Take tax advantage for losses made in equities

You can carry forward losses for up to 8 years and set it off against future capital gains

If you were trading in stocks and made losses in the past financial year, don't lose heart. These losses can help you save tax in the future. According to income tax (I-T) rules, a person can adjust capital losses of one financial year against gains made in the subsequent eight years.

There are, however, some caveats. When a person buys and sells capital assets (stocks, gold, and debt), the tax he needs to pay depends on the tenure of the holding. For equities, any transaction made within a year leads to short-term capital gains (STCG) or short-term capital loss (STCL). In case the holding period exceeds a year, there's no tax on gains. For debt, gold and property the short-term gain/loss period is three years and transactions made thereafter lead to long-term capital gains (LTCG) or loss (LTCL).According to the Income Tax Act, a person can use STCL against STCG, as well as LTCG. However, if there's LTCL, it can only be used against LTCG. A person trading in shares suffered overall losses of Rs 5 lakh. He/she will need to segregate losses made on investments that were held for less than a year and more than a year. Say, the STCL was Rs 4 lakh and LTCL was Rs 1 lakh. He/she also made STCG of Rs 2 lakh and LTCG of Rs 50,000.

In this case, the person cannot set off long-term losses against gains, as the latter does not attract any tax. However, he/she can adjust short-term loss against short-term gains. This means, he/she will end up with STCL of Rs 2 lakh (Rs 4 lakh - Rs 2 lakh), which he/she can carry forward up to eight years.

"Taxpayers can benefit from this only if they file taxes on time. In case of delays, one cannot carry forward losses," says Vikram Ramchand, founder, Makemyreturns.com. To make the most of this provision, the person can also set off capital losses from equities against capital gains in debt investments such as debt mutual funds.

Experts say one needs to be cautious if trading in futures and options. In this case, the taxpayer will need to file return as a business owner, according to the norms. In such cases, losses will be considered as loss in business, and the individual can still carry it forward for eight years. Then, there's a separate provision for those conducting intra-day trades, says Alok Agrawal, senior director, Deloitte Haskins & Sells. Such gains/losses are considered 'speculative businesses'. The losses in this case can only be adjusted against gains made in 'speculative business' and can be carried forward only for four years.

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