

F & O Turnover Calculation Methodology

Turnover definition under Income Tax Act in case of F&O transactions:

A. Tax Audit Limit:

Section 44AB of the Income tax act, 1961 provides that:

(i) Every person carrying business shall, If his turnover is exceed one crore in any previous year, require to get his accounts audited by an accountant.

(ii) In case cash receipts and cash payments does not exceed 5% of total payments or receipts 1Crore will be read as 5Crore. For Financial Year 2021-22 this 5Crore limit is further extended to 10Crore.

(iii) As F&O trading also falls under the category of eligible business (turnover limit is Rs. 2Crore), Income can also be shown under section 44AD of the income tax act, 1961 on presumptive basis if assessee also is eligible assessee.

B. Method of calculation of Turnover in the case of F&O Transactions:

Method of calculation of turnover is not provided under the income tax act, 1961. But given in Guidance Note on tax audit by ICAI pg 25 as follows:

(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.

(iii) In respect of any reverse trades entered, the difference thereon, should also form part of the turnover. (So if you buy 25 units or 1 lot of Nifty futures at 8000 and sell at 7900, Rs.2500 (25 x 100) the negative difference or loss on the trade is turnover.)