

Trading in Derivative Instruments i.e., Futures & Options of an underlying asset at a pre-determined price is known as F&O Trading

1. What's an Underlying Asset:

The underlying asset could be an equity share, commodity or a currency. Thus, F&O Trading can be Equity F&O Trading, Commodity F&O Trading or Currency F&O Trading i.e. Forex Trading.

2. What's Futures & Options:

Under Futures Trading, the trader buys or sells a contract on a predetermined date in the future, at a predetermined time in the future, and at a predetermined price.

Under Options Trading, there is a contract between a seller and buyer to trade a security at a predetermined price on a predetermined date in the future.

Further, in Options Trading, the buyer has the right to cancel the contract if he is incurring losses. Since the buyer has the advantage of exercising his right, he must pay a premium amount.

3. What's the calculation of turnover:

The turnover calculation for options has been updated based on the eighth edition of the guidance note dated 14/08/2022 (w.e.f A.Y 2022-23).

Previously, turnover for options trading was calculated as "Absolute Profit + Premium on Sale of Options."

Absolute Turnover means the sum of positive and negative differences. Trading Turnover Calculation can be either through scrip wise method or trade wise method.

The turnover of all futures transactions is calculated in absolute terms.

The turnover of all options transactions is not calculated in absolute terms. It has been calculated as:

(Sale value + absolute profit/ (loss))

After calculating the turnover simply based on the transactions, we now have to take into account the expenses and deduct them from the turnover. You can add all the electricity expenses, STT, commission paid to brokers, internet and rent payments, etc. to calculate the final expenses.

The revised Guidance Note on Tax Audit under Section 44AB of the Income-tax Act, 1961 AY 2022-23 is now prescribing (para 5.14 clause (b), page 17) that :

- i. The total of favourable and unfavourable differences shall be taken as turnover.
- ii. Premium received on sale of options is also to be included in turnover. However, where premium received is included for determining net profit for transactions, the same should not be separately included.
- iii. In respect of any reverse trades entered, the difference thereon, should also form part of the turnover.

4. Difference in old vs new methodology:

In the earlier methodology, premium received in case of sale of options was getting included twice, first as part of “favourable and unfavourable differences” in clause (i) and then again for the purposes of clause (ii).

Now in the revised methodology, clause (ii) has been amended and the requirement of considering the premium received on sale of option as part of the turnover has been done away with, if the same has been considered for determining net profit for transaction. Thus, after this change, the premium received on sale of option is to be included in the turnover only at one place i.e. either under clause (i) -as part of favourable and unfavourable differences or separately under clause (ii).

Example of calculation of turnover:

Aditya buys 100 units of Futures @ Rs 200 and sells at RS 210.

Also buys 200 units of options @ Rs 300 and sells at Rs 290.

This is how his turnover would be determined:

Profit on sale of Futures $100 \times 10 = 1000$

Loss on sale of Options $200 \times 10 = 2000$ (negative ignored)

Premium on sale of options $200 \times 290 = 58000$

Total Turnover 61000

(Old methodology)

However, sale amount is to be omitted only when it has been already used to calculate profit or loss. The ICAI note clarified, "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.

If an option contract is physically settled, there is no profit or loss. In such cases, the premium received on sale is to be included in calculating turnover."