

TOPIC- SET OFF AND CARRY FORWARD OF LOSSES

INTRODUCTION

Set off and carry forward of losses is a tax benefit which can reduce the quantum of gross total income as well as the tax liability of an Assessee.

STEP I: INTRA-HEAD OR INTER-SOURCE ADJUSTMENT: adjustment of negative incomes of different sources of income under same head of income.

STEP II: INTER-HEAD ADJUSTMENT: adjustment of negative incomes under different head of income.

- **STEP III: CARRY FORWARD OF LOSSES:** unadjusted negative income of current assessment year carried on to the subsequent assessment year or years and adjusted against the income of the subsequent assessment years or years.

INTRA-HEAD OR INTER-SOURCE ADJUSTMENT (SECTION 70)

Nature of loss	Exception
<ul style="list-style-type: none"> • Long –term capital loss (LTCL) 	<ul style="list-style-type: none"> • Only long-term capital gain(LTCG)
<ul style="list-style-type: none"> • Short-term capital loss (STCL) 	<ul style="list-style-type: none"> • Both LTCG and short-term capital gain(STCG)
<ul style="list-style-type: none"> • Loss from speculative business 	<ul style="list-style-type: none"> • Only profit from speculative business
<ul style="list-style-type: none"> • Loss from non-speculative business 	<ul style="list-style-type: none"> • Both from profit of speculative or non-speculative business
<ul style="list-style-type: none"> • Loss from specified business u/s 35AD 	<ul style="list-style-type: none"> • Only profit from other specified business
<ul style="list-style-type: none"> • Loss from non-specified business 	<ul style="list-style-type: none"> • Both profit from specified or non-specified business
<ul style="list-style-type: none"> • Loss from owing and maintaining race horses 	<ul style="list-style-type: none"> • Only profit from owing and maintaining race horses
<ul style="list-style-type: none"> • Loss from any other sources under the head ‘income from other sources’ 	<ul style="list-style-type: none"> • Profit from owing and maintaining race horses.
<ul style="list-style-type: none"> • Casual losses i.e., loss from lottery, card games, horse race, crossword puzzles, gambling, etc. 	<ul style="list-style-type: none"> • Any casual income
<ul style="list-style-type: none"> • Loss from exempted sources of income as per section 10 	<ul style="list-style-type: none"> • Cannot be set off against the income from taxable source.

INTER-HEAD ADJUSTMENT (SECTION 71)

Heads of Income	Exception
<ul style="list-style-type: none"> ● Loss under the head 'Capital Gain' 	<ul style="list-style-type: none"> ● Loss under the head 'Capital Gains' cannot be set off against income under any other heads of income [Section 71(3)]. ● Loss under any other heads can be set off against the income under the head 'Capital Gains' [Section 71(2)].
<ul style="list-style-type: none"> ● Loss from speculative business under the head 'profits and gains of business or profession' 	<ul style="list-style-type: none"> ● Loss from speculative business cannot be set off against any other heads of income [73(1)]. ● Loss under any other heads of income can be set off against profit from speculative business.
<ul style="list-style-type: none"> ● Loss from non-speculative business under the head 'profits and gains from business or profession' 	<ul style="list-style-type: none"> ● Loss from non-speculative business cannot be set off against 'income from salaries' but from any other heads of income [Section 71(2A)]. ● Loss under any other heads of income can be set off against profit from non-speculative business.
<ul style="list-style-type: none"> ● Loss from a specified business U/S 35AD under the head 'profits and gains from business or profession' 	<ul style="list-style-type: none"> ● Loss from specified business cannot be set off against any other heads of income. ● Loss under any other heads of income can be set off against profit from specified business.
<ul style="list-style-type: none"> ● Loss from owning and maintaining race horses under the head 'income from other sources' 	<ul style="list-style-type: none"> ● Loss from owning and maintaining race horses cannot be set off against any other heads of income. ● Loss under any other heads of income can be set off against profit from owning and maintaining race horses.
<ul style="list-style-type: none"> ● Casual loss under the head 'income from other sources' 	<ul style="list-style-type: none"> ● Casual loss cannot be set off against any other heads of income. ● Loss under any other heads of income cannot be set off against casual incomes.
<ul style="list-style-type: none"> ● Loss under the heads 'income from house property' 	<ul style="list-style-type: none"> ● Loss in excess of Rs. 2,00,000 under the head 'income from house property' cannot be set off against any other heads of income i.e., upto Rs. 2,00,000 can be set off against any other heads of income [Section 71(3A)]. ● Loss from any other heads of income can be set of against positive income under the heads 'income from house property'.

Intra-head and inter-head set off of losses

Nature of losses	Intra-head adjustment (section 70)	Inter-head adjustment (section 71)
Losses of speculation business	Can be set off only against the profit in a speculative business.	Cannot be set off against any other heads of income.
Losses from non-speculation business(including depreciation)	Can be set off against income from speculation and non-speculation business	Can be set off against any other heads of income, except the head 'income from salaries'.
LTCL	Can be set off only against the LTCG	Cannot be set off against any other heads of income.
STCL	Can be set off against LTCG and STCG	Cannot be set off against any other heads of income.
Losses from house property	Can be set off against income from house property	Can be set off against any other heads of income (maximum limit Rs.2,00,000).
Losses from the activity of owing and maintaining race horse	Can be set off against the particular business i.e., the business of owing and maintaining race horses.	Cannot be set off against any other heads of income.
Losses from an activity under the head 'income from other source' (other than business of owing and maintaining race horses)	Can be set off against any income but other than winning from lotteries, crossword puzzles etc.	Can be set off against any other income.

Carry forward of losses

Section	Nature of losses to be carry forward	Income against which carry forward loss can be set off in subsequent year(s)	Maximum period loss can be carry forward (immediately succeeding the relevant A/yr.)	Continuation of existence of the source	Necessity of submission of return of loss in time [sec 139(1)]
71 B	House property loss	Income under the head 'income from house property'	8 years	Not necessary	No
73	Speculation loss	Speculation profit	4 years	Not necessary	Yes

72	Non-speculative business loss (A) On account of unabsorbed depreciation, capital expenditure on scientific research and family planning.	Any income (except income from salaries)	No time limit	Not necessary	No
	(B) Other remaining business loss	Any business profit (whether from speculation or otherwise)	8 years	Not necessary	Yes
74	Capital loss: (a) STCL	Any income under the head 'capital gains'	8 years	Not necessary	Yes
	(b) LTCL	LTCG	8 years	Not necessary	Yes
74 A	Loss from the activity of owing and maintaining race horses	Income from the activity of owing and maintaining race horses	4 years	Yes	Yes

Prob. No. 1: following are the particulars of income and loss of Smt. Ishita Dutta under different heads of income for the financial year 2019-2020. [2018]

<u>Particulars</u>	<u>Amount</u>
Income from house property A	10,000
Loss from house property B	15,000
Loss from transport business	30,000
Profit from speculation business	20,000
LTCL on sale of building	46,000
LTCG on sale of gold	40,000
STCL	4,000
Income from salary	25,000

Compute taxable income and losses to be carried forward for the A/yr. 2020–2021.

☞ Solution:

Computation of taxable income of Smt. Ishita Dutta, a resident individual for the A/yr. 2020–2021, relating to P/yr. 2019–2020.

Particulars	Note	Amount	Amount
Income from salaries		25,000	
Less: Set off loss from house property B (15,000–10,000)		<u>5,000</u>	20,000
<u>Income from house property:</u>			
Income from H.P –A		10,000	
Less: Set off of loss from H.P-B		<u>10,000</u>	Nil
<u>Profits and gains from business or profession:</u>			
Profit from speculative business		20,000	
Less: Loss from transport business	(1)	<u>20,000</u>	Nil
<u>Capital Gains:</u>			
LTCG on sale of gold		40,000	
Less: LTCL on sale of building	(2)	<u>40,000</u>	Nil
GROSS TOTAL INCOME			20,000
Less: Deduction as per Chapter VIA			<u>Nil</u>
TAXABLE INCOME			<u>20,000</u>

Notes

Loss to be carried forward for the subsequent years:

- (1) Loss from transport business of Rs.10,000 (Rs.30,000-Rs.20,000).
- (2) LTCL on sale of building of Rs.6,000(46,000-40,000).
- (3) STCL of Rs.4,000.

Prob. no. 2:from the following information of Sri Subho Sarkar, compute total income and the amount of loss to be carried forward for the A/yr 2020-2021. [2017]

<u>Particulars</u>	<u>Amount</u>
Income from salary	1,00,000
Loss from non-speculative business	60,000
LTCG	1,50,000
STCL	50,000
Profit earned in Kolkata from owning and maintaining race horses	70,000
Loss incurred in Bengaluru from owning and maintaining race horses	1,20,000
Brought forward LTCL for the A/yr 2018–2019	25,000

**Solution :**

Computation of total income of Shri Subho Sarkar, a resident individual for the A/yr. 2020–2021, relating to P/yr. 2019–2020.

Particulars	Note	Amount	Amount
Income from salaries			1,00,000
<u>Profits and gains from business or profession</u>			Nil
<u>Capital Gains:</u>			
LTCG		1,50,000	
<u>Less: Set off of brought forward LTCL</u>		<u>25,000</u>	
		1,25,000	
<u>Less: Set off of STCL</u>		<u>50,000</u>	
		75,000	
<u>Less: Set off of loss from non-speculative business loss</u>		<u>60,000</u>	15,000
<u>Income from other sources:</u>		70,000	
Profits from owning and maintaining race horses	(1)	<u>70,000</u>	<u>Nil</u>
<u>Less: set off of loss from owning and maintaining race horses (note-1)</u>			
GROSS TOTAL INCOME			1,15,000
<u>Less: Deduction as per Chapter VIA</u>			<u>Nil</u>
TOTAL INCOME			1,15,000

Note

(1) Loss from owning and maintaining race horse of Rs.50,000 (1,20,000-70,000) to be carried forward for the subsequent years.

Prob. No. 3: from the following information, compute total income of Mr. Tiwari for the A/yr. 2019-2020. [2016]

<u>Particulars</u>	<u>Amount</u>
Income from House I (let out)	2,00,000
Loss from House II (self-occupied)	50,000
Salary income	5,00,000
Loss from non-speculative business	3,00,000
Income from speculative business	1,00,000
STCL	60,000
LTCG	50,000

☞ Solution:

Computation of total income of Mr. Tewari, a resident individual for the A/yr. 2020–2021, relating to P/yr. 2019–2020.

Particulars	Note	Amount	Amount
Income from salaries	(1)		5,00,000
<u>Income from house property</u>			
Income from H-1 (Let out)		2,00,000	
<u>Less: Set off of loss from House II (S.O.)</u>		<u>50,000</u>	
		1,50,000	
<u>Less: Loss from non-speculative business</u>		<u>1,50,000</u>	Nil
<u>Profits and gains from business or profession</u>			
Income from speculative business		1,00,000	
<u>Less: Set off of loss from non-speculative business</u>		<u>1,00,000</u>	Nil
<u>Capital gains:</u>			
LTCG		50,000	Nil
<u>Less: Set off of STCL</u>	(2)	<u>50,000</u>	
GROSS TOTAL INCOME			5,00,000
<u>Less: Deduction as per Chapter VIA</u>			<u>Nil</u>
TOTAL INCOME			5,00,000

Note

- (1) Loss of Rs.50,000[3L-1L-1.5L] of non-speculative business loss to be carried forward for next year.
- (2) STCL of Rs.10,000 (60,000-50,000) to be carried forward for next year.