

# Futures & Options

## Tax, Accounting & Audit Issues



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Namaste

Lots of queries are being raised on taxation, accounting and audit of Futures and Options transactions. This small note has been prepared for the benefit of all, containing only few specific issues including certain common questions shared with me over a couple of years.

### Head of Income under which taxable

According to Proviso (d) and (e) of Section 43(5) of the Income Tax Act, 1961 trading in derivatives of the Securities carried out in a recognised stock exchange and trading in commodity derivatives carried out in a recognised stock exchange, respectively are not speculative transactions.

Hence, trading in Futures and options would not be a speculative business but a normal business income, which could either be a net gain or net loss.

### Determination of Turnover

The method for determination of turnover is not provided under the Income Tax Act, 1961. However, as per generally accepted accounting practice and as per ICAI Guidance Note on Tax Audit, it should be as follows:

- The total of favourable and unfavourable differences (Profit/Loss) shall be taken as turnover (In other words, all the differences, whether positive or negative are aggregated for calculating the turnover).
- Premium received on sale of options is also to be included in turnover.
- In respect of any reverse trades entered, the difference thereon, should also form part of the turnover.

Example of calculation of Turnover of Futures:

Future	Units	Buying Rate	Selling Rate	Total Sell Value	Total Buy Value	Turnover
(A)	(B)	(C)	(D)	(E = B x D)	(F = B x C)	(G)
Nifty	75	18000	17100	Rs. 12,82,500	Rs. 13,50,000	Rs. - 67,500
Tata Power	6750	240	260	Rs. 17,55,000	Rs. 16,20,000	Rs. 1,35,000
Bank Nifty	100	38000	38000	Rs. 38,00,000	Rs. 38,00,000	Rs. 0
<b>Total Turnover</b>						<b>Rs. 2,02,500</b>

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Example of calculation of Turnover of Options:

Options	Units	Buying Rate	Selling Rate	Difference	Premium Received	Turnover
(A)	(B)	(C)	(D)	[E= (B) x (D-C)]	(F= D x B)	(G)
Nifty 18200 CE	100	300	210	Rs. - 9,000	Rs. 21000	Rs. 30,000
Tata Power 240 PE	500	45	70	Rs. 12,500	Rs. 35,000	Rs. 47,500
Bank Nifty 38500 CE	125	348	300	Rs. - 6,000	Rs. 37,500	Rs. 43,500
<b>Total Turnover</b>						<b>Rs. 1,21,000</b>

### Accounting & filing in ITR

Accounting of gains or losses in Futures & Options may be done gain-wise and loss-wise only. For example, in the example given in this document. F&O gain / loss account should be created and loss of Rs. 67500/- and gain of Rs. 135000/- should be entered in this account. It is the choice of the assessee to have a single account for gain and loss or separate account for gain and separate account for loss.

While filling the data in ITR in the Profit & Loss Account, assessee should fill the loss or gain accordingly and nothing should be filled in the column of turnover. This is so, as the determination of turnover is only for the purpose of applicability of audit, TDS or any other similar purpose. Balance Sheet of only the F & O business should be filled in business head.

### Audit

Audit under Income Tax Act would be required only if the business is covered under any of the clauses of section 44AB.

In case an assessee has no other business activity, then audit in case of Futures & Options would be required only where his turnover (as determined above in this document) exceeds Rs. 10 Crores in a financial year. This is so, as transactions in F&O are always through proper banking channels mainly online through RTGS / NEFT / IMPS, etc. hence as per proviso to section 44AB(a), the limit for getting the audit done would be Rs. 10 Crores.

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### Few commonly asked questions

Below are few questions, which have been commonly asked:

S. No.	Question	Answer
1	F&O Turnover is Rs. 3 Crores in AY 2021-22, is tax audit required?	No, as there being no cash transactions, limit for tax audit is Rs. 10 Crores.
2	F&O Turnover is Rs. 80 Lacs & there is a net loss from it, is tax audit required?	No, as the assessee never availed s. 44AD earlier, hence provisions of s. 44AB(e) are not applicable.
3	Salaried employee having no other income, F&O loss is disallowed, why?	This is so as under section 71(2A) loss from business is not allowed to be set-off against salary income.
4	Salaried Individual, having F&O loss, which ITR would be filed?	ITR -3, filing the profit & loss and balance sheet of F&O business.
5	Can an individual claim benefit of s. 44AD in F&O trading?	Yes, there is no restriction, however disclose the actual profits which may be more than 6%.
6	Can an assessee claim expenses against F&O gains?	Yes, actual expenses can be claimed which would include STT, brokerage, cess, etc.

I hope this document is of use to you. I thank CA. Shreya Jain and Mr. Jatin Arora in assisting me to compile this document. Your suggestions and comments would be highly appreciated

Best Regards

CA. PRAMOD JAIN

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(Disclaimer: Though full efforts have been made to state the interpretations correctly, yet the author is not responsible / liable for any loss or damage caused to anyone due to any mistake / error / omission)

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### ABOUT CA. PRAMOD JAIN

He is a commerce graduate [B. Com (H)] from Shri Ram College of Commerce (SRCC). He is a fellow member of the Institute of Chartered Accountants of India (FCA). He is a fellow member of the Institute of Companies Secretaries of India (FCS). He is a fellow member of the Institute of Cost Accountants of India (FCMA). He is a Bachelor of Law (LL.B). He has qualified Information System Auditor [DISA (ICAI)]. He is also a member of All India Management Association (MIMA). He is also an Insolvency Professional (IP). He has also passed the Proficiency Self-Assessment Test for Independent Director's Databank. He has passed certification course NCFM of National Stock Exchange of India (NSE). He has also done certification course CAAT of ICAI. He has also done post qualification certificate course on Valuation of ICAI.

He has been elected as Central Council Member of ICAI for the period 2019 – 2022 and again for the period 2022-2025. Apart from being member in more than 25 committees / groups / directorates of ICAI, he is / was:

- Chairman of Committee on International Taxation (CITAX) for Year 2021-22
- Chairman of Taxation Audit Quality Review Board (TAQRB) for the year 2021-22.
- Chairman of Valuation Standards Board (VSB) for the year 2020-21.
- Chairman of CSR Committee of ICAI for year 2020-21.
- Vice-Chairman of Committee on MSME & Start-up for the year 2021-22.
- Vice-Chairman of Women Members Empowerment Committee (WMEC) - 2021-22.
- Vice-Chairman of Direct Tax Committee (DTC) for year 2019-20 and 2020-21.
- Vice-Chairman of Committee on International Taxation (CITAX) for Year 2019-20.
- Member of ICAI Disciplinary Committee Bench 1 for year 2020-21.
- Nominated as Member of Quality Review Board (QRB) from 2020 to 2022.

He is the conceptualizer of the portal [www.expertspanel.in](http://www.expertspanel.in) which is a one stop solution for all professional queries which has given more than 32000 answers since its launch in year 2018.

He is delivered more than 1400 lectures and articles on various topics of Income Tax, Corporate Laws, LLP, Audits, Peer Review, Quality Review, etc. at more than 200 forums throughout the country. Most of his presentations and articles since 2013 are available for free download from [www.lunawat.com](http://www.lunawat.com) and from 2018 at [www.expertspanel.in](http://www.expertspanel.in) also.

He is president, founder convener and member of various Boards, Directorate, Committees, Study Circles, etc. of ICAI, ICSI and other prestigious bodies and associations. He has been a Technical Reviewer with FFRB and Quality Review Board and Peer Reviewer with Peer Review Board. He has authored more than books 13 books including “Chartered Accountant’s Documentation and Compliance for Audits and Reviews”, Limited liability Partnership – A Complete Resource Book”, and “Accounting Standards and CARO”.