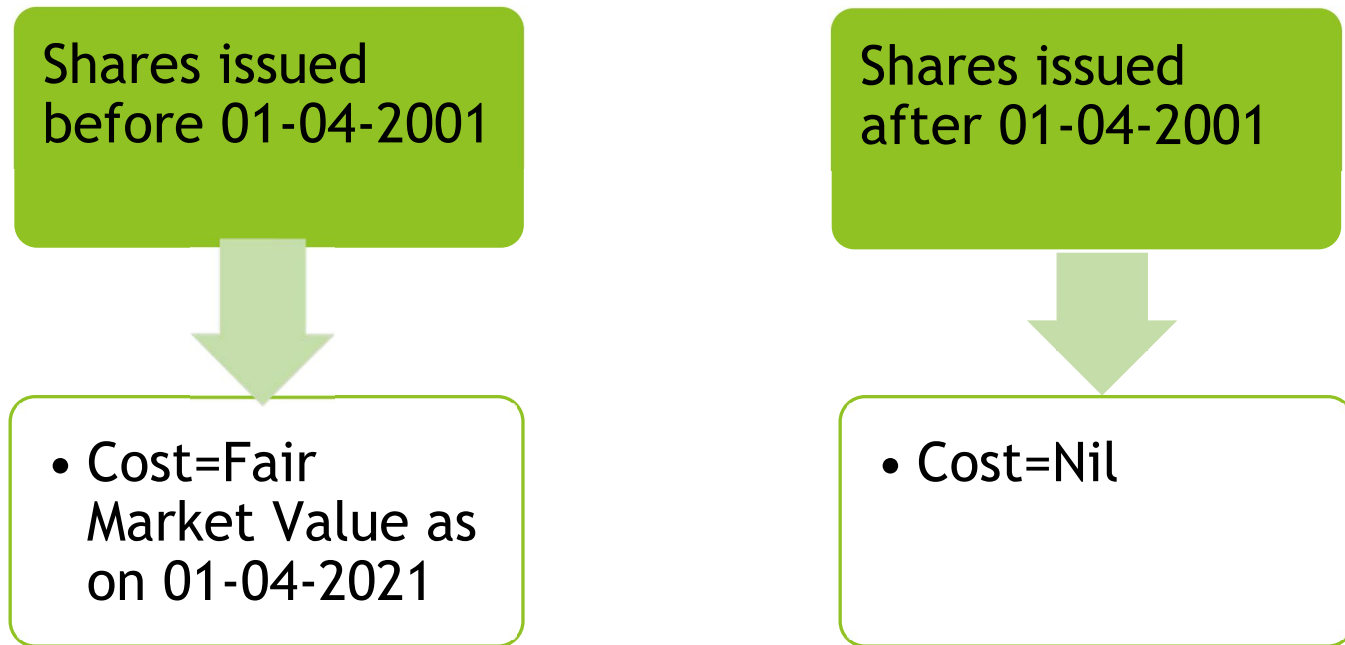
DP Charges



No Deduction on STT Paid

Provided also that no deduction shall be allowed in computing the income chargeable under the head "Capital gains" in respect of any sum paid on account of securities transaction tax under Chapter VII of the Finance (No. 2) Act, 2004.

Cost of acquisition in case of Bonus Shares



Shares issued as gift ?

Cost of acquisition=cost of the previous owner

LTCCG Taxed at 20%

Non-STT Paid Transactions (Stocks):

- **Tax Rate:** Flat 20%
- **Applicable When:** Securities Transaction Tax (STT) is not paid (typically for transactions outside recognized stock exchanges).

Non-Equity-Oriented Mutual Funds :

- **Definition:** Less than 65% of investible funds in equities.
- **Tax Rate:** 20% with indexation benefit.
- **Holding Period:** Must be held for at least 3 years to qualify as LTCCG.

Illustration on STCG - Resident Vs NRI, 87A

Income Details	Amount
STCG u/s 111A	3,00,000
Income taxable at slab rate	4,00,000
Total	7,00,000

Tax on total income for Resident		
INCOME	Old	New
Income tax at slab rate	7,500	5,000
STCG u/s 111A	45,000	45,000
	52,500	50,000
(-)Rebate u/s 87A		25,000
Net tax payable	52,500	25,000

NRI - No Rebate, No Basic Exemption



Illustration on LTCG - Resident Vs NRI, 87A

Income Details	Amount
LTCG u/s 112A	3,00,000
Income taxable at slab rate	4,00,000
Total	7,00,000

Tax on total income for Resident		
INCOME	old	new
Income taxable at slab rate	7,500	5,000
LTCG u/s 112A	20,000	20,000
	27,500	25,000
(-)Rebate u/s 87A	-	5,000
Net tax payable	27,500	20,000

Futures & Options

If you do “Futures” you have no “Options”. And if you do “Options” you have no “Future” !

- Anonymous Trader

← Logout

Risk disclosure on derivatives

- 9 out of 10 individual traders in equity Futures and Options Segment, incurred net losses.
- On an average, loss makers registered net trading loss close to ₹50,000.
- Over and above the net trading losses incurred, loss makers expended an additional 28% of net trading losses as transaction costs.
- Those making net trading profits, incurred between 15% to 50% of such profits as transaction cost.

Source: [SEBI study](#) dated January 25, 2023 on “Analysis of Profit and Loss of Individual Traders dealing in equity Futures and Options (F&O) Segment”, wherein Aggregate Level findings are based on annual Profit/Loss incurred by individual traders in equity F&O during FY 2021-22.

I understand

Taxability of Futures and Options (F&O)



Income from Business

- ▶ Treated as Business Income
- ▶ Taxable at Slab Rate
- ▶ NOT a Speculative Transaction even if squared off same day
- ▶ Carry forward of Loss up to 8 years
- ▶ Tax Audit applicable if Turnover exceeds Rs.10 crores

Guidance Note on Tax Audit under Section 44AB of the Income-tax Act, 1961

Turnover Includes...

- ▶ (i) The total of favourable and unfavourable differences shall be taken as turnover.
- ▶ (ii) Premium received on sale of options is also to be included in turnover. However, where the premium received is included for determining net profit for transactions, the same should not be separately included.
- ▶ (iii) In respect of any reverse trades entered, the difference thereon, should also form part of the turnover.



Futures & Options Turnover

Absolute value of Profit / Loss amount

For Options - Absolute value & / Options premium received - Open position

Futures Trading

No	Buy Value	Sell Value	Profit/Loss	Turnover
1	50,00,000	50,80,000	80,000	80,000
2	42,00,000	42,50,000	50,000	50,000
3	38,00,000	37,40,000	-60,000	60,000
4	72,00,000	71,60,000	-40,000	40,000
Total	2,02,00,000	2,02,30,000	30,000	2,30,000

Illustration on FNO

Taxpnl Statement for F&O from 2023-04-01 to 2024-03-29

Realized Profit Breakdown

Options Realized Profit	12,07,767
Futures Realized Profit	-1,60,947

Turnover Breakdown

Options Turnover	2,32,51,716
Futures Turnover	1,60,947

Charges

Account Head	Amount
Exchange Transaction Charges - Z	46,140
Integrated GST - Z	18,882
SEBI Turnover Fees - Z	547
Stamp Duty - Z	1,702
IPFT	357
Brokerage - Z	57,920
Securities Transaction Tax - Z	35,313
Total	1,60,861

Ledger Balances from 2023-04-01 to 2024-03-29

Opening Balance	1,75,089
Closing Balance	3,77,406

FNO PL & FS

Particulars	Turn Over	Profit	Margin
Options	2,32,51,716	12,07,767	2,20,43,949
Futures	1,60,947	-1,60,947	3,21,894
Total	2,34,12,663	10,46,820	2,23,65,843

Profit and Loss a/c

Particulars	Amount	Particulars	Amount
Future Margin	3,21,894.00	Future Turnover	1,60,947.00
Option Margin	2,20,43,949.00	Option Turnover	2,32,51,716.00
Direct Expenses	1,60,861.00		
Gross Profit c/f	8,85,959.00		
	2,34,12,663.00		2,34,12,663.00

FNO BS

Balancesheet

Liabilities	Amount	Assets	Amount
Capital Payables	3,77,406.00	Fixed Assets Zerotha Balance	3,77,406.00
	3,77,406.00		3,77,406.00

Tax Planning in FNO

Profit and Loss a/c

Particulars	Amount	Particulars	Amount
Future Margin	3,21,894.00	Future Turnover	1,60,947.00
Option Margin	2,20,43,949.00	Option Turnover	2,32,51,716.00
Direct Expenses	1,60,861.00		
Gross Profit c/f	8,85,959.00		
	2,34,12,663.00		2,34,12,663.00
Salary		Gross Profit b/f	8,85,959.00
Electricity Charges			
Professional Chages			
Internet and telephone chages			
Audit Fee			
Depreciation			
Net Profit	8,85,959.00		
	8,85,959.00		8,85,959.00



Whether a Practicing CA can do Derivative Transactions ?

▶ Core Principles

- **Permitted:** Members in practice can trade derivatives for their own accounts.
- **Forbidden:** Trading for clients or using firm/partnership names.

▶ Allowed Instruments & Products

- **Underlying Assets:** Equity and currency (including indexes).
- **Prohibited:** Commodity derivatives.

▶ Additional Notes

- No council permission needed for individual trading.
- Non-COP members have no trading restrictions.

Clarification on Aug 4, 2021

Intraday Trading

Treated as Speculative Business Income

If loss, shall carry forward to - 4 years

Turnover same as FNO

- ...the aggregate of both positive and negative differences is to be considered as the turnover of such transactions for determining the liability to audit vide section 44AB.

Set Off

S No	Nature of Loss	Set off Only Against
1	Speculation Business Loss	Any other speculation business income
2	Long Term Capital Loss	Long Term capital gains
3	Loss under the head 'Profit & Gains from business or profession'	Any other head of income other than 'Salaries'
4	Short Term Capital Loss	Short Term or Long Term Capital Gains

Taxation of Cryptocurrencies in India: Sec 115BBH

Cryptocurrencies are treated as VDAs.

- ▶ **Section 115BBH: Tax on Gains from Transfer of VDA**
 - **Scope:** Applies to all income from VDA transfers, *irrespective of the holding period*.
 - **No Set-off:** Losses from VDAs cannot be set off against any other heads of income.
 - **No Deductions:** Only the cost of acquisition is deductible; no other expenses are allowed.
 - **Tax Rate:** Flat 30% on gains from VDA transfers

New tax regime –whether C/F & setoff Applicable

- ❖ Set off and carry forward or depreciation from earlier assessment year is allowable, except such loss or depreciation is attributable to any of the deductions restricted as per section 115 BAC such as section 35AD, 10AA, 32(1).....etc.
- ❖ Set-off of any Hp loss with any other head of income not allowed.

NRI & Share Trading



Allowed: Equity, Mutual Funds, ETFs, Derivatives



Delivery Only: No intraday trading allowed in Shares



Restrictions: No currency/commodity derivatives

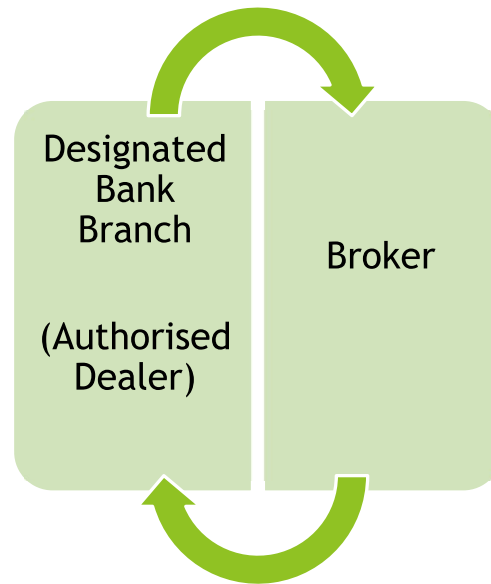


Tax: No Section 87A rebate or basic exemption on capital gains



Dividend Income Taxed @ 20% under Sec 115A

NRI PIS



Extract of 26AS of NRI

Sr No	Sec	Name of Deductor	Amount Credited	TDS
1	195	Federal Bank	18,32,500	2,35,110
2	195	Reliance Industries Ltd	80,000	16,000
3	195	HDFC Bank	1,00,000	30,000

Resident to Non-Resident

Holding: NRI can hold securities bought as resident.

Non-Repatriable Basis: Profits/sale proceeds cannot be sent abroad.

Non-Resident to Resident

Inform: Designated authorized dealer & DP of status change.

Open: New resident demat account.

Transfer: Securities from NRI to resident demat account.

Close: NRI demat account.



How long an NRI shall hold NRI status after return to India for permanent residence ?



Once you return to India permanently, Your non-resident status becomes invalid, and you become a resident Indian.



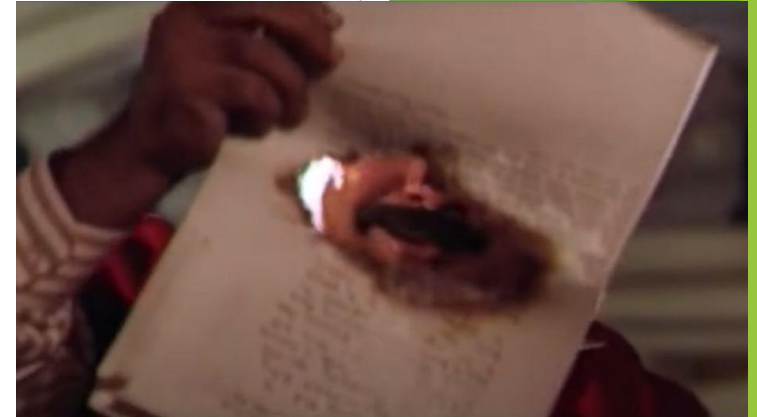
Therefore, you must inform your financial institution and get your NRE and NRO accounts converted into resident accounts within a reasonable period.

Master Direction No. 14/2015-16 dated Jan 1, 2016 & updated on Jan 9, 2020

4.9 NRE accounts should be designated as resident accounts or the funds held in these accounts may be transferred to the RFC accounts, at the option of the account holder, immediately upon the return of the account holder to India for taking up employment or on change in the residential status.

Documents to be preserved

- ▶ Everything available from broker login
- ▶ Scrip wise details of STCG/LTCG
- ▶ Scrip wise details of FNO Trading
- ▶ Scrip wise details of Intra Day Trading
- ▶ If Business Income - Holding as on year end
- ▶ Bills & Vouchers of expenses claimed
 - ▶ Internet, Telephone, Rent, Laptop, Course Fee, Subscriptions etc





Income from

- ▶ Other Source



Section 80 M - Deductions of Inter-corporate Dividends

- ❖ Section 80M provides that a domestic company can claim a deduction from its total income in respect of any dividend received from its subsidiary company.
- ❖ The deduction is available to the extent of the amount of dividend received by the domestic company.
- ❖ The dividend distributed by the company till the due date will be eligible for deduction.

Illustration on Sec 80M

ABC LTD



Issued dividend
of RS 2Cr



XYZ LTD

Issued dividend of Rs 1Cr



(XYZ LTD holds 15%
share capital)

Can claim RS 1Cr as deduction U/S 80M

Deductions

- ▶ If resident - Basic exemption limit for Capital Gains
- ▶ If Business income - Basic exemption available to all
- ▶ LTCG - One Lakh exemption to all
- ▶ Sec 87A Rebate if income is < 5 lakhs - maximum Rs.12,500/- or Rs.25,000/-
- ▶ Chapter VI A Deductions not available against STCG/LTCG
- ▶ Sec 87A Rebate not available for LTCG u/s 112A

File return, even it is in loss....

- ▶ Avoid Income Tax Notice
- ▶ File before due date
- ▶ You can carry forward your loss
- ▶ STCG/LTCG/Business Loss shall carry forward up to 8 years
- ▶ Speculation Loss shall carry forward up to 4 years

Which ITR forms ?

- ▶ Dividend only - ITR 1
- ▶ STCG/LTCG - ITR 2
- ▶ FNO & Intra Day Trading - ITR 3

Questions.....



Thanks.....

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