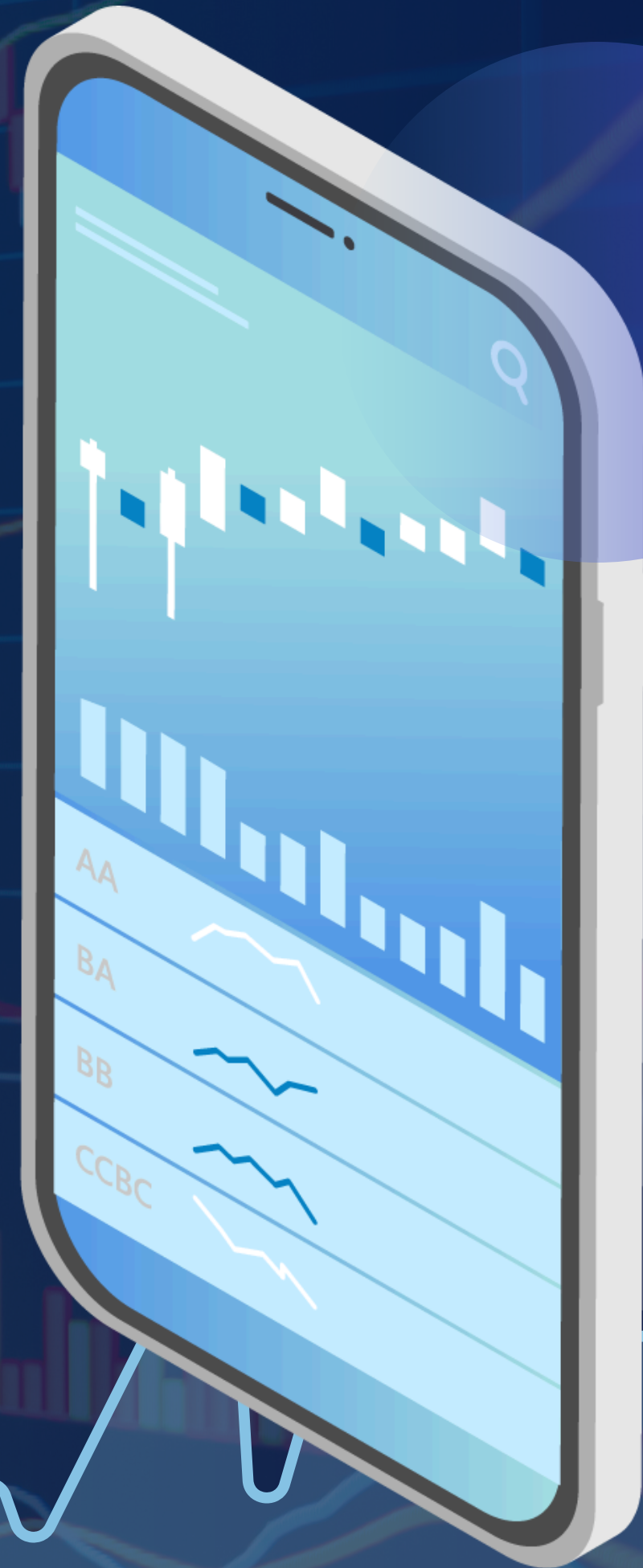


# Capital Market & Income Tax

A Practical Filing Guide

By CA Abraham PJ





# The Trend

Rise in Capital Market  
Participation post COVID

March 2020

**7 Crore**

Demat Accounts



March 2025

**19+ Crore**

Demat Accounts



**4+ Crore Demat accounts  
added during FY 2024-2025**



Growth accelerated by



Work from home



Social Media



# One of the most frequently reported item in the AIS



**SALE OF SECURITIES AND  
UNITS OF MUTUAL FUNDS**



**PURCHASE OF SECURITIES AND  
UNITS OF MUTUAL FUNDS**



# Risk Factors



- Varied Instruments
- Heads of Income
- Holding Period
- Differential Tax Rates
- Exemption
- Deductions



# Capital Market & Heads of Income

## CAPITAL GAINS

### Listed Equity & Equity MF/ETF

- Holding less than 1 year
  - Short Term
- Holding more than 1 year
  - Long Term

### Debt Instruments

- Purchased before 01-04-2023
  - Holding Period > 2 yrs = LTCC
  - Holding Period < 2 yrs = STCC
- Purchased on or after 01-04-2023
  - STCC (Holding period NA)

### Other Financial Assets

- Holding less than 2 years
  - Short Term
- Holding more than 2 years
  - Long Term

## BUSINESS INCOME

### Futures & Options

- Normal Business Income

### Intraday

- Speculative Business Income

## OTHER SOURCES

### Dividend

### Interest on Debt Securities





# Tax Rates



**Long Term  
Capital Gain**

**Taxed at 12.5%**



**Short Term  
Capital Gain**

**Taxed at 20%**



**Business  
Income**

**Taxed at Slab Rate**



**Dividend  
Resident**

**Taxed at Slab Rate**



**Dividend  
Non-resident**

**Taxed at 20%**



**Interest on  
Debt  
Instruments**

**Taxed at Slab Rate**



# Delivery Based Transactions Capital Asset OR Business Stock



**Circular No. 6/2016 dated 29<sup>th</sup> Feb 2016**

- **Listed shares held for more than 12 months**
  - at the option of the assessee
- **Held for less than 12 months**
  - treated as business, if held as stock-in-trade
  - treated as capital, if held as investment

**There should be consistency in treatment and application of relevant provisions**



# Capital Gains

## Section 111A & 112A

- Equity Shares
- Equity Oriented Funds
- Unit of Business Trust

Chargeable to  
Securities Transaction  
Tax (STT)





# Section 111A - STCG



- Holding Period < 1 Year
- Tax Rate → 15% (until 22-7-24)
- Tax Rate → 20% (from 23-7-24)
- Basic Exemption available to Residents
- Chapter VIA Deductions not available
- **87A Rebate Available?**



# Section 112A - LTCCG



- Holding Period > 1 Year
- Tax Rate → 10% (until 22-07-24)
- Tax Rate → 12.50% (from 23-07-24)
- Basic Exemption available to Residents
- Chapter VIA deductions not available
- 87A Rebate not available
- Indexation not available
- Exemption of Rs. 1,25,000 available to all
- Qualifies for 54F exemption



# Section 112A - Grandfathering

Section 112A Introduced from FY 2018-2019

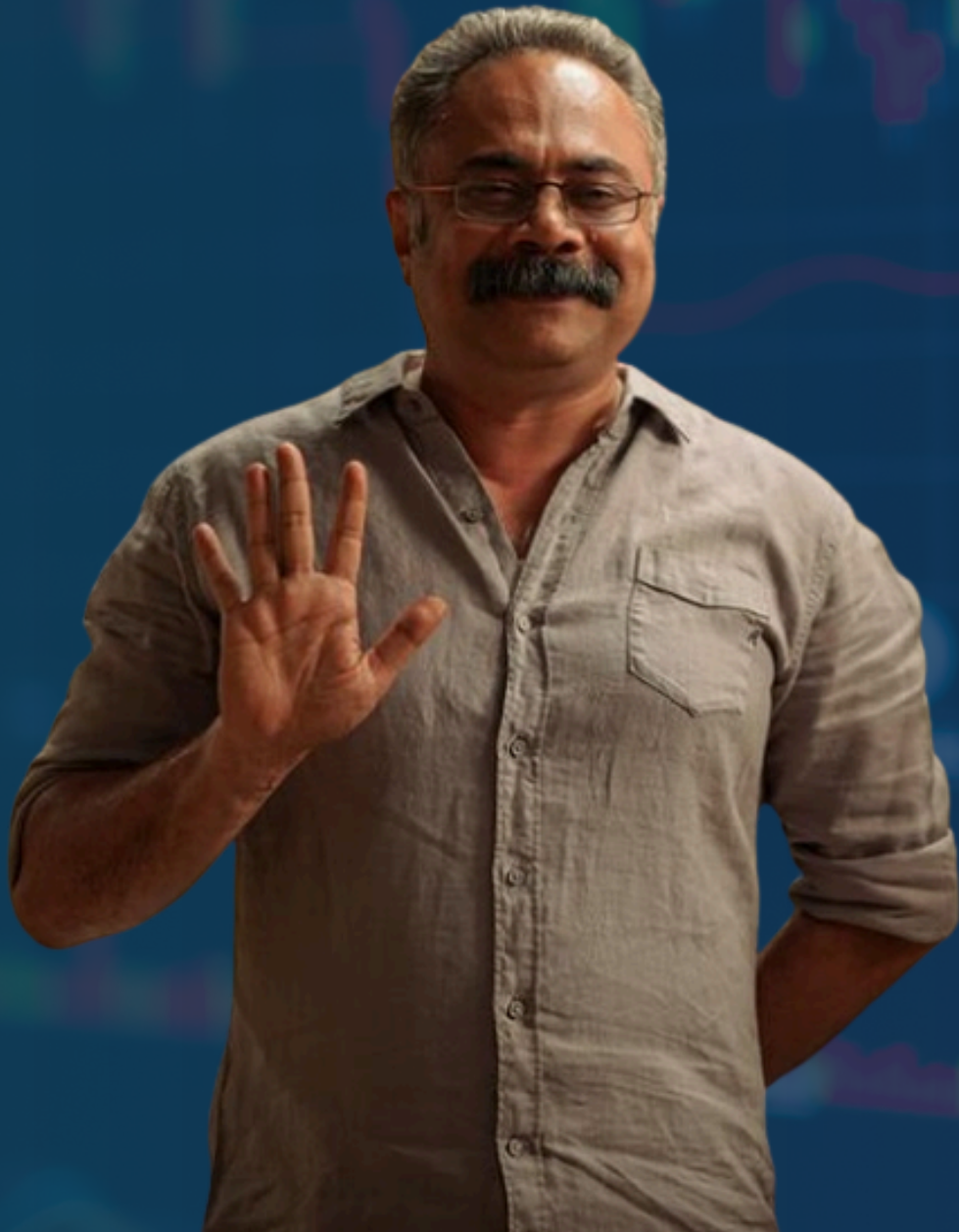
Exemption under section 10(38) Not applicable

Grandfathering provision of section 55 applicable

Assets acquired on or after 01-02-2018 - Actual COA

Assets acquired on or before 31-01-2018 - Higher of  
FMV on 31-01-2018 or COA

Loss not permissible





# Grandfathering Illustration

Situation	Actual COA	FMV on 31-01-2018	Sale Value	Grandfather COA	LTCG/ LTCL
Share 1	100	250	400	250	+150
Share 2	100	300	150	150	0
Share 3	100	80	120	100	+20
Share 4	100	200	60	100	-40



# Section 48

# Computation of Capital Gain

$$\text{CG} = \text{Consideration} - (\text{COA} + \text{Transfer Exps})$$

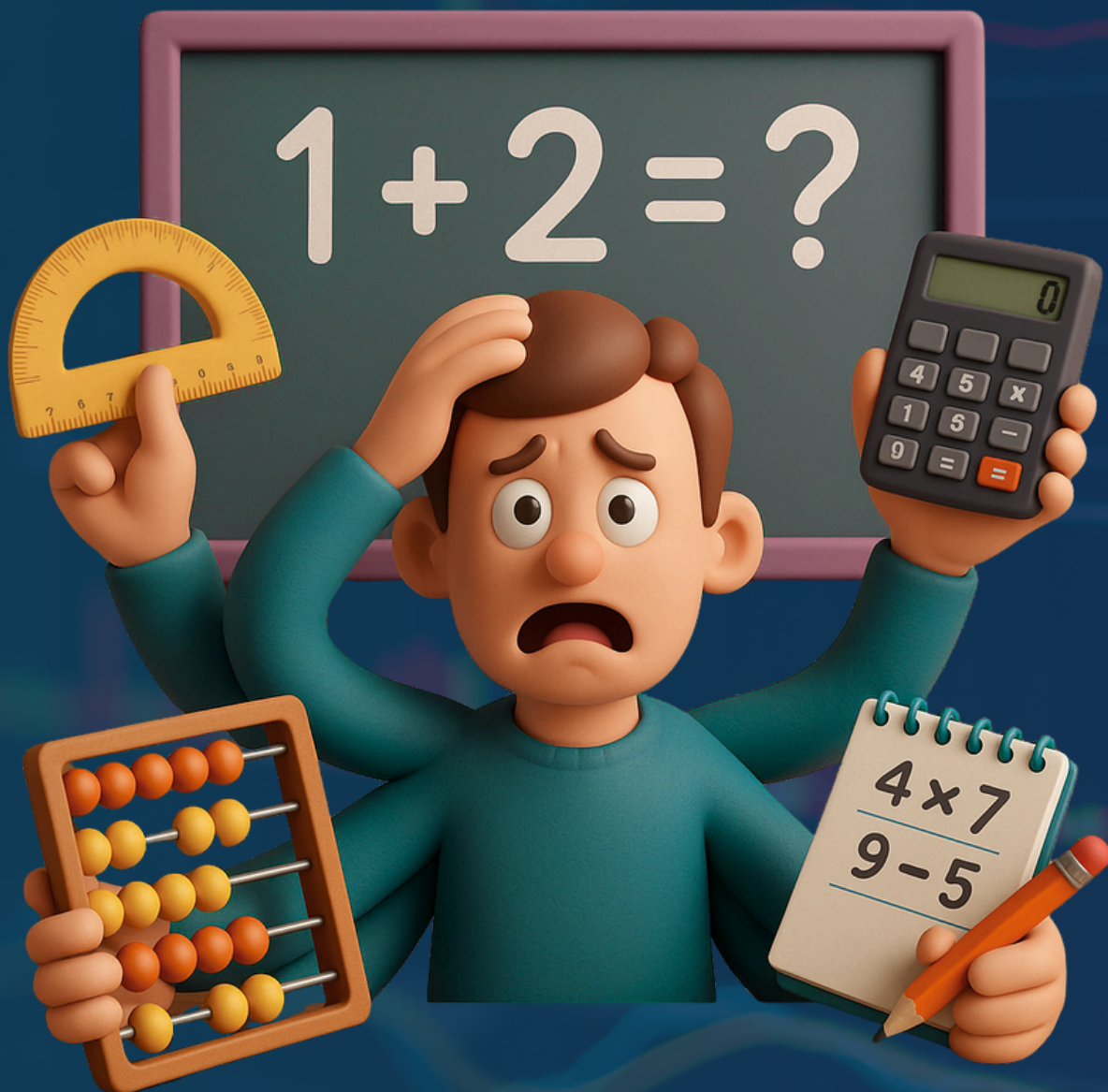
## Cost of acquisition and Expenditure on transfer includes

Purchase Cost  
Stamp Duty  
DP Charges

Brokerage Charges  
Exchange Transaction Charges  
SEBI Turnover Charges

## STT Deductible? - 7<sup>th</sup> Proviso to Section 48 states

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





# Interest on Borrowed Fund

## Capital Gains

Not allowed as it do not form part of

- Cost of acquisition OR
- Expenditure incurred on transfer

## Dividends

**Interest on borrowed fund was NOT deductible until 31-03-2021**

Finance Act, 2020 amended section 57(i) allowing deduction effective from 01-04-2021.

Can claim up to 20% of dividends if it specifically attributable to acquisition of such shares.

## Intra-day and Futures & Options

Can be claimed as expense





# Cost of Acquisition - Special Cases

**Bonus Shares issued  
before 01-04-2001**

FMV as on 01-04-2001

**Bonus Shares issued  
on or after 01-04-2001**

NIL

**Rights Entitlement**

NIL

**Shares recieved  
as gift**

Cost to the previous  
owner



# Taxation - Mutual Funds



## Non-equity oriented

Allocation of less than 65% of investible amount of the fund in equity shares



Considered as other financial assets

**Equity oriented** Taxed the same way how equity shares are taxed

## Other Financial Assets

Holding period for long term is more than 24 months

## Other Financial Assets Includes

Unlisted Shares, Non-equity oriented mutual funds, Debentures, Non-equity based exchange traded funds, metal based securites such as Gold ETF, etc

## Salient Features

No indexation  
No 112A exemption benefit  
LTCG Taxed at flat 12.5%  
STCG Taxed at Slab Rate



# Taxability of various Capital Assets at a glance

Asset Type	Short Term Capital Gain		Holding Period	Long Term Capital Gain	
	Old Rate	New Rate		Old Rate	New Rate
Listed Shares	15%	20%	12 Months	10%	12.5%
Listed Bonds	Slab Rate	Slab Rate	12 Months	10%	12.5%
Units of REIT & InVIT	15%	20%	12 Months	10%	12.5%
Equity based MF & ETF	15%	20%	12 Months	10%	12.5%
Gold/Silver ETF	Slab Rate	Slab Rate	12 Months	Slab Rate	12.5%
Unlisted Shares	Slab Rate	Slab Rate	24 Months	20%	12.5%
Physical Gold	Slab Rate	Slab Rate	24 Months	20%	12.5%
Physical Real Estate	Slab Rate	Slab Rate	24 Months	20%	12.5%
Foreign Assets	Slab Rate	Slab Rate	24 Months	20%	12.5%
Debt MF & Debt ETF	Slab Rate	Slab Rate	Not Applicable	Slab Rate	Slab Rate



# Resident Vs Non-resident



Resident



Non-resident

Basic Exemption

Available

Not Available

Section 87A Rebate

Available?

Not Available

Section 112A Exemption

Available

Available

TDS on Capital Gain

Not Applicable

Applicable

Tax on dividend

Slab Rate

Flat 20%

TDS on dividend

10% above Rs. 5,000

20% On full amount



# Intraday Trading



## Salient Features

Treated as Speculative Business

Turnover = Absolute value of profit/(Loss)

Loss can be set off against speculative income only

Loss can be carried forward for 4 years to set off against speculative income



# Futures & Options

In futures, you predict the market.

In options, the market predicts your emotions!

In income tax,  
the department predicts everything



## 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 - Futures & Options

## Salient Features

Treated as Business income

Taxable at Slab Rate

Loss can be carried forward for 8 years

Tax Audit applicable for turnover >10 Cr

NOT Speculative, though no delivery





# Calculation of Turnover - Futures & Options

## Guidance Note on Tax Audit u/s 44AB (2023)

Clause 5.10 (b) says

- (i) The total of favourable and unfavourable differences in case of squared off transactions 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, then such net profit should not be separately included.
- (iii) In respect of any reverse trades entered, the difference thereon, should also form part of the turnover.





# Calculation of Turnover - Illustration

Trade Number	Buy Value	Sell Value	Profit/ (Loss)	Turnover
Trade 1	10,000	10,500	500	500
Trade 2	10,000	8,200	(1,800)	1,800
Trade 3	10,000	12,000	2,000	2,000
Trade 4	10,000	10,000	0	0
<b>TOTAL</b>	<b>40,000</b>	<b>40,700</b>	<b>700</b>	<b>4,300</b>



# Preparation of Financials - Illustration

## Realized Profit Breakdown

Options Realized Profit	1,22,217.50
Futures Realized Profit	-42,714.50
<b>TOTAL</b>	<b>79,503.00</b>

## Turnover Breakdown

Options Turnover	14,30,144.00
Futures Turnover	2,56,589.50
<b>TOTAL</b>	<b>16,86,733.50</b>

## Charges

<u>Account Head</u>	<u>Amount</u>
Integrated GST	2,837.47
Securities Transaction Tax	3,580.00
IPFT	33.22
Brokerage	11,740.01
Exchange Transaction Charges	3,977.48
SEBI Turnover Fees	27.68
Stamp Duty	289.00
<b>TOTAL</b>	<b>22,484.85</b>

## Ledger Balances from 2023-04-01 to 2024-03-31

Opening Balance	98,284.89
Closing Balance	65,329.00

## Calculation of Margin

Description	Turnover	Profit	Margin
Options	14,30,144	1,22,218	13,07,927
Futures	2,56,590	-42,715	2,99,304
<b>Total</b>	<b>16,86,734</b>	<b>79,503</b>	<b>16,07,231</b>

## Statement of Income & Expenditure

### Revenue

Options Turnover	14,30,144
Future Turnover	2,56,590
	<b>16,86,734</b>

### Direct Expenses

Options Margin	13,07,927
Future Margin	2,99,304
Other direct Expenses	22,485
	<b>16,29,715</b>

<b>Gross Profit/(loss)</b>	<b>57,018</b>
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## Statement of Assets & Liabilities

### Liabilities

Capital Account	65,329
Other Liabilities	-
<b>TOTAL</b>	<b>65,329</b>

### Direct Expenses

Fixed Assets	-
Balance with Broker	65,329
<b>TOTAL</b>	<b>65,329</b>



# Taxation of Business Trust

## Types of Business Trust

### Section 2(13A) of Income Tax Act

- Infrastructure Investment Trust (InvIT)
- Real Estate Investment Fund (REIT)

Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014

## Business Model

- Operate like Mutual Fund invest only in Infrastructure and real estate
- Income Source
  - Dividend and Interest from SPV
  - Rental Income
  - Capital Gain

SPV is a domestic company,  
holding assets on behalf of  
REIT

REIT will have controlling  
shares in SPV



# Taxation of Business Trust

## Exemptions

### Section 10(23FC)

Business trust are exempted for Dividend and Interest received from SPV

### Section 10(23FCA)

Business trust are exempted for Income of a Real Estate Investment Trust by way of leasing or renting or letting out of any real estate asset directly owned

### Section 10(23FD)

Business trust unit holders are exempted for any income other than Interest and rental income

## Taxability

### Business Trust

- Capital gains are taxed as per their respective sections
- Remaining income other than exempted income mentioned in Section 10(23FC) and 10(23FCA) is taxed at maximum marginal rate

### Business Trust Unit Holders

- Income referred to in 10(23FC) and 10(23FCA) is taxable at the slab rate
- Capital gains are taxed as per section 111A and 112A

Any income received by the unit holders from the business trust should be of the same nature and proportion in the hands of the unit holder as it was for the business trust



# Set off & Carry Forward



Nature of Loss	Current Year Set off against	Carry Forward Term	Carry forward set off against
Short Term Capital loss	Short Term Capital Gain Long Term Capital Gain	8 Years	Short Term Capital Gain Long Term Capital Gain
Long Term Capital Loss	Long Term Capital Gain	8 Years	Long Term Capital Gain
Futures & Options Loss	Any income other than salaries	8 Years	Business Income
Intraday Loss	Speculative Profit	4 Years	Speculative Profit



# Buy Back of Shares



- Section 115QA was introduced vide Finance Act, 2013, which was applicable only to unlisted companies.
- Finance Act (No.2), 2019 made this applicable to listed companies also.
- Buy Back of shares was not taxable in the hands of investor.
- Company had to pay tax as if it was dividend distribution.
- Budget 2024 introduced concept of deemed dividend vide section 2(22)(f) effective from 01-10-2024
- Investor has to pay tax on entire money received on account of buy back of shares as deemed dividend.
- Consideration on transferred shares under buy back will be considered as NIL for the purpose of computation of capital gain.
- Capital loss will be equivalent to cost of acquisition of shares bought back.
- Such loss can be set off and carried forward subject to relevant provisions.



# Bonus and Rights Issue

## Share Split

- No Tax implications at the time of split
- Cost of acquisition is proportionate to the cost of acquisition of original shares

## Rights Issue

- No Tax implications when allotted
- Cost of acquisition is equivalent to price of rights issue.

## Bonus Shares

- No Tax implications when allotted
- Cost of acquisition is
  - NIL, if issued on or after 01-04-2001
  - FMV as on 01-04-2001, if issued before 01-04-2001



# SIP and SWP

## Systematic Investment Plan

- Each purchase to be considered as separate purchase for COA.
- Sale may be at a time or different time.
- Purchase of each sale to be identified on FIFO method.
- STCG/LTCG to be identified based on holding period of each identified transaction under FIFO method.

## Systematic Withdrawal Plan

- Purchase may be at a time or different time.
- Each sale to be identified as separate transaction.
- Purchase of each sale transaction to be identified on FIFO method
- STCG/LTCG to be identified based on holding period of each identified transaction under FIFO method.



# Virtual Digital Asset

## Crypto Currencies and Tokens

### Salient Features of Section 115BH

- Applies to transfer of VDA irrespective of the holding period.
- Only Cost of Acquisition is allowed as deduction no other expenses including expenditure on transfer is not allowed.
- Each trade considered separately and losses are ignored.
- Gains taxed at flat 30%
- Loss cannot be set off against any other income





# Resident ↔ Non Resident

## Resident to Non Resident

- NRI can continue to hold the securities bought while he was resident.
- Further buying as resident is not allowed.
- Sale proceeds, including profit cannot be repatriated.
- Taxed as non resident.

## Non Resident to Resident

- Cannot continue to hold securities bought while he was non resident.
- Inform broker/DP about status change.
- Open new resident demat account.
- Transfer holdings from NRI demat account to resident demat account.
- Close NRI demat account.
- Taxed as resident.

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

Clause 4.9 of Part II - Opening, holding and maintaining accounts in India by a person resident outside India states that “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”.

An individual is considered resident in India, if he stays 182 days or more in a year in India.

Hence, an NRI return to India PERMANENTLY, or have NO INTENTION to go out of India within next 6 months, his NRI status becomes invalid and he become Resident Indian.

In this case, he must inform financial institutions and get his non resident accounts converted to resident accounts within a reasonable time.



# Documents to be obtained

- Day wise scrip wise details of Capital Gains (STCG/LTCG)
- Day wise scrip wise details of F&O Transactions
  - Year end holdings
  - Bills and vouchers of expenses (salary, rent, internet, electricity, etc.)
  - Bills of Capital assets purchased
- Day wise scrip wise details of Intraday Transactions
- Day wise scrip wise details of Currency Transactions
- Day wise scrip wise details of Commodity Transactions
- Dividend Details
- Bank Statement





# File loss return..??



- Avoid Income Tax Notice
- File within due date
  - Carry forward losses
  - F&O loss up to 8 years
  - STCL/LTCL up to 8 years
  - Intra day loss up to 4 years



# Which ITR to choose..??



- ITR-1
  - Dividend
  - LTCG up to 1.25 L
- ITR-2
  - STCG
  - LTCG in excess of 1.25L
- ITR-3
  - F&O Trading
  - Intraday Trading



# Which ITR to choose..??

Form	Applicability	Salary/ Pension	House Property	Business/ Profession	Capital Gains	Other Sources
ITR-1	Resident Individual	Yes	Yes, One House Property	No	Yes, if LTCG<1.25	Yes
ITR-2	Individual HUF	Yes	Yes	No	Yes	Yes
ITR-3	Individual HUF Partner of Firm	Yes	Yes	Yes	Yes	Yes
ITR-4	Individual, HUF, Firm	Yes	Yes, One House Property	Only for presumptive income	Yes, if LTCG<1.25	Yes
ITR-5	Firm, AOP, BOI	N/A	Yes	Yes	Yes	Yes
ITR-6	Companies	N/A	Yes	Yes	Yes	Yes
ITR-7	NPO	N/A	Yes	Yes	Yes	Yes

## Firm includes LLP



# Questions?





The image features a central photograph of a person's hands holding a white sign that says "THANK YOU!". The background is a dark blue collage of financial charts, including a candlestick chart at the top, a line graph on the right, and a bar chart at the bottom. Two large, light-blue circular icons with line graphs are positioned on the left and right sides of the central photo. A blue rounded rectangle containing the text "CA Abraham PJ" is located below the sign.

**THANK  
YOU!**

CA Abraham PJ