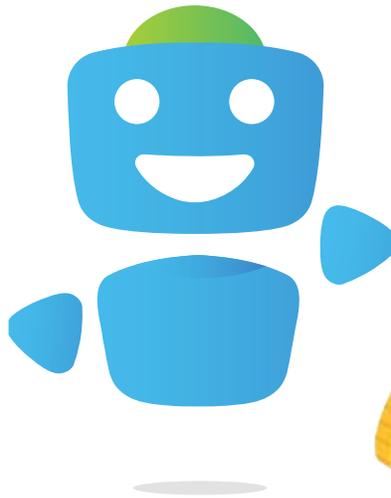


Income Tax Handbook for Traders & Investors

A concise guide for every trader & investor on filing
Income tax Returns and Audit in India

By



Do you deal in stock market? No matter whether you are trading full time or part time, occasionally or regularly, you will find that filing tax returns is a complex process and requires assistance. This guide can help you solve all your tax queries in many ways.

This guide is divided into following parts:

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2.When to maintain books of account and get audit done	06
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1. How to report income/loss in ITR?

You may be dealing in the stock market in various ways, such as future and options or derivatives, intra-day transactions, equity etc. **One of the common issues that traders face is how to show income and loss from these in your income tax return.** Here we discuss this in detail:

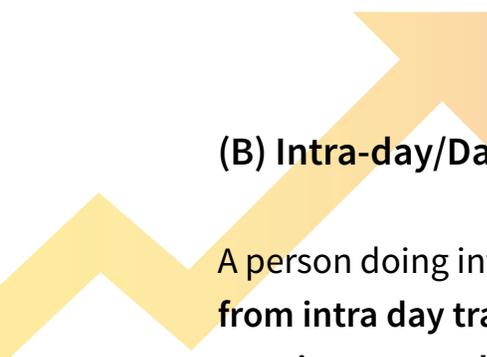
(A) Future & options

If you are playing in the F&O market, you are considered as a trader. It doesn't matter whether you are actively trading or occasionally. Your income or loss from trading in future & options will be considered as BUSINESS INCOME. While calculating the income, you are eligible to deduct expenses which are directly related to earning this income, for example, rent of the premises used for the trading, mobile or telephone expenses, internet charges, broker's commission, demat account charges, depreciation on laptop etc. Business income will be taxable at the applicable income tax slab rates.



If there is Loss: Loss from trading in F&O can be set off against any other income except salary income. For instance, **if you have rental income of Rs 6 lakh and loss from F&O of Rs 2 lakh, then your total taxable income would be Rs 4 lakhs. (Refer FAQs no 1,3 and 4)**

If such a loss cannot be fully set off against the income in current year, it can be carried forward for the next eight years. **But the point to be noted here is that the carried forward loss can be set off against only business income in subsequent years and not any other income**

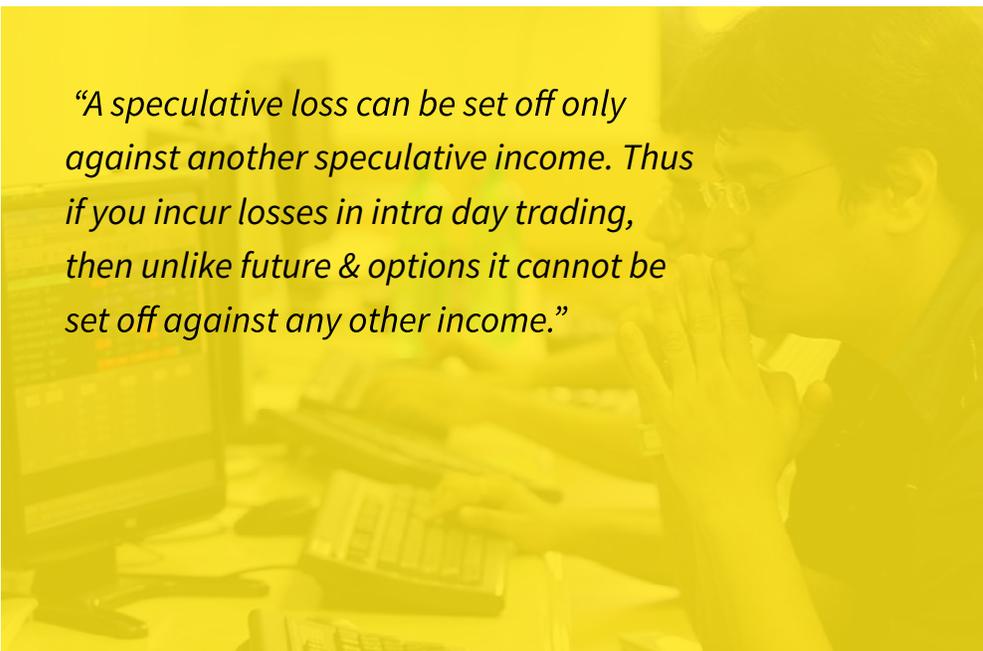


(B) Intra-day/Day trading stocks (equity)

A person doing intra-day trading is also considered as trader. **Income from intra day transactions in shares is treated as speculative business income as the transaction is settled without delivery.** You have to show this income under the head **BUSINESS INCOME**. Business income may be classified as speculative or non-speculative. The recognition between the two is important since losses from speculative & non-speculative businesses are treated differently under income tax.

If there is Loss: Loss from intra day transactions is called speculation loss. A speculative loss can be set off only against another speculative income. Thus if you incur losses in intra day trading, then unlike future & options, it cannot be set off against any other income such as rental income, bank interest etc. *(Refer FAQ no 2,3 and 4)*

However, if a loss cannot be set off against the speculative income in current year, you can carry forward such loss to be set off against the speculative income of any next 4 subsequent years.



“A speculative loss can be set off only against another speculative income. Thus if you incur losses in intra day trading, then unlike future & options it cannot be set off against any other income.”

(C) Equity or Stocks

If you are dealing in equity, then you can be called as trader or investor depending upon the volume and frequency of transactions undertaken by you. **In case you deal in equity shares quite often and have a large volume and frequency of transactions, you will be called a “Trader”** and if dealing occasionally, then “Investor.”

This classification is important as trading is reported as BUSINESS INCOME and investments are usually reported as CAPITAL ASSETS.

If dealing as Investor

If you sell the shares within a period of one year from the date of its acquisition, **it is called as short term capital gain (STCG) and if sell after a period of one year**, it is called as long term capital gain (LTCG). So first find out the holding period of your stock and accordingly show the income under the head “**CAPITAL GAINS**” as “**Short term**” or “**long term capital gain**”. To know how to calculate capital gains, refer our [guide](#) on capital gains.

While short term capital gain on the **sale of listed equity shares is taxed at the flat rate of 15%**, the long term capital gain from the sale of listed equity shares (i.e. through recognized stock exchange) is exempt from tax.



If dealing as Trader

As a trader, you have to show the income as “**BUSINESS INCOME**”. Loss if any can be set off against any other income except salary income .

For instance, **if you have interest income of Rs 4 lakhs and loss from trading in equity of Rs 2 lakhs, then your total taxable income would be Rs 2 lakhs**

(D) Mutual Funds

There are two ways that you may earn from a Mutual Fund –
 earn a dividend

have short term or long term capital gains

Income or dividend received by an investor from a mutual fund is exempt from tax as per the Income Tax Act. However, capital gains on mutual funds may be taxable depending upon the type of mutual fund – equity or debt and also depending upon the period for which it is owned.

Type of MF Scheme	Short term capital gain (STCG)rate	Long term capital gain (LTCG) rate
Equity MF STCG -If held for less than one year LTCG- If held for more than one year	15 %	NIL
Debt MF STCG -If held for less than 3 years LTCG- If held for more than <u>3</u> years	As per individual tax bracket	20%(with indexation)

“Income or dividend received by an investor from a mutual fund is exempt from tax as per the Income Tax Act..”

2. When to maintain books of account and get the audit done?

Books of account must be maintained in the following cases:

- Where the income from business or profession is more than Rs 1,50,000 (This limit has been increased from Rs 1,20,000 to Rs 1,50,000 in Budget 2017 with effect from FY 2017-18) OR
- Total sales, turnover or gross receipts are more than Rs 25 lakhs in any of the preceding 3 years (This limit was Rs 10 lakhs upto FY 2016-17)

No specific records are prescribed. **But you must maintain such books of accounts and other documents which help the Assessing Officer calculate taxable income as per the Income Tax Act.** These documents include bills and receipts of your expenses, details of your bank statements, profit and loss account and balance sheet which needs to be prepared. You can keep the soft copies too.

In case you are following presumptive income scheme and declaring profits at 8% of your turnover u/s 44AD, then you are not required to maintain books of account. However, if you declare profits at less than 8%, then you must maintain books of account.

Audit should be done in the following case

Audit should be done in the following cases

- Turnover of your business exceeds Rs 2 crores (This limit has been
- increased from Rs 1 crore to Rs 2 crore from FY 2016-17 onwards.) OR

When you declare profits less than 8% of turnover under presumptive income scheme (sec 44AD). But in case total income (including salary, business, rent, interest) is less than or equal to Rs. 2.5 lakhs, then audit is not required (Refer FAQs no 8 , 9 and 10)

3. Trading Turnover here means:

- For Intraday equity — absolute sum of settlement profits and losses per scrip
- For Delivery equity — sell side value of the stock
- For F&O (Equity, Currency, Commodity) — absolute sum of settlement profits & losses for F&O per scrip and the sell side value of option contracts.

Turnover calculation is easy in case of delivery based trades. But in case of intraday equity and F&O, it can either be done scrip wise or trade wise. Scrip wise means you have to consider the profit or loss made on that particular scrip in the financial year as turnover, and you sum up the absolute values of individual P&L of all the scrips to have a consolidated turnover for the year. Trade wise means you have to consider the total sum of profit and loss of each trade that you have done during the financial as your turnover. (For detail illustration refer FAQ no 6)

4. Which ITR to file?

For traders dealing in intra day transactions, F&O or equity and showing trading income as business income, then you should file ITR 3 for FY 2016-17. Earlier it was ITR 4 till FY 2015-16.

In case you are following presumptive income scheme, then you should file ITR 4 for FY 2016-17

For investors dealing in stock and showing income under capital gains as STCG/STCL, then they can file ITR 2 .

ClearTax filing for traders and businesses can help you prepare your return independently. Take a look here <https://cleartax.in/tax-filing-for-traders>



5. FAQs (Based on examples)

- 1** I have incurred a loss worth Rs 3 lakhs while trading in F&O? I also have salary income of Rs 6 lakhs and interest income of Rs 2lakh. Do I need to disclose the loss in my income tax return?

Answer

Yes. It is quite common to not to report loss in your income tax return since no tax is payable on it. **But declaring loss in return has got some benefits for you.** You can set off such loss against your income from other heads except salary income. Thus it can be set off against your interest income. You can show the income as below:

Income from salary		6,00,000
Income from other sources		
Interest Income	2,00,000	
Less: Loss from F&O	2,00,000	NIL
Total Income		6,00,000

Balance loss of Rs 1 lakhs can be carried forward to next 8 years to be set off against any business income. Note carry forward loss can be set off against only business income and not any other source of income.



2 I am a retired individual and doing intra day transactions in share market. I have incurred a loss of Rs 4 lakhs through intra day transactions in share market. I also get pension income of Rs 2 lakhs and interest income of Rs 5 lakhs. Can such loss be set off against my income?

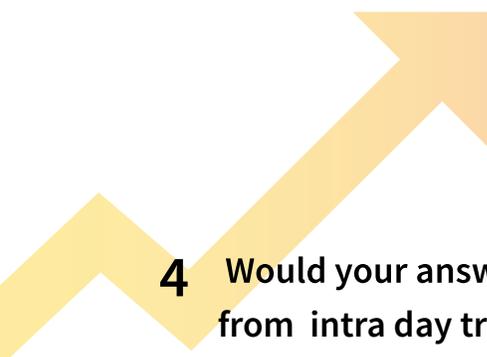
Answer

No. Loss from intra day transactions in share market is a speculative business loss. As per income tax act, speculative business loss can be set off against only speculative income only. Thus it cannot be set off against your interest income or pension income. However, you can carry forward such loss to be set off against the speculative income if any in next 4 subsequent years.

3 I am dealing in intra day transactions as well as F & O. I have incurred loss in my intra day transactions of Rs 4 lakhs while there is profit in F& O trading of Rs 2 lakhs. Also I have income from other business Rs 5 lakhs. Can I set off my loss from intra day transactions from profit of F & O?

Answer

NO. Loss from intra day transactions is called as speculation loss. A speculative loss can be set off against only speculative income. As the income from F & O and other business is non speculative income, it cannot be set off against it. However, you can carry forward such loss to be set off against the speculative income if any in next 4 subsequent years.



4 Would your answer be different in the above case if instead of loss from intra day transactions, there is loss from F& O of Rs 4 lakhs, income from intra day transactions Rs 2 lakhs and other business income Rs 5 lakhs ?

Answer

YES. Loss from F & O is non speculative loss. Non speculative loss can be set off against both speculative and non speculative income. So loss from F & O of Rs 4 Lakhs can be set off against both income from intra day and other business income. So the net income would be 3 lakhs.

5 I am a salaried individual having salary income of Rs 6 lakhs and also do sometimes trading in equity shares. During last year I sold the stock of 3 companies. All the stocks were held by me for a period less than one year. In one case I made a short term capital gain (STCG) of Rs 20,000 and in other two cases, I made a loss of Rs 1 lakhs. How should I report this in my return? Can I set off my loss of Rs 1 lakhs against my salary income?

Answer

Short term capital loss can be set off against only short term and long term capital gain. It cannot be set off against salary income, rental income, interest income etc. Thus your computation of income would be as follows.

Income from salary		6,00,000
Capital Gains		
Short term Capital Gain	20,000	
Less: short term Capital Loss	20,000	NIL
Taxable Income		6,00,000

Balance STCL of Rs 80,000 can be carry forward to be set off against the STCG or LTCG to next 8 years

6 I am dealing in F & O. How can I calculate my turnover from trading business in F& O?

Answer

Turnover is calculated by aggregating the absolute sum of settlement profits & losses for F&O per scrip. For instance, in the following trading statement, your turnover will be Rs 2,12,163.82 i.e. absolute value of your Profit/(loss) per scrip.

<u>Seriesname</u>	Buy qty	BuyAvgRate	SellQty	SellAvgRate	Profit/(Loss)	Absolute value	<u>Seriescode</u>
BANKNIFTY OPT 27MAR 14 CE @ 12600	1550	53.77	1550	60.41	10,284.28	10284.28	BANKNIFTY
BANKNIFTY OPT 27MAR 14 CE @ 12700	2525	33.55	2525	27.46	-15,373.51	15373.51	BANKNIFTY
BANKNIFTY OPT 31OCT 13 PE @ 10200	3500	34.16	3500	22.64	-40,335.69	40335.69	BANKNIFTY
NIFTY OPT 26SEP 13 CE @ 6000	16500	55.2	16500	52.56	-43525.32	43525.32	NIFTY
NIFTY OPT 26SEP 13 CE @ 6100	19500	47.57	19500	52.16	89492.7	89492.7	NIFTY
NIFTY OPT 26SEP 13 PE @ 4900	3400	46.17	3400	42.31	-13152.32	13152.32	NIFTY

212163.82

7 I am dealing in F&O and having turnover of Rs 15,30,000 (absolute sum of settlement profits & losses for F&O per scrip) and net profit of Rs 4,54,000 .I have incurred the expenses as : 0.02% as brokerage charges for each F&O trade and paid a total of Rs 74,000as brokerage charges, telephone expenses Rs 12,000,Internet Rs 15,000.I also earn Interest income from bank Rs 3,50,000.How should I calculate my income.

Answer

Calculation of Income from F& O	
Profit from F& O	4,54,000
Less :Expenses of F&O	
Brokerage Rs 74,000	
Telephone Rs 12,000	
Internet Rs 15,000	1,01,000
Income from F& O	3,53,000

Calculation of total taxable income	
Business Income	3,53,000
Interest Income	3,50,000
Total Taxable income	6,53,000

8 I have incurred a loss from trading in F & O / Intra day transactions. Do I need to get the accounts audited by a chartered accountant?

Answer

Audit is required to be done when your turnover exceeds Rs 2 crore or when you declare profits less than 8%. Thus loss is less than 8% profit so you must get the accounts audited.



9 I have a trading turnover of Rs. 4 crore on intra-day and F&O. I have a profit of Rs. 50 Lakhs. Do I need to get an audit done?

Answer

Here, **your profit = Rs. 50 lakhs or 12.5% of the trading turnover. This is higher than 8% of the turnover.** But your turnover is more than Rs. 2 crore so you need to get an audit done. Suppose your turnover was Rs. 1.8 crore with same profit, then you can file under ITR-3 without audit.

10 I trade on my wife's demat account. She also has income from tuition of Rs. 1 Lakh per annum .The losses from F & O trading is Rs. 10 Lakhs in F&O trading.The turnover is less than Rs 2crores.How do I file the return?

Answer

You need to file income tax return in the name of your wife. If total income < 2.5 Lakhs, then you will not be eligible for audit. For example, in above case, total income = Rs. 1 Lakh and you may choose to carry forward the losses without audit as the total income < Rs. 2.5 Lakhs. Suppose if your wife's income was Rs. 3 Lakhs, **then you will need to get an audit done to carry forward the losses.**

11 Do individuals dealing in stock market liable to pay advance tax?

Answer

If your total tax liability for the year exceeds Rs 10,000, then you have to pay advance tax. But if you are following presumptive income scheme u/s 44AD, then you don't have to pay advance tax in instalments. You can pay the tax due by 15th March of the relevant financial year. For FY 2016-17, you can pay the total tax due in one instalment by 15th March 2017.

12 I traded in Futures & Options in FY15-16 but filed an income tax return under ITR-2 (showing capital loss). Can I file a revised return?

Answer

Yes, you need to file a revised return under ITR-3 for FY15-16 before **March 31, 2018** provided you filed your original return before **July 31, 2017**. In this return, you can show your trading income details under Business Income

13 I am a doctor and earning consulting fees of Rs. 10 Lakhs with a hospital, I also have a medical practice whereby I earn Rs 12 lakhs. Besides, I also trade in Futures & Options. I incur loss of Rs 3 lakhs. Please advice how business income and tax liability can be computed ?

Answer

Loss from F & O can be set off against the other business income. Computation of income will be as follows :

Income from Business & profession(Rs 10 L+Rs12 L)		Rs 22,00,000
Less : Loss from F & O		Rs 3,00,000
Total Income		Rs 19,00,000



14 I am an individual dealing in both intra day and F& O transactions .I earned income of Rs 4 lakhs from intra day trading and Rs 2lakhs from F & O transactions.Also I sold some stock resulting in short term capital loss of Rs 1 lakhs.How should I calculate my tax liability ?

Answer

Income from Intra day transactions and F & O transactions will be shown as **Business Income**.The short term capital loss will be shown under head capital gains and can be set off only against the short term or long term capital gain.Hence your total income will be Rs 6 lakhs (Intraday+F & O) and will be taxable at the applicable income tax slab rates.You can see income tax slab rates [here](#).**The short term capital loss can be carried forward to next 8 years to be set off against short term or long term capital gain.**

15 I am a professional also I am an NRI for this year as per income tax laws and trade in shares. Can I opt for presumptive taxation?

Answer

No, presumptive taxation is available for Indian residents only. NRI cannot opt for it.



THANK YOU!