Seminal points on Future and option trading - points for consideration on income tax aspects

1. As per Section 43(5) of the Income Tax Act states that any transactions that take place during Futures and Options trading are to be deemed non speculative transactions so, it is clear that Income from "Future and option trading" is a normal business income.

2. Therefore the taxpayer can claim deductions on tax for any expenses he may have incurred while trading in Futures and Options such as telephone bills, electricity bills, internet bills etc.

3. In order to determine the total turnover (On the basis of turnover, we decide tax audit is required or not) derived from the trading of Futures and Options, it is necessary to take into consideration the following factors:

(i)The total of favourable and unfavourable differences (Profit/Loss) 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, the same should not be separately included. In case of squares off the position if one is the buyer of the call option (premium is paid) he will square off this position by selling this option (Premium will be received) so the differences will be the Profit/loss.

(iii) In respect of any reverse trades entered, the difference thereon should also form part of the turnover.

4. F&O trading can be covered under the category of eligible business as per section 44AD (presumptive basis) of the income tax act.

5. Any loss arising from trading of F&O can be offset against any income arising from the residential property, any other business as well as any other source except the salary income. Loss can be set off from intra head income except speculative business income and inter head income except salary income.

6. Any losses that have not been absorbed can be offset against any income the taxpayer receives from any other business, and can be carried ahead for a maximum period of 8 years.