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Tips for Traders and Investors in Stock & Mutual Funds



Rajan Rauniyar

June 13, 2024

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few more minutes to find out.

A few years earlier, most of the taxes from mutual funds, dividends, and long-term capital gains were exempt, which encouraged most salaried and self-employed people to invest in the stock market. But now, things have changed, and the government has been a bit aggressive towards investors and traders.

However, with some knowledge of taxation and tax planning, you can save more than INR 150,000 in taxes every year. This article will introduce some easy smart tax-saving tips for traders and investors.

First Things First: The Basic Understanding of Tax Terms & Rules

Before I directly explain to you how to save taxes or tax saving

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explicitly to Stock Trading and Mutual Funds. It may not apply to selling other capital assets like house property or land.

Capital Gain: Any profit derived from selling a stock, debt, equity, mutual fund, bond, capital assets, etc. is Capital Gain.

- **Capital Gain** = Sale Proceeding – Purchase Price – Expenses
- **Taxability:** A flat rate of 10.4% (including Cess) or 15.6% (including Cess) is charged on capital gain depending on the holding time.

Long Term Capital Gain

(LTCG): Whenever you sell stocks/ equity/ shares or equity mutual fund after holding it for more than 12 months, the profit/loss derived from it is called long-term capital gain/loss.

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equity/shares or mutual funds after holding them for less than 12 months, the profit/loss derived from them is called short-term capital gain/loss.

- **Taxability:** Straight 15.6% (including Cess)

Equity Mutual Fund: Mutual funds with more than 65% allocation in equity.

- **Taxability:**
 1. **LTCG:** If you hold mutual funds for more than one year, the profits will be exempt up to 1 lakh, and the rest will be taxed at 10%.
 2. **STCG:** If you hold mutual funds for less than one year, the profits will be taxed at 15%.

Debt Mutual Fund: Mutual fund with less than 65% equity allocation.

- **Taxability:**

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Note: Profits from Debt

Mutual funds are considered LTCG only when the holding period is at least 36 months. (While for all other transactions, long term is considered when holding for at least 12 months for Debt Mutual Fund its 36 Months. Therefore, you must wait longer to pay taxes at lower rates.)

2. **STCG:** If you hold debt mutual funds for less than three years, the profits will be taxable at standard slab rates.

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10 Tax Saving Tips for Traders & Mutual Funds

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- [Keep it Under the Exemption Limit](#)
- [Buy Residential Property](#)
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- [Keep All Expense Record](#)
- [Use the Power of Indexation](#)
- [Manage Your Portfolio](#)
- [Trade as Business Entity](#)

As you now know, the basic terminologies and taxability on capital gains. Let's move forward towards saving taxes.

As an investor, your returns could be cut from 20% to 16% if you don't plan your taxes correctly. The tax saving tips for traders given below are not based on loopholes or exploitation of relaxations.

These traders tips for tax saving are 100 percent legal and genuine methods of saving tax. Indian government

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 Invest In ELSS The first and foremost tax saving option is to claim an 80C deduction in your income tax returns.	 Invest for Longer Run As mentioned above, LTCG is taxed at lower rates (10% than STCG (15%)).
 Be Clever with Dates The most important reason to tell you about STCG and LTCG at the beginning of the article was to enlighten you about the importance of dates.	 Keep it Under the Exemption Limit An exemption of 1 lakh is granted for LTCG. If you are not a high-value regular investor.
 Buy Residential Property Probably the most helpful tip for investors.	 Reinvest In Notified Bond If you already own a residential house you can't claim the deduction under section 54, as mentioned above.
 Keep All Expense Records As I have mentioned earlier, Capital gain = Sale Proceeding - Purchase Price - Expenses	 Use the Power of Indexation All the tips to save tax above were mostly for stock and equity mutual funds, but now it's time for debt equity funds.
 Manage Your Portfolio Accept that there will not always be profits if you are trading in stocks.	 Trade as Business Entity If you are a high-value trader with your primary source of income being stock trade and investments.

- **Invest In ELSS**

The first and foremost traders tips for tax saving option is to claim an 80C deduction in your income tax returns. ELSS is an equity mutual fund that is eligible for deductions. If you invest 1,50,000 every year in an ELSS, you can save 46,800 (assuming your annual income is more than 10 lakhs).

The best part about ELSS savings is you can save tax with this investment whether you are salaried, self-employed, or professional.

- **Invest for Longer Run**

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year to save the excess 5% on the gain. Besides, an exemption limit of 1 lakh is also applicable for LTCG, which you can't avail of for STCG.

- **Be Clever with Dates**

The most important reason to tell you about STCG and LTCG at the beginning of the article was to enlighten you about the importance of dates.

Always record your purchase dates and plan before you want to sell stock. You can sell stocks or mutual fund holding for a few days more to fall in the lower tax rates of LTCG.

Example

Suppose you have invested in an IPO on 31st December 2021, and you want to sell the stock after one year, try to sell it after 1st January 2023. If you sell the stocks on or before completion of one year (which

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- **Keep it Under the Exemption Limit**

An exemption of 1 lakh is granted for LTCG. If you are not a high-value regular investor, you can plan your stocks or mutual funds so that capital gains do not exceed the exemption limit.

To do this correctly, you need to understand a financial year. The financial year starts on 1st April of the year and ends on 31st March of the subsequent year. Any profits made during this period are referred to as Capital Gain for the year.

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Buy Residential Property*

Probably one of the most helpful tax saving tips for traders and investors. If Even after all the deductions, exemptions, and planning, you have a significant amount of LTCG, buy a residential house, and the LTCG will be exempt from taxes. (Section 54, Finance Act).

Example

You have bought stocks at 20 lakhs and sold them at 51 lakhs after holding them for more than 1 Year (Equity) or 3 years (Debt Mutual Fund). Here is how much you will be taxed if you don't buy a residential house.

Capital Gain = 51 lakh - 20 lakh = 31 lakh

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**Tax Liability = 30 lakh *
10.4 % (Tax + Cess on
LTCG) = 3 lakh 12
thousand.**

Invest the entire sale
proceedings (51 lakh) in
buying a new residential house
within one year from the date
of the sale and save the entire
tax of 3 lakh 12 thousand.

- **Reinvest In Notified
Bond***

If you already own a
residential house, you can't
claim the deduction under
section 54, as mentioned
above. Although, you can
reinvest the sale proceedings
of long-term capital holdings
in notified Government bonds
or securities.

You must buy the bond or
security within months 6
Months from the date of sale
of capital asset to claim the

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As I have mentioned earlier,

$$\begin{aligned}\text{Capital Gain} &= \text{Sale} \\ &\text{Proceeding} - \text{Purchase} \\ &\text{Price} - \text{Expenses}\end{aligned}$$

Most rookie investors make the same mistake of not recording the brokerage, commission, and other charges incurred while buying and selling stocks.

Claiming incurred expenses lowers Capital gain, which in turn reduces taxes. Keeping all the correct data through an excel sheet or portfolio management app would help you to save on taxes.

- **Use the Power of Indexation**

All the tips to save tax above were mostly for stock and equity mutual funds, but now it's time for debt equity funds. Debt funds are generally

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If you buy a debt-mutual fund of NRV 1000 and sell it at 1500 after 5 years.

In Normal Cases (Stocks and Equity Mutual Funds):

$$\text{Profit} = 1500 - 1000 = 500$$

This is not the case with the LTCG of debt fund. You can adjust cost inflation from a specified chart. For example, if the corresponding index rate is 100 on buying date and 120 on the selling date, the Capital Gain will be calculated as

For Long Term Debt Fund:

$$\text{Profit} = 1500 - [1000 * (120/100)] = 300$$

Indexations is a complex topic that you should leave to professionals or [income tax software](#) like ClearTax.

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ings.](#)[TJ News](#)

Portfolio

Accept that there will not always be profits if you are trading in stocks. Most people think loss is useless, but even a broken clock is right twice a day, and so is the case with losses. You can set off your losses with your profits in the same year or subsequent years.

1. Short Term Capital Loss:

STCL could be set off against any other STCG or LTCG in the same year for the next eight years.

2. Long Term Capital Loss:

LTCL could be set off only against LTCG in the same year or could be carried forwarded for the next eight years.

The key points of tips for traders is that you should note are keeping accurate records of the losses and profits you make to set off the loss with

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IT and TDS Returns

- **Trade as Business Entity**

If you are a high-value trader with your primary source of income being stock trade and investments, it is advised that you move to a higher level and trade stocks as an entity rather than just as a source of income.

The best benefit of among this tips for traders is the income will be treated as business income rather than capital gain. Capital Gain taxes are calculated directly on all the profits made on sales, while business income is calculated only after deducting all expenses.

You can claim all other expenses that you have incurred to earn this income like rent, depreciation, salary,

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is a simple example for basic understanding.

If you have brought stocks of 10 lakh and sold them at 15 lakhs in six months. Expenses incurred are 20K as brokerage.

Capital Gains as an Income source:

**Capital Gain = 10 lakh –
15 lakh – 20 thousand =
4 lakh 80 thousand**

**Taxes = 15.6% *
4,80,000 = 74,880**

As Business Income:

**Profit = 4,80,000 – Rent
– depreciation
(computer, furniture of
office, smartphone) –
bills (internet,**

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Therefore, trading as a business could save a lot of taxes if you are a high-volume trader. Low-volume traders shouldn't trade as a business because it's complicated and requires meeting many government compliances.

How Can You Calculate Your Taxes Accurately with ClearTax?

[ClearTax Income Tax Software](#)

can help you calculate your tax liabilities and save your taxes correctly. ClearTax is used by thousands of taxpayers and small businesses all over India to manage their income tax and GST. ClearTax can help you to:

- Accurately calculate all the Capital Gains based on the date of acquisition and sales.

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appreciate capital gains.

- Set off the losses with profits of subsequent years as per the regulation.

**These exemptions come with multiple clauses and exceptions. Please take professional advice if opting for any of these exemptions.*

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compliances, Tally Accounting, and financial nuances. He is an expert in FinTech solutions and loves writing about the vast scope of this field and how it can transform the way individuals and businesses... [Read more](#)

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