Taxation of Shares Transaction

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FUTURES AND Options are the two tools of Derivatives market. The major benefit is the relatively small amount of funds required to enter into a transaction as compared to what is required to put through the transaction outright. On the other hand, cash trading is delivery based. Time limit for holding investment will depend on the investor, there is no prescribed time limit.

If you are dealing in derivatives, you must keep in mind that with effect from the Asst. year 2006-07 any eligible transaction in respect of Trading in derivatives will not be treated as speculative business transaction if below mentioned conditions are satisfied : -

1. The Transaction is carried out in recognized stock exchange.
2. The eligible transaction is carried out electronically on screen based systems through a stock broker/sub broker/other registered intermediatory in accordance with the provision of securities contract act 1956/SEBI Act 1992/ Depositories Act 1996 or by banker or mutual funds.
3. The eligible Transaction is supported by a time stamped contract note issued by such stock broker etc to every client . It should indicate in a contract note
    - unique client identity number allotted under any /all, referred to in 2 above.
    - PAN allotted under Income Tax Act

The Benefit of the above recent amendment is that now losses in derivatives can be set off against non speculative as well as speculative business profit.

If you are dealing in cash trading, gain in Investment will be taxed under the head Capital Gain. For computation of capital gains on shares, it is in order to understand Short term as well as long term (Short term capital asset, shares held for not more than 12 months immediately prior to its date of transfer and long term Capital asset
shares held for more than 12 months)

Short term capital gain is taxable @ 10% (plus surcharge plus education cess) If the below mentioned conditions are satisfied:
1.Transcation of transfer takes place on or after October 1,2004
2.Such Transaction is chargeable to security transaction tax at the time of transfer.

If there is a loss on transfer of these shares it can be set off against any other short term loss and carried forward.

On Taxation of Long term capital Gain :

1. Long term capital gain on transfer before October 1,2004

If eligible equity shares are acquired during March 1,2003 and February 29,2004 and are transferred after 12 months through a recognized stock exchange , the resulting long term capital gain is not chargeable to tax. The eligible equity shares for this purpose are any equity share in a company being a constituent of BSE- 500 index of the stock exchange, Mumbai as on March 1, 2003.

2. Long term capital gain on transfer on or after October 1,2004

If transactions are chargeable to Securities transaction tax at the time of transfer then long term capital gain is exempt from tax from the Assessment year 2005-06.

If there is a loss on transfer of these shares such loss will have to be ignored and cannot be set off against any other income.

Other Tax benefits:

1. Dividend received on shares are exempt by virtue of provisions of section 10(34).
2. In case of dealers in shares, rebate will be available for securities transaction tax paid from the income tax payable on the income from transfer of such securities under section 88 E of the income tax.

The evidence of payment of security transaction tax needs to be filed alongwith return of income.