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THREAD: SAVE YOUR TAX ON TRADING INCOME

Investors and traders want to make big money in the stock market. But what about paying taxes. All of them would like to save some chips.

In this thread, you will learn a few smart ways to save on your taxes

Save Your Tax on Trading Income



1. Set-Off Your Losses

Losses from speculative trading can be set off against speculative gains made during a year.

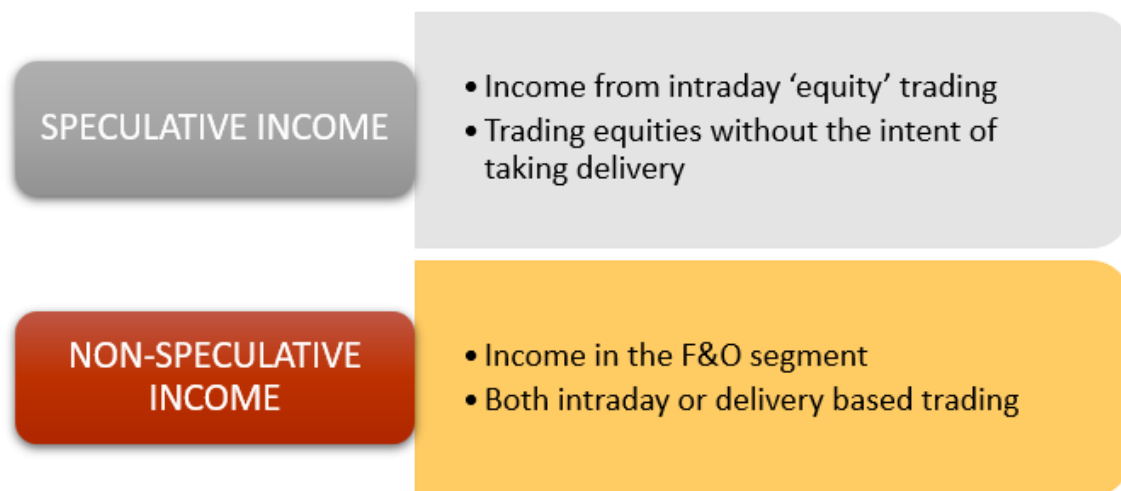
You can carry forward these losses for 4 years.

These losses can't be set off against non-speculative trading income.

Losses from Short Term Non-Speculative trading can be set off against STCG as well as LTCG for the same year.

However, losses from Long Term trading can be set off against LTCG only.

An investor can carry forward such losses for a period of 8 years.



2. Plough Back Your Profits

Exemption on LTCG of up to 1 lac. So, you can plough back these gains to increase your capital.

Example ~

Investment = 5 lacs

Time period = 1 year

Profit = 1 lac

Book this profit after one year and re-invest after a few days.

No tax liability for this 1 lac but this time your new capital invested will be 6 lacs.



In the above example, say you invested 5 lacs and then booked 2 lacs after 2 years.

This way, your Tax liability = 2 lacs (LTCG) – 1 lac (exemption) = 1 lac (taxable)

3. Book Your Short Term Losses

Now we know that STCG losses can be set off against STCG as well as LTCG losses for the same year.

Market	Holding Duration	Capital Gain(FY 2021)
• Equity	• Less than 1 year	• STCG tax - 15%
	• More than 1 year	• LTCG tax - 10% on profits more than 1 lac

STCG – Short Term Capital Gain

LTCG – Long Term Capital Gain

So, it would be prudent to look for those loss-making stocks in your portfolio which have been bought during the current financial year and book loss on them before 31st March.

Example ~

Company A and B shares were bought in May 2021.

Profit of 5 lacs in A and loss of 2 lacs in B.

Book loss of 2 lacs in B before 31st March 2022 and set off your loss in B against profit in A.

Net Taxable Gain = 5 lakhs (Gain in A) – 2 lakhs (Loss in B) = 3 lakhs.

You can again buy those shares back if you like after a couple of days.

It should be noted that you will be able to take advantage of the above provisions only if you file your income tax return on time as late submissions will make you ineligible to fetch these advantages.

4. Open Multiple Demat Accounts

If you want to reduce your taxes, then there is nothing wrong with opening multiple Demat accounts.

You can open one or two Demat accounts on the names of your family members. This would reduce your tax burden to a great extent.



On a single account, you get a tax rebate on an income of 2.5 lacs but with two accounts this goes up to 5 lacs combined.

This also becomes beneficial when you come under a higher tax slab but your spouse or another family member comes under a lower tax slab.

Proper investment in two Demat accounts will help in distributing the tax burden as well.

5. Take Advantage of Business Income Category

Whatever expenses have been incurred to carry out a business activity can be deducted from the speculative income before calculating tax.

Expenses incurred - broadband charges, computers, office rent, salaries paid, cost of books/subscriptions, depreciation of your conveyance, etc.

This provision is not there for LTCG or STCG as they are not considered as business income but capital gains.



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