

TAX ON YOUR EQUITY INVESTMENT

⇒ Dividend income on your equity investment

Dividend received on your equity investment is tax-free in your hands.

⇒ Capital gains on your equity investment

When you hold equity investments for 12 months or less before selling them, they are considered as short-term capital assets. If you hold these investments for more than 12 months before selling them, they are considered as long-term capital assets.

Computing date of holding of your equity investments

Shares acquired as a gift

Where you have been gifted equity, the period for which the shares were held by the previous owner (the person who gave you the gift) is to be included in your holding period. The cost of the shares incurred by the donor of the gift is considered to be your cost.

Right shares

Where you have been allotted right shares, the period of holding will be computed from the date of allotment of the shares. The amount actually paid for purchase of the rights shares is taken as cost of the shares.

Rights entitlement

Where you have received rights entitlements, which you have renounced, the period of holding will be computed from the date of offer to subscribe to the shares to the date when such rights entitlement was renounced by you. The cost of rights entitlement is taken as NIL. The amount you receive on selling your rights entitlement is taken as short-term capital gain.

Bonus shares

When you receive bonus shares, the period of holding is computed from the date of allotment of the bonus shares. Cost of bonus shares is taken as NIL.

Purchase from the stock exchange

When you purchase shares from the stock exchange, the date of purchase is taken as the date on the broker's purchase contract note. Similarly, the date of sale is taken as the date of the broker's sale contract note. When you purchase and sell your investments in lots in different points of time, you need to apply the First-in-first-out (FIFO) method. This means that the investments purchased first will be treated as sold first.

Computing the capital gain

Computing capital gain on short-term equity investments (short-term capital gain)

Sale value

Minus: brokerage on sale

Minus: Cost of purchase (including brokerage on purchase)

Balance is short-term capital gains

No tax deduction is available under sections 80C to 80U in case of short-term capital gains. No tax deduction from capital gains will be allowed on Securities Transaction Tax (STT) payment.

Computing capital gain on long-term equity investments (long-term capital gain)

Long-term capital gains earned on your equity investment is completely tax-free so there is no question of computing gain for tax purposes. However, this exemption is available only when you sell your equity through the stock exchange.

Tax on capital gains

As stated above, long-term capital gain on equity is tax free.

Short-term capital gains on equity shares are taxed at a flat rate of 10% (plus surcharge, if applicable to you, plus education cess).

⇒ **Setting off capital losses**

Long-term capital losses

Since long-term capital gains earned on your equity investment are tax-free, long-term capital losses incurred on your equity investment cannot be used to reduce taxable capital gains.

Short-term capital losses

Short-term capital losses incurred on your equity investment can be set off against any capital gain (long-term or short-term). If in the current year you don't have any taxable capital gain to set off the loss against, you can carry forward this loss for 8 years and set it off against any future taxable capital gain (long-term or short-term).