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Decode The Market Code

Taxation for Traders

STCG, LTCG & ITR Filing

How **equity and F&O gains** are actually taxed, when a **tax audit** kicks in, and which **ITR form** to file — with diagrams that make the classification instantly clear before ITR season.

A FREE STUDY RESOURCE BY CHART CODE

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About This Guide

Trader taxation in India splits into two heads. Delivery-based equity held up to 12 months is short-term capital gains under Section 111A, taxed at a flat 20%; held over 12 months it is long-term capital gains under Section 112A, with the first ₹1.25 lakh in a year exempt and the rest taxed at a flat 12.5%. Intraday equity and F&O, by contrast, are business income taxed at your slab rate, not at these flat rates. The right ITR form and any tax-audit requirement then follow from that classification. This explains the general rules for FY 2025-26 (AY 2026-27); it is not personalised tax advice.

By the end of this guide you will be able to:

- Classify trading income correctly into capital gains and business income
- Apply the STCG rate under Section 111A and the LTCG exemption and rate under Section 112A
- Understand why intraday and F&O are taxed at slab rate as speculative and non-speculative business income
- Work out F&O turnover and know when a tax audit or advance tax applies
- Identify the right ITR form (ITR-2, ITR-3 or ITR-4) for your trading activity

Taxation for Traders: STCG, LTCG & ITR Filing

1. Why Every Trader Needs to Get This Right

Two traders can make the exact same ₹2 lakh profit in a year and owe completely different amounts of tax — because it isn't just how much you made that matters, it's how you made it. Delivery-based equity, intraday trades and F&O contracts are taxed under three different rules, and mixing them up is one of the most common (and costly) mistakes traders make at filing time. This guide breaks down how each type of trading income is classified and taxed, when a tax audit or advance tax applies, and exactly which ITR form matches your trading activity — so ITR season stops being a scramble.

NOT PERSONALISED TAX ADVICE

This guide explains the general rules as they stand for FY 2025-26 (AY 2026-27). Your own filing should be confirmed with a chartered accountant, since surcharge, other income and specific transactions can change the numbers.

Section	Concept	Role
2	Gains vs Business Income	Core concept
3	STCG (Sec 111A)	Short-term
4	LTCG (Sec 112A)	Long-term
5	F&O & Intraday	Business income
6	Audit & Advance Tax	Compliance
7	ITR Forms	Filing

2. Capital Gains vs Business Income — Which Bucket Applies?

CORE CONCEPT



Visualising it: delivery-based equity is a capital gain, intraday equity is speculative business income, and F&O is non-speculative business income.

Indian tax law splits trading income into two broad heads: **capital gains** for delivery-based equity investing, and **business income** for intraday and F&O trading. Intraday equity (buying and selling the same script on the same day, without taking delivery) is classified as **speculative business income** under Section 43(5). F&O contracts settled on a recognised exchange are specifically excluded from that speculative definition, so they're taxed as **non-speculative business income** instead — even though no delivery is ever taken.

WHY THIS COMES FIRST

Every other rule in this guide — the tax rate, the ITR form, the audit threshold — depends on getting this classification right for each trade type you engage in.

3. STCG on Equity — Section 111A

SHORT-TERM



Visualising it: a buy and sell within 12 months gives a short-term capital gain, taxed at a flat 20%.

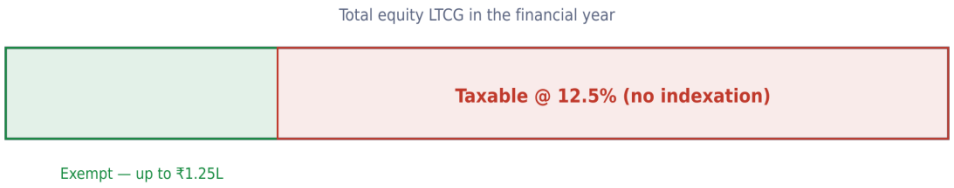
When listed equity shares or equity-oriented mutual fund units are sold within 12 months of purchase — through a recognised stock exchange, with Securities Transaction Tax (STT) paid — the profit is a short-term capital gain under Section 111A. It is taxed at a flat **20%**, regardless of your income slab, with no indexation benefit and no Chapter VI-A deductions allowed against it. This rate was raised from 15% to 20% by Budget 2024, effective for sales from 23 July 2024 onward, and continues unchanged for FY 2025-26.

FORMULA

STCG = Sale Price − Purchase Price − Brokerage, STT & Other Transaction Costs. Tax = STCG × 20% (plus applicable surcharge and 4% cess).

4. LTCG on Equity — Section 112A

LONG-TERM



Visualising it: the first ₹1.25 lakh of long-term equity gains in a year is exempt, and the rest is taxed at a flat 12.5% with no indexation.

Sell the same listed equity shares or equity mutual fund units after holding them for more than 12 months, and the gain qualifies as long-term under Section 112A. The first **₹1.25 lakh** of such gains in a financial year is exempt from tax; anything above that is taxed at a flat **12.5%**, with no indexation benefit available. This exemption limit and rate, set by Budget 2024 and carried forward unchanged in Budget 2025-26, apply for FY 2025-26 (AY 2026-27) as well.

WORTH KNOWING

The Section 87A rebate that can bring tax to zero for lower total incomes does *not* apply to gains taxed under Section 111A or 112A — these are taxed at their special rates regardless of your other income.

5. F&O & Intraday — Business Income, Not Capital Gains

BUSINESS INCOME



Visualising it: both are taxed at slab rate, but speculative losses carry forward for 4 years and non-speculative losses for 8 years.

Neither intraday equity nor F&O profit gets the flat STCG/LTCG rates — both are added to your total income and taxed at your regular slab rate, whatever tax regime you've chosen. The difference

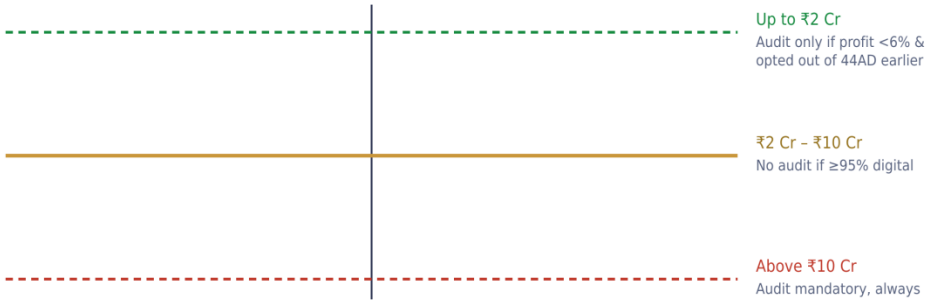
between them matters mainly for losses: speculative losses (intraday) can only be set off against other speculative gains and carried forward for 4 years, while non-speculative losses (F&O) can be set off against any business income (except salary) and carried forward for 8 years.

COMMON CONFUSION

A profitable F&O year can still mean zero extra tax if it's fully offset by a carried-forward business loss — but only if that loss was reported correctly in the year it occurred, which requires filing on time.

6. Tax Audit & Advance Tax for Traders

COMPLIANCE



Visualising it: three turnover bands, up to ₹2 crore, ₹2 crore to ₹10 crore, and above ₹10 crore, each with its own audit condition.

For F&O and intraday trading, "turnover" isn't the value of contracts traded — it's the sum of the absolute value of profits and losses across all trades in the year. This turnover figure decides whether a tax audit under Section 44AB applies: broadly, audit is required above ₹2 crore turnover if declared profit is below 6% of turnover and presumptive taxation (Section 44AD) hasn't been used in the preceding years; it's generally not required between ₹2 crore and ₹10 crore if at least 95% of transactions are digital; and it's mandatory above ₹10 crore turnover regardless of profit.

Separately, **advance tax** applies once your total estimated tax liability for the year (including trading profits) exceeds ₹10,000. It's paid in instalments — 15% by 15 June, 45% by 15 September, 75% by 15 December, and 100% by 15 March — rather than as a lump sum at filing time, and interest under Sections 234B/234C applies if instalments are missed.

HOW TO USE IT

Calculate your running F&O/intraday turnover at least quarterly, not just once a year — a sudden spike in trade volume can cross an audit threshold well before you expect it.

7. Which ITR Form to File

FILING



Visualising it: capital gains only points to ITR-2, F&O or intraday with regular books to ITR-3, and presumptive taxation to ITR-4.

If your only trading-related income is capital gains from delivery-based equity — alongside salary, house property or other income — **ITR-2** is the right form. The moment F&O or intraday trading enters the picture, that income is business income, which ITR-2 cannot report: you need **ITR-3** if you maintain regular books, or **ITR-4** if you opt for presumptive taxation under Section 44AD with turnover within the eligible limit.

> WHY TRADERS GET THIS WRONG
> It's common to keep filing ITR-2 out of habit after starting F&O trading, since capital gains reporting still looks fine — the missing business income is what draws scrutiny later.

8. Quick Reference: What's Taxed How

A single table to check which rule applies to a given trade type:

Income type	Tax treatment	Rate	Typical ITR
Equity, held ≤ 12 months	STCG — Section 111A	20% flat	ITR-2 / ITR-3
Equity, held > 12 months	LTCG — Section 112A	12.5% above ₹1.25L/yr	ITR-2 / ITR-3
Intraday equity	Speculative business income	Slab rate	ITR-3
Futures & Options	Non-speculative business income	Slab rate	ITR-3 / ITR-4
Dividends	Income from other sources	Slab rate	ITR-2 / ITR-3

9. Common Tax Mistakes Traders Make

1. **Mixing capital gains with business income:** Reporting F&O profit as a capital gain (or vice versa) misstates both the tax rate and the ITR form.

2. **Writing off F&O losses as "not real money":** Unreported F&O losses can't be carried forward — that relief has to be claimed in the year the loss occurs.
3. **Only checking turnover at year-end:** Audit-threshold crossings are easier to plan for when turnover is tracked through the year, not discovered in March.
4. **Skipping advance tax on trading profits:** A profitable quarter still creates an advance tax obligation, with interest accruing if instalments are missed.
5. **Filing ITR-1 or ITR-2 despite F&O activity:** These forms can't carry business income — F&O or intraday activity needs ITR-3 or ITR-4.
6. **Not keeping contract notes and P&L statements:** Reconstructing a year of trades after the fact is far harder than exporting reports as you go.

Knowing the rules is step one — building a trading plan and risk process around them is what we cover hands-on in our structured courses at Chart Code, offline in Boisar or live online anywhere in India.

10. Your ITR Filing Checklist for Traders

Before you sit down to file, run through this five-point check:

- **Classification confirmed** — Do you know which of your trades are capital gains and which are business income?
- **Turnover calculated** — Have you computed F&O/intraday turnover to check whether a tax audit applies?
- **Correct ITR form identified** — Have you matched your trading mix to ITR-2, ITR-3 or ITR-4?
- **Advance tax reviewed** — If your estimated liability crosses ₹10,000, have quarterly instalments been paid?
- **Documentation ready** — Contract notes, broker P&L and tax reports, and bank statements — all in one place?

EDUCATIONAL CONTENT ONLY

This guide is educational. It is not personalised tax advice or investment advice, and trading involves risk of loss. Confirm your own filing with a chartered accountant, and verify rules with the official sources listed at the end of this guide.

11. Practice Exercises: Apply It to Your Own Trades

Reading a concept is not the same as applying it. Work through these using your own trade history and broker reports, and treat the results as practice, not proof. No real orders needed.

1. **Sort last year's trades:** List your trades from the year and sort each into delivery equity, intraday equity or F&O. This bucket decides which tax rule applies to it.
2. **Check your holding periods:** For your delivery equity trades, mark which were held 12

months or less and which were held longer, since that decides STCG versus LTCG treatment.

3. **Calculate your F&O turnover:** Using the absolute-value method described in this guide, add up the profit and loss across your F&O trades for the year to get your turnover figure.
4. **Match yourself to an ITR form:** Based on your mix of income, work out whether ITR-2, ITR-3 or ITR-4 fits your year, and note it down to confirm with a chartered accountant.

12. Frequently Asked Questions

Is the 20% STCG rate for all short-term gains, or only equity?
The flat 20% rate under Section 111A applies only to short-term gains on listed equity shares and equity-oriented mutual funds sold within 12 months, where STT has been paid. Short-term gains on other assets, like unlisted shares or property, are added to your income and taxed at your regular slab rate instead.

Do I owe tax on equity LTCG even if my total income is below the basic exemption limit?
Long-term capital gains on listed equity above the ₹1.25 lakh annual exemption under Section 112A are taxed at a flat 12.5%, computed separately from your other income. The Section 87A rebate that can zero out tax for lower incomes does not apply to gains taxed under Section 111A or 112A.

What exactly is "turnover" for F&O trading, and why does it matter?
F&O turnover is not the total value of contracts traded — it is the sum of the absolute value of profits and losses across all trades in the year. This turnover figure decides whether a tax audit under Section 44AB applies and whether you're eligible for presumptive taxation under Section 44AD.

Which ITR form should a stock market trader use?
A trader with only capital gains from delivery-based equity, and no F&O or intraday activity, generally files ITR-2. Anyone with F&O or intraday trading, treated as business income, must file ITR-3, or ITR-4 if opting for presumptive taxation under Section 44AD within the eligible turnover limit.

Do traders need to pay advance tax on trading profits?
Yes. If your total estimated tax liability for the year exceeds ₹10,000, advance tax applies to trading profits just as it does to any other income, payable in quarterly instalments through the financial year rather than as a single amount at filing time.

Is F&O trading profit taxed the same way as equity capital gains?
No. F&O profit is non-speculative business income taxed at your regular slab rate, not at the flat STCG or LTCG rates that apply to delivery-based equity. Intraday equity is also business income, but classified as speculative rather than non-speculative.

When is a tax audit required for a trader?
For F&O and intraday trading, audit under Section 44AB is broadly required above ₹2 crore turnover if declared profit is below 6% of turnover and presumptive taxation under Section 44AD was not used in preceding years, generally not required between ₹2 crore and ₹10 crore if at least 95% of transactions are digital, and mandatory above ₹10 crore turnover regardless of profit.

14. Related Guides and Official Sources

Continue learning with these free guides from Chart Code:

- How to Open a Demat Account in India: Complete 2026 Guide
- Futures Trading in India: Beginner's Guide
- Stock Market Basics for Beginners (2026)
- Crypto Trading Basics: BTCUSD & ETHUSD

Verify rules, contract details and data with the official sources below:

- Income Tax Department — rules, forms and e-filing
- SEBI Investor Website — investor education and regulation

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