

Share Market Investments Income Tax Return

By

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Introduction

- Investment
 - Treated as Capital Asset
 - Held for a longer period
 - Purchase and Sale Results in Capital Gains under Income Tax Act 1961 Sec.45
- Trading
 - Treated as Business
 - Short Period Transactions – Day Trading – Recurring Transactions
 - Purchase and Sale results in Business Income under section 28 of the Income Tax Act 1961.

Shares and Stocks ~ Classification

- Listed Shares
 - Classified as :
 - Short Term Capital Gains
 - Long Term Capital Gains
 - Holding Period:
 - Listed Shares:
 - Short Term – Less than One Year
 - Long Term ~ More than One Year
- Unlisted Shares:
 - Short Term – Less than Two Years
 - Long Term – More than Two Years

Tax Rates

- Unlisted Shares
 - Short Term Capital Gain : Normal Rate of Tax Applicable to the Assessee
 - Long Term Capital Gain
 - Taxed Under Section 112 at 20% irrespective of the tax rates applicable to the assessee.
 - Indexation Benefit Available for the Cost of Acquisition
- Listed Shares
 - Short Term Capital Gain: Taxed Under Section 111A at Special Rate of 15% irrespective of tax rates applicable to the assessee.
 - Long Term Capital Gain: Taxed Under Section 112A at Special Rate of 10% irrespective of tax rates applicable to the assessee
 - Indexation Benefit Not Available
 - However, the Long Term Capital Gain is Exempted upto Rs.1 lakh.
- Investments in Equity Shares or Equity Oriented Units of Mutual Funds is qualify for this benefit.

Share Trading

- Common areas of dispute in equity traders is regarding the treatment of profits and losses from shares.
- Confusion Prevails whether the profits from trading in shares should be classified as capital gains or as business income.

Rules to be observed

- If the taxpayer opts to classify his equity holdings as stock-in-trade, then the income shall be treated as business income.
- However, it requires to maintain consistency in this classification and once opted can not be changed.
- In all the other cases, basic premise for classification of capital gains versus business income will be predicated on the concept of “Significant trading activity”.
- If the stock portfolio is turned frequently, then the income shall be classified as business income.

Guidelines

- The volume of [equity trading](#) during a particular period is taken as a guiding factor for this classification.
- The ratio of purchases to sale is also a criterion. If the purchases and sales of shares are of similar magnitude it is typical of a trader and must be classified as business income.
- The average period can be a good factor for this classification.
- Normally average holding period is shorter then it is more likely to be business income rather than classified as capital gains.

F & O

- Activity in the [Futures and Options trading](#) is an indicator of the income from shares should be classified as business income.
- A trader being more active in F&O is a sign of a shorter time frame and a greater intent to trade.

Business

- The next step is to distinguish between speculative income and non-speculative business income.
- Intraday trading will be classified as speculative income. Whether you buy in the morning and cover by evening or whether you sell in the morning and cover in the evening, the transaction remains a speculative transaction.
- Intraday transaction does not result in delivery of shares and therefore becomes speculative.

Transaction Type

- BTST (Buy today and sell tomorrow) and
- STBT (sell today and buy tomorrow) exists
- While they are speculative in nature they do result in delivery of shares although the trader does take on the short delivery risk in BTST and STBT trades.
- Hence BTST and STBT can be classified as non-speculative business income.

F&O Trading

- While F&O does not result in delivery, they are intended to hedge the risk of your underlying.
- It has been specified that income from F&O shall be classified as non-speculative business income.
- Both the speculative income and non-speculative business income are clubbed under the head of business income.
- However, the difference arises in carry forward and set-off.
- For example, accumulated non-speculative business losses can be written off against non-speculative business profits or even against speculative income.
- But the reverse does not hold true.
- Speculative losses can only be written off against speculative profits and not against non-speculative business income.

ITR Filing

- A trader who does significant trading activity and trading income is the only source of income, the profit or loss is considered a Non-Speculative Business Income.
- The trader can [claim expenses](#) incurred for earning such business income and needs to file ITR-3.
- If it is only Capital Gains, the Assessee is to file ITR-2

Turnover Over

- Trading Turnover when equity trading is treated as a business income
- **Turnover for Equity Delivery Trading = Absolute Profit**
- Absolute Turnover means the sum of positive and negative differences. Trading Turnover Calculation can be either through scrip wise method or trade wise method.

Formula – Trading Turnover

- Requires two main components:
 - 1. The total number of shares of the company's stock that were bought and sold during a given time period, also known as '[trading volume](#)'.
 - 2. The number of shares that are still available to investors for purchase, also known as 'shares outstanding'.
- Hence, the share turnover formula can be expressed as:
- $\text{Share Turnover Ratio} = \text{Trading Volume} / \text{No. of Shares Outstanding}$

Example based on Concept – Absolute Profit

- Trade wise Turnover
 - Purchased 400 units of A Ltd. At Rs.100 – Day 1
 - Sold 400 units of A Ltd., at Rs.90 – Day 2
 - Loss $(90 - 100) \times 400 = \text{~Rs.}4000$
 - Purchased 200 units of B Ltd., at Rs.45 – Day 1
 - Sold 200 Units of B Ltd./., at Rs.50 – Day 2
 - Profit $(50 - 45) \times 200 = 1000$
 - Turnover $4000 + 1000 = 5000$ (irrespective of loss or profit)
- Scrip Wise $= \text{~}4000 + 1000 = 3000$

Trading Types

- Speculative Business
 - Delivery Based Trading
 - Intra Day Trading
- Non speculative Business
 - Futures and Options
- Presumptive Income (Sec.44AD)
 - If the turnover is less than Rs. 2 crore, and if the Profit is less than 6% and the total income exceeds the exemption limit (Rs.2.50 lakhs)
 - Person's taxable income other than the loss from trading is more than the taxation slab this section applies.

Turnover

- Delivery
- Bought 100 BPCL shares at Rs 400 and sold them at Rs 470, the selling value of Rs 47000 (470×100) can be considered as turnover.

Intra Day

- Buy 200 shares of SBI at 414 at time of opening of market and sell at 422 by day closing, make a profit or positive difference of Rs 1600, this Rs.1600 can be considered as turnover for this trade.
- Future
- Buy 1 lot (25 Units) of Nifty futures at 10200 and sell at 10300,
- Buy 1 Another lot of Nifty future (25 Units) at 10350 and sell at 10300
- Then Rs. 2500 (25×100) + 1250 (50×25) i.e. 3,750 the negative difference or loss on the trade is turnover.
- Option Trading
- Buy 100 units or 4 lots of Nifty 10200 calls at Rs.50 and sell at Rs.55. The favourable difference or profit of Rs 500 (5×100) is the turnover.
- Also, the premium received on sale also has to be considered turnover, which is $Rs\ 55 \times 100 = Rs\ 5500$.
- Hence total turnover on this option trade = $500 + 5500 = Rs\ 6000$.

F & O ~ Example

Stock	Type	Lot Size	Purchase Value	Sale Value	Gain/Loss	Turnover
HDFC Bank	Future	400	5000	5100	40000	40000
Asian Paints	Future	500	4000	3900	~50000	50000
ICICI Bank	Option	600	6000	6500	500	7000
RIL	Option	600	4500	3700	~800	4500
Total			19500	19200	~10300	101500

In case of Option, the loss o profit is added to sale value

Deductions from Turnover

- Brokerage
- STT
- Exchange Levy
- Stamp Duty

Tax Audit – Sec.44AB

- If a person's total gross receipt and payment in cash does not exceed 5% of total receipt and payment then the limit of turnover for tax audit is Rs. 5 crores.
- No Tax Audit for Capital Gains

Investment in Mutual Funds

- The income is short term capital gain and long term capital gain.
- ITR-2 required to be submitted.

Records

- If you are a trader in equities then you need to maintain detailed records of transactions and other expenses in your office premises.
- Example, regular contract notes, trading statements, demat statements and a consolidated statement of statutory charges needs to be maintained in physical form.
- Also needs to maintain detailed records of invoices / receipts for the expenses claimed in the books.
- Bank statement and bank reconciliation is the key to any record keeping.

Records for Mutual Fund Investments

- Apart from the documents like [Form 26AS](#) (it contains the details of the tax already deducted and deposited with the tax department)
- Need capital gains statement directly through a fund house
- Annual Statement available provided by the Investment Fund

Disclosures in ITR – ITR2

- Capital gains or loss is a difference between the value at which an investor purchased the units of a mutual fund scheme and the value at which these units are sold or redeemed.
- If a mutual fund is sold at a profit, capital gains arise.
- Similarly, if the sale price is less than the purchase value, the resultant losses are termed as capital loss.
- The moment profits are earned from the sale of a mutual fund; the tax gets attracted.
- The rate at which these capital gains will be taxed as explained before.

ITR Schedules


- Selecting a relevant schedule for reporting capital gains in ITR is very important. The long-term capital gains from equity-oriented mutual funds need to be reported in ‘Schedule 1 12A’. If you have short-term capital gains, that needs to be reported in Schedule CG.
 - Schedule CG
 - Schedule – 1 12A


Schedules in ITR

Please select type of capital assets sold by you, in order to continue

- ☐ Land or building or both
- ☐ Slump sale ⓘ
- ☒ Equity share or unit of equity oriented Mutual Fund (MF) or unit of a business trust on which STT is paid under section 111A or 115AD(1)(ii) proviso (for FII)
- ☐ Equity share in a company or unit of equity oriented fund or unit of a business trust on which STT is paid under section 112A ⓘ
- ☐ Bonds or debenture (other than capital indexed bonds issued by Government) ⓘ
- ☐ From sale of, (i) Listed securities (other than a unit) or zero coupon bonds where proviso under section 112(1) is applicable (ii) GDR of an Indian company referred in sec. 115ACA
- ☐ From sale of shares or debentures of an Indian company (to be computed with foreign exchange adjustment under first proviso to section 48)
- ☐ From sale of securities by an FII as per section 115AD ⓘ
- ☐ From sale of, (i) unlisted securities as per sec. 112(1)(c), (ii) bonds or GDR as referred in sec. 115AC, (iii) securities by FII as referred to in sec. 115AD (other than securities referred to in section 112A)
- ☐ From sale of equity share in a company or unit of equity oriented fund or unit of a business trust on which STT is paid under section 112A ⓘ

ITR-3~ Speculative – Intraday

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[Dashboard](#) > [Filing Returns for A.Y. 2021-22](#) > [ITR-3](#) > [Schedules](#) > [Part A: Profit & Loss](#) > [No Account Cases](#)

No Account Cases

If regular Books of Account of Business or Profession are not maintained
Furnish the following information for previous year 2020-21 in respect of business or profession

* Indicates mandatory fields

Business

Profession

Speculative Activity

45. i. Turnover from speculative activity	₹ 75,000
ii. Gross Profit	₹ 6,500
iii. Expenditure, if any	₹ 0
iv. Net income from speculative activity (ii/iii - i/iii)	₹ 6,500

Cancel

Save

F&O

- PART A ~P&L
- Enter the sale value of F&O under the heading other Income Credited to P & L account and purchase value and expenditure in another expenditure debit to P & L Account
- Select the Business Code under Others under Trading

Examples of Non Speculative

- Hedging Contract in Commodity Market
- Hedging in Stocks and Shares
- Forward Contract
- Trading in Derivatives
- Commodity Derivatives

Losses – Sec.73A

- Losses from speculative business can be set off only against profits from speculative business.
- If the loss could not be set-off during in that year, it can be carried forward to the next 4 assessment years and set-off only against the speculative income.

Demat Statement

- The demat Account statement is a summary of all the shares in the demat account.
- The statement provides the relevant details like quantity, buy date, buy price, buy value sale date , sale price , sale value , P&L value etc. of each transaction.
- Inputs are needed for reporting details in ITR Schedules.
- Demat Statement can be downloaded either directly from the website of the relevant national depository or through a broker with whom the taxpayer maintains a demat account.