No requirement of scrip wise reporting for day trading and short-term sale or purchase of listed shares

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There was a report in certain section of media that stock traders/day traders are required to furnish scrip wise details in the return of income for AY 2020-21. The gain from share trading in case of stock traders or day traders is generally categorised as short-term capital gains or business income. This is because their holding period of shares/units in most of the cases is less than one year which is a prerequisite for the gains to be categorised as long-term capital gains. As there is no requirement in the return of income for scrip wise reporting in case of short-term/business income arising from share transactions, these reports are distorted and misleading.

The Finance Act, 2018 allowed exemption to the gains made on the listed shares/specified units up to 31.01.2018 by introducing grandfathering mechanism for computation of long-term capital gains for these shares. The scrip wise details in the return of income for AY 2020-21 is required to be filled up only for the reporting of the long-term capital gains for these shares/units which are eligible for the benefit of grandfathering.

As the grandfathering is to be allowed by comparing different values (such as cost, sale price and market price as on 31.01.2018) for each shares/units, there is a need to capture the scrip wise details for computing capital gains of these shares/units. The scrip wise details are not required in income tax return forms for AY 2020-21 for computation of capital gains/business income from shares/units which are not eligible for grandfathering.

Without this reporting requirement, there may be situations where taxpayer may not claim or wrongly claim the benefit of grandfathering due to lack of understanding of the provisions. Also, if the above calculation is not made scrip wise and taxpayer is allowed to enter the total figures only, there will be no way for the income tax authorities to check the correctness of the claim and therefore many returns will require to be audited, which may lead to unnecessary grievances/rectifications at a later stage. If scrip wise long-term gain is available, it can be cross verified by the Department electronically with stock exchange, brokerage companies, etc and there will be no need to subject these income tax returns to further audits or scrutiny.

Thus, the main intent behind requiring scrip wise detail is to facilitate the taxpayer in correctly computing the long-term capital gains on these shares/units. Requirement to provide scrip wise information in the income tax return is not unique to India. Internationally also, the taxpayer is required to provide scrip wise information for reporting capital gains. For example in USA, a taxpayer having capital gains from transfer of shares is required to fill scrip wise details in Schedule-D of Form 1040 – income tax return form in USA.

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