



WICASA Pimpri Chinchwad

Branch of WIRC of ICAI

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MANAGING COMMITTEE MEMBERS

- ◆ CA. Amod Bhate (Chairman)
- ◆ CA. Yuvraj Taware (Vice - Chairman & WICASA Chairman)
- ◆ CA. Prajakta Chincholkar (Secretary & Treasurer)
- ◆ CA. Ravindra Nerlikar (Immediate Past Chairman)
- ◆ CA. Suhas Gardi (Past Chairman)
- ◆ CA. Santosh Sancheti (MCM)
- ◆ CA. Sachin Bansal (MCM)
- ◆ CA. Anil Agarwal (MCM)

WICASA COMMITTEE MEMBERS

- ◆ CA. Yuvraj Taware (Vice - Chairman & WICASA Chairman)
- ◆ Miss. Rucha Kulkarni (Vice Chairperson)
- ◆ Mr. Omkar Dangale (Secretary)
- ◆ Miss. Riddhi Pandey (Treasurer)
- ◆ Mr. Rohit Kadu (MCM)
- ◆ Mr. Omkar Dhamane (MCM)

WICASA Chairman's Communication

My Dear Students,

Hearties Compliments on the propitious occasion of Teacher's Day. The day is celebrated on the fifth of September every year to venerate the birthday of great philosopher and thinker **Dr. Sarvepalli Radhakrishnan**, our country's second President and an extremely acclaimed academician. On this day we celebrate and acknowledge the contribution made by the teaching community to the society at large in shaping the future of our country. It is none other than the teachers, who mould their students to bring out their hidden talents and skills and impart quality education and prepare good citizens for the nation. As Albert Einstein said, "**It is the supreme art of the teacher to awaken joy in creative expression and Knowledge.**"

Your Principals are your Teacher

In the Chartered Accountancy profession, Principal plays very important role in mentoring the students while providing practical training. Principal is your guide and mentor who is there to handhold you through the course. When in doubt do not hesitate to ask questions to your Principals and other seniors in the firm. As a student, you need to acquire knowledge, skills and adopt strong ethical virtues in your action. In order to be truly global professional of high order, you need to learn high ethical standards that will ultimately help you to discharge your duties in professional life. Thus, I would request you to take the practical training very seriously. It may be highly demanding on your time and efforts but will ultimately help you in gaining real knowledge and improving performance in CA exams.

Kudos and Congratulation

I would like to extend our heartiest congratulations to all those who have cleared May 2018. You have climbed one more rung on the ladder. You must now focus on climbing the next step of the ladder, the path to success is clear and ahead of you and say to yourself that you can achieve your goal and you will.

Those who have not been fortunate to make it this time, take it as a stepping stone towards your goal. Dedicated study, sheer determination and intense commitment will get you there. Everything is easy when you crazy about it and nothing is easy if you are lazy about it.

WICASA Chairman's Communication

Wrap up Points

It is rightly said that one's attitude determines the altitude in life. Life is like a mirror. It will smile at you if you smile at it. When you focus on problems, you will have more problems. When you focus on possibilities you will have more opportunities. Ability is what you are capable of doing; Motivation determines what you do. Attitude determines how well you do what you have to do. You can't live positive life with negative mind. A savant said none can destroy iron, but its own rust can! Likewise none can destroy a person but his own mindset can. Ups and downs in life are important to keep us going, remember a straight line in your ECG means you are no longer alive! So Be Happy, Be Positive and be Grateful and be Joyous!!

With Warm Professional Regards!!

CA Yuvraj D Taware

(Chairman, WICASA Pimpri Chinchwad Branch)

Introduction

Lately, derivative trading (trading in future and options or F&O on stocks, currencies, and commodities) has become a hot topic amongst investors. People are becoming more financially literate and hence many people nowadays prefer investing in stock market as a part of their financial planning. People who were afraid to invest in stock markets and commodity market now have started looking stock market as another option of investing apart from investment in real estate and other traditional investment options. Unfortunately, not many people have clear understanding about tax treatment of their income from trading in stock market. In this article I have tried my best to explain the concept of Future and Option Trading and tax treatment on income derived therefrom.

Basics

Let us first understand the meaning of basic terms in Future and Options Taxation.

- *Derivative:*

A derivative is a security with a price that is derived from one or more underlying assets. The derivative itself is a contract between two or more parties based upon the asset(s) and value is determined by fluctuations in the asset.

E.g. most popular derivative products are swaps, forwards, warrants, options and future trading.

- *A future trade (stock trading):*

It is a contract between two parties to purchase or offer a benefit at a specific time in future on at a specific cost. Such contracts work for the individuals who don't have the cash to purchase now but acquires a specific date in future. This type of agreements utilized for arbitrage by dealers.

- *An Options Trade:*

It gives the purchaser the privilege yet not the commitment. As a purchaser, you may give an alternative to purchase call or put but as a dealer has a commitment to conform to the agreement.

Is it Necessary to report Income to Income Tax Department??

Yes, It is mandatory and in the benefit of tax payer to report earnings from trading in future and options to Income Tax Department. Taxpayers especially those who are salaried but trade in F&O, make the mistake of not reporting these in their tax return. While this may happen due to sheer ignorance; reporting all your sources of income is mandatory. **You may receive a notice from the tax department for non-compliance.**

Confusion about nature of income

We have seen that we need to mandatorily report our income from trading in F & O to IT Department.

But, F&O traders often find it difficult to file their Income Tax return. This is because they are not well aware of the related Income Tax provisions.

➤ ***Business or Capital Gain???***

The biggest confusion the taxpayers face is whether to treat the income from futures and options trading as business income or non-business income. There have always been differences between the taxpayer and tax authorities on the classification of F&O income—whether it is business income or income from capital gains.

CBDT has issued Circular no 6/2016 to guide taxpayers and income tax department about treatment of income earned from trading in stock market. Circular has given some factors which need to be considered while deciding the nature of income.

- ✓ The treatment which assessee has given in his books
- ✓ Quantum of purchase and sale
- ✓ Ratio between purchase and sale
- ✓ Holding period
- ✓ Most importantly, intention of assessee for holding securities

Further, it is possible for assessee to maintain two separate portfolios. An investment portfolio comprising of shares held as capital asset and trading portfolio comprising of shares held as stock in trade.

But, in case of Futures and Options, income is treated as business income unless you have very few transactions.

➤ ***Whether Speculative or Non Speculative???***

In this article, we will see the taxation of income from futures and options if same is treated as business income. When income from Future and option is treated as business income next question may come in mind that whether that business income is speculative or non-speculative??

Let's see What Income Tax Law says:-

Sec 43(5) of Income Tax Acts stipulates that:

"Speculative transaction" means a transaction in which a contract for the purchase or sale of any commodity, including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scrip:

Provided that for the purposes of this clause—

- (a) a contract in respect of raw materials or merchandise entered into by a person in the course of his manufacturing or merchanting business to guard against loss through future price fluctuations in respect of his contracts for actual delivery of goods manufactured by him or merchandise sold by him; ***or***
- (b) A contract in respect of stocks and shares entered into by a dealer or investor therein to guard against loss in his holdings of stocks and shares through price fluctuations; ***or***
- (c) a contract entered into by a member of a forward market or a stock exchange in the course of any transaction in the nature of jobbing or arbitrage to guard against loss which may arise in the ordinary course of his business as such member; ***[or]***
- (d) an eligible transaction in respect of trading in derivatives referred to in clause (ac) of section 2 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956) carried out in a recognized stock exchange; ***[or]***
- (e) an eligible transaction in respect of trading in commodity derivatives carried out in a recognized association, which is chargeable to commodities transaction tax under Chapter VII of the Finance Act, 2013 (17 of 2013),

Shall not be deemed to be a speculative transaction.

Income from trading F&O (both intraday and overnight) on all the exchanges is considered as non-speculative business income as it has been specifically defined this way. F&O is also considered as non-speculative as these instruments are used for hedging and also for taking/giving delivery of underlying contract. Profit / Loss in derivatives (futures and options) is treated as non-speculation business even though delivery is not effected in such transactions

THUS, INCOME FROM TRADING IN FUTURE AND OPTION HAS SPECIFICALLY TREATED AS NON SPECULATIVE BUSINESS INCOME AS PER INCOME TAX ACT

Whether Tax Audit Compulsory??

Section 44AB:

Every person,—

- (a) carrying on business shall, if his total sales, turnover or gross receipts, as the case may be, in business exceed or exceeds one crore rupees in any previous year ; or
- (b) Carrying on the business shall, if the provisions of sub-section (4) of section 44AD are applicable in his case and his income exceeds the maximum amount which is not chargeable to income-tax in any previous year, get his accounts of such previous year audited by an accountant before the specified date and furnish by that date the report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars as may be prescribed.

Thus, when we read Sec 44AB with Sec 44AD of Income Tax Act, we reach to the following Conclusion:

- ✓ In the case of profit from derivative transactions, tax audit will be applicable if the turnover from such trading exceeds Rs. 1 crore
- ✓ Tax Audit u/s 44AB read with Section 44AD will also applicable, if the net profit from such transaction is less than 8%/6% of the turnover from such transaction.
- ✓ **In case of loss** from derivative trading, since profit (Loss in this case) is less than 8%/6% of the turnover, therefore tax audit will be applicable u/s 44AB.

Method for Computation of Turnover

There are Two methods for deciding Turnover:

Under Sec 44AB:

Here, it makes no difference, whether the difference is positive or negative. All the differences, whether positive or negative are aggregated and the turnover is calculated. Therefore Turnover u/s 44AB is aggregate of:-

- ✓ The total of positive and negative or favourable and unfavourable differences shall be taken as turnover.
- ✓ Premium received on sale of options is to be included in turnover.
- ✓ In respect of any reverse trades entered, the difference thereon shall also form part of the turnover.

Let's understand this with an example:

Suppose Mr. X is trading in F & O. He earned **profit** of Rs. 1,500 on 25.04.2017. He further earned **profit** of Rs. 2,500 on 30.04.2017. He suffered **loss** of Rs. 35,000 on 02.05.2017. He again suffered **loss** of Rs. 10,200 on 15.05.2017.

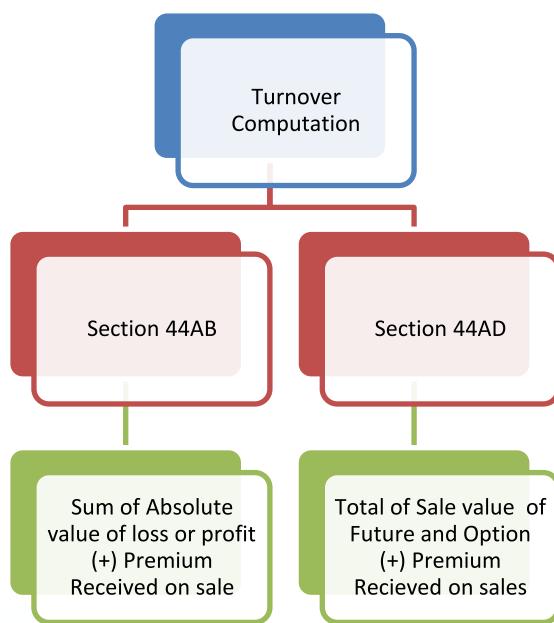
Hence, his turnover for the period from 01.04.2017 to 31.05.2017 = $1,500 + 2,500 - 35,000 - 10,200 = \text{Rs.} 49,200$ under section 44AB

Under Sec 44AD:

Section 44AD: Under the presumptive scheme of taxation, the law gives the small traders an option to declare his income as a percentage of total turnovers. The small trader can disclose his income at any level above 6% of turnover. Earlier, the minimum required to be disclosed was 8% but this was reduced to 6% from 2016-17 onwards. As the payment is always received in banks in case of F&O transactions, they can disclose the income as 6% of turnover. However, in case of F&O trading, as the value of contracts traded is huge, the manner of computation is a bit different. Under this presumptive section, sale value of future and option is taken as turnover.

Let's understand this with an example:

Suppose in above example Mr X has purchased all the securities for Rs. 250,000/- then for the purpose section 44AD Turnover is Rs. 250,000/-

**Carry Forward of Loss from trading in F & O**

F&O trading is a risky business which may result in losses as well. In case a person incurs a loss from trading, it can be set-off against any other income of that year (except salary income). In case the person is unable to set-off this loss, the loss can be carried forward for up to eight financial years and set-off against business income only. It is important to note that F&O losses can be set off against other incomes (except salary) in the financial year in which it is incurred. However, if this loss is carried forward to future years, it can only be set off against business income of that year.

Due Date For Filing of Income Tax Return

30th September: If one chooses to do TAX Audit or want to claim loss on tradingin F & O in his return

31st July: If one's turnover is below Rs. 2 Cr.

Example

- 1) Mr X Purchased Future and options for Rs. 1,69,25,000 and sold for Rs. 1,80,56,000. He suffered/ earned following profits or loss.

Date	Profit/(Loss) (Case 1)	Profit/(Loss) (Case 2)
15.04.2017	25,000	(25,000)
15.05.2017	(7,500)	7,500
16.07.2017	62,000	(62,000)
14.08.2017	(25,000)	25,000
11.09.2017	(6,200)	6,200
30.9.2017	(36,000)	(36,000)
12.10.2017	25,630	25,630
29.11.2017	(14,203)	14,203
13.12.2017	56,000	(56,000)
14.01.2018	32,000	(32,000)
23.02.2018	(9,600)	9,600
16.03.2018	(10,000)	10,000
Total	92,127	(112,867)

So in this example:-

Case 1

Turnover u/s 44AB = Rs. 309,133

$$(25000+7500+62000+25000+6200+36000+25630+14203+56000+32000+9600+10000)$$

Turnover u/s 44AD = Rs. 1,80,56,000

Required to get accounts Audited? – No, as Turnover is below 1 Crore and Profit is also above 6% of Turnover.

How to report In IT Return? – Simply show under PGBP and show profit of Rs. 92,127/-

Due Date of Filing Return: 31st July, If he does not have any other business whose turnover exceed Rs. 2 Cr.

Case 2

Turnover u/s 44AB = Rs. 309,133

(25000+7500+62000+25000+6200+36000+25630+14203+56000+32000+9600+10000)

Turnover u/s 44AD = Rs. 1,80,56,000

Required to get accounts Audited? – **Yes**, as Turnover is below 1 Crore but trader has suffered loss which is below 6% of Turnover.

How to report In IT Return? – Simply show under PGBP and claim loss of Rs. 112,867/-

Due Date of Filing Return: 30th September

Can Loss be Set off? **Yes**, it can be set off against any other head of income except salary.

Can loss be carried forward? **Yes**, Up to 8 years.

Case 3

Suppose in case 1 Profit is only 10,000 which is below 6%, Then Mr X would have 2 options

1. Sec 44AD:- Under this option he must show profit of Rs. 10,83,360 (180,56,000*6%)
2. Tax Audit under sec 44AB

Whether Books are required to be maintained?

Yes, if conditions given under sec 44AA are satisfied. Keeping your trading statements, expense receipts and bank account statements shall mostly suffice. From these your profit and loss account and balance is prepared.

I hope this article will prove helpful in taxation of Income from futures and options. Any mistakes or improvements are always welcome. Thank you.

Compiled By,

Miss. Priyanka Shivaji Patil.

(WRO 0296027)

FORTHCOMING EVENTS IN MONTH OF OCTOBER & NOVEMBER 2018

SR NO	DATE	Topics	Venue	Speaker
1	21.10.2018	Study Circle Meeting on GST	ICAI Bhawan Pimpri-Chinchwad Branch of WIRC of ICAI	CA. Nikhil Kulkarni
2	25.11.18	How to face CA CPT Exam?	ICAI Bhawan Pimpri-Chinchwad Branch of WIRC of ICAI	CA. Jyoti Diwane
3	27.11.18	"WORKSHOP ON GST ANNUAL RETURNS"	ICAI Bhawan Pimpri-Chinchwad Branch of WIRC of ICAI	CA. Govind Chomal
4	28.11.2018	"WORKSHOP ON GST AUDIT"	ICAI Bhawan Pimpri-Chinchwad Branch of WIRC of ICAI	CA. Vaishali Kharade

Events in the Month of August 2018

SR NO	DATE	Topics	Venue	Speaker
1	02.09.2018	Sports For CA Students Badminton, Table Tennis, Football	Chondhe Patil Sports Complex,Pimple Nilakh	NA
2	05.9.2018	Webcast from Head Office for students and members from Board of Studies, ICAI (Celebrating the occasion of “Teachers’ Day” with the theme “MY PRINCIPAL- MY GURU – MY ULTIMATE STRENGTH”)	ICAI Bhawan Pimpri- Chinchwad Branch of WIRC of ICAI	CA. N.D. Gupta, Past President, ICAI
3	15.9.2018	Seminar on Tax Audit	ICAI Bhawan Pimpri- Chinchwad Branch of WIRC of ICAI	CA. S M Vhanbatte, Kolhapur
4	22.9.2018	Seminar on Stress Management & Study Circle meeting	ICAI Bhawan Pimpri- Chinchwad Branch of WIRC of ICAI	Mr. Raghav Sandhane
5	22.9.2018	Felicitation of New Chartered Accountants (Nov 17 & May 18 attempt)	ICAI Bhawan Pimpri- Chinchwad Branch of WIRC of ICAI	CA. S. B. Zaware, Central Council Member of ICAI.
6	25.9.2018	Counselling Session for Mock Test papers Series 1 Foundation, Intermediate & IIPC & Final	ICAI Bhawan Pimpri- Chinchwad Branch of WIRC of ICAI	CA. Komal Baheti

Events Snapshot



Football Competition for CA Students



Badminton Competition for CA Students

Events Snapshot



Table Tennis Competition for CA Students



Study Circle Meeting on Stress Management for CA Students

Events Snapshot

Facitation of New Qualified CA



CA S B Zaware CCM of ICAI felicitating CA Bhawna Mulchandani



Counseling Session on Mock Test Series 1 for CA Students

Events Snapshot

Seminar on Latest Update of Tax Audit Report



CA Sanjay Vhanbhate guiding students

Editorial Board

CA. Amod Bhate
Chairman

CA. Yuvraj Taware
WICASA Chairman

Mr. Omkar Dangale
WICASA Secretary

WICASA PIMPRI CHINCHWAD BRANCH OF WIRC OF ICAI

ICAI Bhawan Plot No. 17/8 A, at Nigdi, Dattanagar, Near Bhakti Shakti chowk, Dehuroad Cantonment Board, Behind Indian Oil Petrol Pump, Pune 411044.
Contact No: 8237119977

Email:- pimpri.chinchwad@icai.org,pimpriicai@gmail.com

Website:-<http://pimprichinchwad-icai.org/>

Instructions

- Update Contact Number and e-mail ID with the branch.
- Please contribute to Students Newsletter in the forms of Articles, Compilations or any other useful information.

DISCLAIMER

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