

TAXATION ON TRADING



With the rise in online trading avenues as well as investor awareness, a larger number of people are now channeling their investments into the financial markets. Hence, it is important to understand its tax implications.

LISTED SECURITIES

INTRA DAY TRADING

In intraday stock trading, traders earn money by buying or selling stocks on the same day. Every intraday trade needs to be closed by the end of the day and there is no delivery of shares. The objective is to earn a profit by speculating on the daily price fluctuations of stocks.

	INTRA DAY EQUITY TRADING	INTRA DAY FUTURES AND OPTIONS TRADING
Nature	Speculative	Non-Speculative
Taxability	Added to all other incomes, and taxes paid as per the applicable tax slab Expenses related to trading can be deducted	
Adjustment of Losses	Can be adjusted only against other speculative gains	Can be adjusted against any other head, except salaries
Set off and Carry Forward	Losses can be carried forward for next 4 years, and can be set off only against speculative gains <i>(Can be carried forward only if return is filed within the original due date)</i>	Losses can be carried forward for next 8 years, and can be set off only against non-speculative gains <i>(Can be carried forward only if return is filed within the original due date)</i>

HELD FOR INVESTMENT

Trader invests to earn long-term gains by buying a particular share. He takes delivery of the share and holds them to earn a profit when the price of share increases in the future or to earn dividends on the share.

	SHORT TERM CAPITAL GAIN	LONG TERM CAPITAL GAIN
Period of Holding	Less than 12 months	12 months or more
Calculation	Sale price (-) Expenses on Sales (-) Purchase Price	
Taxation	Taxable at 15%	Not taxable up to the limit of Rs 1 lakh. Above it, tax @ 10%, indexation benefit not available
Adjustment of Losses	Can be adjusted against short term or long term capital gains	Can be adjusted only against long term capital gains
Set off and Carry Forward	Losses can be carried forward for next 8 years, and can be set off against short term or long term capital gains <i>(Can be carried forward only if return is filed within the original due date)</i>	Losses can be carried forward for next 8 years, and can be set off only against long term capital gains <i>(Can be carried forward only if return is filed within the original due date)</i>

OPTION AVAILABLE TO TAXPAYERS

- If the taxpayer opts to treat listed shares as stock-in-trade, the income shall be treated as **business** income, **irrespective of the period of holding of listed shares**.
- If the taxpayer himself opts to treat listed shares **held for more than 12 months** as capital gain, the income shall be treated as **capital gain**. The taxpayer will **not be allowed to take a different stand** in subsequent years.
- In all other cases, the nature of transaction (whether capital gains or business income) shall continue to be decided basis the concept of 'significant trading activity' and the intention of the taxpayer to hold shares as 'stock' or as 'investment'.

UNLISTED SECURITIES

Since no formal market exists for trading, income arising from transfer of unlisted shares would be taxed under the head **Capital Gain**, irrespective of period of holding, with a view to avoid disputes/litigation and to maintain uniform approach.