<u>Tax Planning Tips in case of Short term capital gains and long term capital gains</u>

This article deals with play-off/ interface and planning of short-term capital gains/losses vis a vis long term capital gains/ loss.

The given below content is merely a planning tool as how to plan the purchase and sale of shares and the judicious use of the setting off losses with gains. This calls for a smart planning and in no way, induces any tax avoidance.

As the Financial Year 2020-21 is closing, everyone is busy in tax planning. However, one can know how equities are taxed in India and how can save income tax with planning by sale of shares. F
Following are simple logical steps to save long term and short-term tax.

<u>1. Basics of Law:</u>

a) Types of capital gains that are taxed in equities. These are,
i). Short term capital gains
ii). Long term capital gains.

b) If an investor is holding shares listed on a recognized stock exchange (NSE, BSE) for more than 12 months, the gain/loss arising from the sale shall be 'Long' term. Else, it shall be 'Short' term.

c) Now let see the rates of taxes on these gains.

A. Short term gains on the above shall be taxed at 15% u/s 111A if STT (Securities Transaction Tax) is paid. Please note that usually every investor pays STT which is charged at 0.1%, both at the time of buying as well as selling the shares.

B. Long term gains on the above shall be taxed at 10% u/s 112A only on capital gains exceeding Rs. 1 lakh. So, if your long-term gains come at Rs. 3 lacs, then you need to pay Rs. 20,000 (10% of Rs. 2 lakh).

d) Now, few more important things to note here. Resident Individual/ HUF do not need to pay tax if their income is less than Rs. 2.5 lakh. So, if the gains on equities are less than this limit, one need not pay tax (assuming there is no other income)

e) ‘Short’ term loss can be adjusted against both short term gains (taxed at 15%) as well as long term gains (taxed at 10%). However, ‘Long’ term loss can be adjusted only against long term gains (taxed at 10%)

2. Tax Planning Tips

a) The first tax saving tip here is to book short term loss on shares. To simplify, sell the short-term shares in loss before 31st March. By doing this, you are actually using that loss to set off against your short-term gains and hence save tax at 15%.

b) Look at your portfolio, there can be few stocks which you bought during the financial year. If it is making loss, sell them and book the loss on paper at least. Doing this will help you set off it against both short term and long-term gains.

c) Remember this, if you are convinced that the stock is a great buy even though in loss, you can buy again after a couple of days. But selling once and booking loss is helping you save taxes.

d) Also, if you are late in selling, say if you sell the stock in loss after one year, it will become long term loss. So, better to sell them during the FY.

Since as discussed earlier, you cannot set off long term loss against short term gains (taxed at 15%). You will have to set off it against only long-term gains (taxed at 10% and that too after the exemption of Rs. 1 lakh).

e) You must book long term gains on paper every year. Say you have shares that are making you a long-term gain of Rs. 1 lakh, you need not pay tax on this as long-term gain are exempt to the tune of Rs. 1 lakh. So, it is always a smart move to book long term gains every year at least to the tune of the threshold exemption limit Rs. 1 lakh. Remember, this limit of Rs. 1 lakh exemption on long term capital gains is unique for every financial year.

f) Another one important aspect is filing of your income tax return in time. The due date for individual and HUF (non-audit case) is 31st July and for others it is 31st Oct.

g) Belated return filing would mean non eligibility for carrying forward the short term and long-term losses.

3. Carry forward of Losses

a) Short- and Long-term capital loss can be carried forward for 8 assessment years. Again, Long term loss can be carried forward to be used against only long-term gains. Whereas, Short term loss can be carried forward to be used against both short- and long-term gains.

4. Speculation Losses

The losses from intraday trading are tagged as 'Speculation loss' and this cannot be set offset against the regular short term or long-term loss on sale of shares.

Conclusion:

One May
a. Book short term loss before 31st March.
b. Book long term gains to save tax on gains upto Rs. 1 lakh.
c. File the income return on time.