

## SET OFF AND CARRY FORWARD OF LOSSES

### **Step-1: Inter-source adjustments within same head (same year)**

Exceptions:

1. Speculation business loss;
2. Long-term capital loss;
3. Loss from the activity of owning and maintaining race horses.
4. Loss from specified business u/s 35AD (from AY. 10-11)

Moreover, no loss can be set off against winnings from lotteries, crossword puzzles, races, card games and other games of gambling or betting, etc.,

### **Step-2: Inter-head adjustments (same year)**

Exceptions:

1. Speculation business loss;
2. Long-term capital loss;
3. Loss from the activity of owning and maintaining race horses.
4. Loss from specified business u/s 35AD (from A.Y. 2010-11)

Moreover, no loss can be set off against winnings from lotteries, crossword puzzles, races, card games and other games of gambling or betting, etc.

Business loss cannot be set off against Income from Salaries.

Step-3: Carry forward is to be applied only if the loss cannot be set off under steps 1 & 2.

### TABLE INDICATING CARRY FORWARD OF LOSS AND ADJUSTMENT

Type of loss	Income against which such loss carried forward can be set off	For how many years such loss can be carried forward
House property loss	Income under House property	8 years
Speculation business loss	Speculation business profit	4 years
Other business loss	Any business income	8 years
Unabsorbed depreciation	Any income (other than Salary)	Indefinite period
Short term capital loss	Capital gains	8 years
Long term capital loss	Long term capital gains	8 years
Loss from the activity of owning and maintaining race horses	Income from the activity of owning and maintaining race horses	4 years
<i>Loss from specified business u/s 35AD (from A.Y. 2010-11)</i>	<i>Income from specified business u/s 35AD</i>	<i>Indefinite period</i>

1. Losses can be carried forward and set off only if the return is filed in time (other than losses under House property and unabsorbed depreciation).

2. In respect of loss from the activity of owning and maintaining race horses, it is eligible for carried forward and can be adjusted only if the activity continues.

## Exercise

1. Ms. R gives the following information for the year ending 31-03-2014:

Taxable Income from salary is Rs. 5,40,000/-

Income from House property:

Profits and gains of business / profession:

Capital gains

Long term capital loss in transfer 3 - (-) 10,000

House I (let out) - 15,000

House II (let out) - (-) 25,000

House III (self occupied) - (-) 35,000

Business X - (-) 70,000      Business Y - 56,000      Business Z (speculative) - (-) 25,000

Short term capital loss in transfer 1 - (-) 12,000      Short term capital gain in transfer 2 - 27,000

Long term capital gain on listed shares (STT paid) - 63,000      LTCL (other than shares) (-) 1500

Income from other sources

Winning from cross-word puzzle (TDS -deducted) - 50,000

Loss on maintenance of race horses - (-) 12,500

Bank Interest - 2,200

Determine the taxable income of Ms. A for the A.Y. 2014-15. Find out the losses that are eligible to be carried forward.

2. Mr. D has the following income / loss in r/o A.Y. 2014-15:

Taxable Salary Income - 3,45,000

House property: House 1 Income (-) 25,000      House 2 Loss - 15,000

Textile business - (-) 21,000      Speculative income - 32,000

B / f loss of real estate business (discontinued) of A.Y.04-05 - (-) 61,000

B / f loss of electrical business of A.Y.05-06 - (-) 22,000      Specified business loss - (-) 41,000

Cloth business - 42,000      Unabsorbed depreciation (of 1998-99) - (-) 13,000

Speculative income - 15,000

Short term capital loss - (-) 40,000      Long term capital gain - 21,000

Interest on securities - 12,000

Compute the gross total income. Determine the losses, if any, that are eligible for carry forward.