

CHAPTER 6: SET-OFF AND CARRY FORWARD OF LOSSES

Set-off of Losses

Intra Head Adjustment (Section 70)

Set off of loss from one source of income against another source under the same head of income is known as Intra Head Adjustment. It is also known as Inter Source Adjustment.

Inter Head Adjustment (Section 71)

Set off of loss from one head of income against another head of income is known as Inter Head Adjustment.

| Heads of Income | Intra Head Adjustment | Inter Head Adjustment |
|--|---|---|
| Loss under head House Property | Set off with any other income of house property. | Loss is allowed to be set off with Income under any head except from Casual Income Note: - 1. Loss of Maximum Rs. 2,00,000 is allowed to be adjusted and remaining loss shall be Carry forward 2. No Inter Head Adjustment is available under new regime with respect to loss under head House Property. |
| Loss under head PGBP | | |
| <ul style="list-style-type: none"> Specified Business Loss (S.35AD) | Can only be adjusted against specified business income | Not Applicable. |
| <ul style="list-style-type: none"> Speculative Business Loss | Can only be adjusted against speculative business income | Not Applicable. |
| <ul style="list-style-type: none"> Non-Speculative Business Loss | Can be adjusted against any other business income without any monetary restrictions | Can be adjusted against any other head except Income under head salary and Casual Income. |

| | | |
|--|--|--|
| Loss under head Capital Gain | | |
| <ul style="list-style-type: none"> Short term capital loss | Can be adjusted against any long-term Capital Gain (LTCG u/s 112 & LTCG u/s 112A) or Short term Capital Gain (STCG u/s 111A or other STCG) | Not Applicable |
| <ul style="list-style-type: none"> Long term capital loss | Can be adjusted only against Long term Capital Gain (LTCG u/s 112 & LTCG u/s 112A) | Not Applicable |
| Loss under head other sources | | |
| <ul style="list-style-type: none"> Loss of Owning & Maintaining Race Horses | Can be adjusted only against Income from Owning and Maintaining Race Horses | Not Applicable |
| <ul style="list-style-type: none"> Any other loss under head other sources | Can be adjusted against any other income from other sources except from Casual Income | Can be adjusted against any other head except from Casual Income |

Notes :-

1. If there is income available then loss has to be adjusted against such income , i.e. Set-off is mandatory, not optional
2. Only Intra-Head Adjustment is allowed once loss is carried forward to next assessment year.
3. No loss is allowed to be set off against Casual Income, unexplained income, unexplained investment, cash credit etc

| Order of Set-Off under head PGBP | |
|---|-----|
| Current year Business income before Depreciation | - |
| (-) Depreciation of Current Year | (-) |
| (-) B/F Business loss | (-) |
| (-) Unabsorbed Depreciation / Scientific Research Expenditure / Family Planning Promotion Expenditure | (-) |
| Income/Loss under head PGBP | - |

Carry Forward of Losses

| Losses | Carry Forward |
|--|-----------------------|
| 1. Loss under head house property | C/F for Maximum 8 AY |
| 2. Specified Business Loss (S.35AD) | C/F Without any limit |
| 3. Speculative Business Loss | C/F for Maximum 4 AY |
| 4. Non-Speculative Business Loss | C/F for Maximum 8 AY |
| 5. Long Term Capital Loss or Short Term Capital Loss | C/F for Maximum 8 AY |

| | |
|---|-----------------------|
| 6. Loss from Owning & Maintaining Race Horses | C/F for Maximum 4 AY |
| 7. Unabsorbed Depreciation / Scientific Research Expenditure / Family Planning Promotion Expenditure, | C/F Without any limit |

Illustration 1

Mr. Rajeev submits the following information:

| Particulars | Amount |
|---|----------|
| Income under the head salary | 6,50,000 |
| Income from House-I | 55,000 |
| Loss from house-II (self-occupied property) | 1,25,000 |
| Loss from house-III | 1,90,000 |
| Loss from leather business | 68,000 |
| Profit from cloth business | 1,70,000 |
| Business loss of chemical business acquired by Inheritance | 45,000 |
| Brought forward loss of discontinued business of textile relating to financial year 2017–18 | 50,000 |
| Long term capital gain on transfer of listed equity shares on which STT was paid | 75,000 |
| Short term capital loss in equity-oriented funds on which STT was paid | 35,000 |
| Income from crossword puzzles | 12,000 |
| Dividend from foreign company | 8,500 |
| Loss on owning and maintenance of race horses | 7,500 |
| Income from owning and maintenance of race bulls | 9,000 |

Compute the gross total income and losses to be carried forward of Mr. Rajeev

Illustration 2

Mr. Shyam, a resident of Chandigarh, provides the following information for the financial year 2024–25:

| Particulars | Amount |
|--|----------|
| Income from textile business | 4,60,000 |
| Income from speculation business | 25,000 |
| Loss from gambling | 12,000 |
| Loss on maintenance of race horse | 15,000 |
| Eligible current year depreciation of textile business not adjusted in the income given above. | 5,000 |
| Unabsorbed depreciation of Assessment year 2022–23 brought forward | 10,000 |
| Speculation business loss of Assessment year 2022–23 | 30,000 |

Compute the Gross total Income of Mr. Shyam and any other item of expense or loss eligible for carry forward.

Illustration 3

Mr. X provides the following details for the previous year ending 31.03.2025.

1. Income under the head salary from XYZ Ltd. 6,00,000
 2. Interest on FD with SBI for the Financial Year 72,000 (Net of TDS @10%)
 3. Determined long term capital loss 96,000
 4. Long term Capital gain 75,000
 5. Loss of minor son 90,000 computed in accordance with the provisions of Income Tax Act. Mr. X transferred his own house to his minor son without adequate consideration few years back and minor son let it out and suffered loss.
 6. Loss of his wife's business (2,00,000). She carried business with funds which Mr. X gifted to her.
- You are required to compute taxable income.

Illustration 4

Mr. X, a resident individual, furnishes the following particulars of his income and other details for the previous year 2024–25.

| Particulars | Amount |
|--|--------|
| Income under the head salary | 15,000 |
| Income from Business | 66,000 |
| Long term capital gain on sale of Land | 10,800 |
| Loss on maintenance of Race Horses | 15,000 |
| Loss from Gambling | 9100 |

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2024–25 are as follows:

1. Unabsorbed depreciation 11,000
2. Loss from Speculative business 22,000
3. Short term capital loss 9,800

Compute the Gross total income of Mr. X for the Assessment Year 2025–26 and the Amount of loss, if any, that can be carried forward, or not.

Illustration 5

Mr. X an assessee aged 61 years gives the following information for the previous year 31.03.2025 :

| Particulars | Amount |
|---|----------|
| Loss from profession | 1,05,000 |
| Capital loss on the sale of property-short term | 55,000 |
| Capital gains on sale of shares-long term | 2,05,000 |
| Loss in respect of self occupied property | 15,000 |
| Loss in respect of let out property | 30,000 |
| Share of loss from firm | 1,60,000 |
| Income from card games | 55,000 |
| Winnings from lotteries | 1,00,000 |
| Loss from horse races in Mumbai | 40,000 |
| Medical insurance premium paid by cheque | 18,000 |

Compute the total income of Mr. X.

Illustration 6

Mr. X furnishes the following details for year ended 31.03.2025.

| Particulars | Amount |
|--|---------------|
| Short term capital gain | 1,40,000 |
| Loss from speculative business | (60,000) |
| Long term capital gain on sale of land | 30,000 |
| Long term capital loss on sale of shares (STT not paid) | 1,00,000 |
| Income from business of textile (after allowing C.Y. depreciation) | 50,000 |
| Income from activity of owning and maintaining race horses | 15,000 |
| Income under the head salary | 1,00,000 |
| Loss from house property | (40,000) |

Following are the carry forward losses:

1. Losses from activity of owning and maintaining race horses-pertaining to A.Y. 2020-21 25,000
2. Carry forward loss from business of textile 60,000-Loss pertains to A.Y. 2018-19.

Set off and Carry Forward of Losses

Solution 01

Computation of Gross Total Income of Mr. Rajeev (Old Regime)

| Particulars | Amount | Amount |
|---|-----------------|-----------|
| Income under head Salary | 6,50,000 | |
| (-) Loss under house property | (2,00,000) | 4,50,000 |
| Income under house property | | |
| House – 1 | 55,000 | |
| Loss from house – 2 (self occupied) | (1,25,000) | |
| Loss from house – 3 | (1,90,000) | (260,000) |
| (+) adjusted from salary | 2,00,000 | NIL |
| | Bal. 60,000 C/F | |
| Under head PGBP | | |
| Income from Owning and maintaining Race bulls | 9,000 | |
| Loss from leather business | (68,000) | |
| Income from cloth business | 1,70,000 | |
| Loss of chemical business | (45,000) | 57,000 |
| (-) B/F loss of discontinued textile business | (50,000) | 16,000 |
| Under head capital Gain | | |
| LTCG u/s 112A | 75,000 | |
| Short term capital loss | (35,000) | 40,000 |
| 40,000 | | 40,000 |
| Under head other sources | | |
| Income from crossword puzzles | 12,000 | |
| Dividend from foreign company | 8,500 | |
| Loss from Owning and maintaining Race Horses | 7,500 C/F | 29,500 |
| | GTI | 5,26,500 |

Losses to be carried forward :-

1. Loss from house property 60,000
2. Loss from Owning and maintaining Race Horses 7500

Computation of Gross Total Income of Mr. Rajeev (New Regime)

| Particulars | Amount | Amount |
|---|------------|-----------------|
| Income under head Salary | 6,50,000 | 6,50,000 |
| Income under house property | | |
| House – 1 | 55,000 | |
| Loss from house – 2 (self occupied) | NA | |
| Loss from house – 3 | (1,90,000) | (1,35,000) -C/F |
| (1,35,000) | | Nil |
| Under head PGBP | | |
| Income from Owning and maintaining Race bulls | 9,000 | |
| Loss from leather business | (68,000) | |
| Income from cloth business | 1,70,000 | |
| Loss of chemical business | (45,000) | 57,000 |
| (-) B/F loss of discontinued textile business | (50,000) | 16,000 |

| | | | |
|--|----------|----------|----------|
| Under head capital Gain | | | |
| LTCG u/s 112A | 75,000 | | |
| Short term capital loss | (35,000) | 40,000 | 40,000 |
| Under head other sources | | | |
| Income from crossward puzzles | | 12000 | |
| Dividend from foreign company | | 8500 | |
| Loss from Owning and maintaining Race Horses | | 7500 C/F | 29,500 |
| | GTI | | 7,26,500 |

Losses to be carried forward :-

1. Loss from house property 1,35,000
2. Loss from Owning and maintaining Race Horses 7500

Solution 02

Computation of Total Income of Mr. Shyam

| Particulars | Amount | Amount |
|---|------------------|------------|
| Under head PGBP | | |
| Textile Business Profit | 4,60,000 | |
| (-) Current year Depreciation | (5000) | 4,55,000 |
| Speculative Business Income | 25,000 | |
| (-) B/F loss of speculative business (5,000 C/F) | (25,000) | NIL |
| (-) Unabsorbed depreciation | | (10,000) |
| Under head other sources | | 4,45,000 |
| Loss from Owning and maintaining Race Horses | | 15,000 C/F |
| | GTI/Total Income | NIL |
| | | 4,45,000 |

Losses to be carried forward :-

1. Speculative Business loss 5,000
2. Loss from Owning and maintaining Race Horses 15,000

Solution 03

Computation of Total Income of Mr. X

| Particulars | Amount | Amount |
|---|-------------------|----------|
| Under head Salary | 6,00,000 | |
| (-) Loss under house property | (90,000) | 5,10,000 |
| Under head House property | | |
| Loss from let out property (Mr. X shall be treated as deemed owner) | (90,000) | |
| (+) Adjusted from salary | 90,000 | NIL |
| Under head PGBP | | |
| Loss from wife's business | (2,00,000) | |
| (+) adjusted from Other Source | 80,000 | NIL |
| | Bal. 1,20,000 C/F | |
| Under head Capital Gain | | |
| Long Term Capital Gain | 75,000 | |
| Long Term Capital Loss | (75,000) | NIL |
| | | NIL |

| | | |
|---|----------------------|-----------------|
| | Bal. loss 21,000 C/F | |
| Under head other sources | | |
| Interest on Fixed Deposit (72,000/90%) (See Note) | 80,000 | |
| (-) loss under PGBP | (80,000) | NIL |
| GTI/Total Income | | 5,10,000 |

Note: TDS @ 10% is deducted on FD – we need to gross up the interest for calculation of Income

Solution 04

Computation of Total Income of Mr. X

| Particulars | Amount | Amount |
|--|------------|---------------|
| Under head Salary | 15,000 | 15,000 |
| Under head PGBP | 66,000 | |
| (-) unabsorbed depreciation | (11,000) | 55,000 |
| Under head Capital Gain | | |
| Long Term Capital Gain | 10,800 | |
| (-) B/F Short Term Capital Loss | (9800) | 1000 |
| Under head other sources | | |
| Loss from Owning and maintaining Race Horses | 15,000 C/F | NIL |
| GTI/Total Income | | 71,000 |

Losses to be carried forward :-

1. Speculative Business loss 22,000
2. Loss from Owning and maintaining Race Horses 15,000

Solution 05

Computation of Total Income of Mr. X (Old Regime)

| Particulars | Amount | Amount |
|---------------------------------|------------|-----------------|
| Under head House property | | |
| Self Occupied Property | (15,000) | |
| Let Out Property | (30,000) | (45,000) |
| (+) adjusted from LTCG | 45,000 | NIL |
| Under head PGBP (Profession) | (1,05,000) | |
| (+) adjusted from LTCG | 1,05,000 | NIL |
| Under head Capital Gain | | |
| Long Term Capital Gain | 2,05,000 | |
| Short Term Capital Loss | (55,000) | 1,50,000 |
| (-) HP Loss | (45,000) | |
| (-) Loss under PGBP | (1,05,000) | NIL |
| Under head other sources | | |
| Casual Income (55,000+1,00,000) | 1,55,000 | 1,55,000 |
| GTI/Total Income | | 1,55,000 |

Computation of Total Income of Mr. X (New Regime)

| Particulars | Amount | Amount |
|---------------------------|--------|--------|
| Under head House property | | |

| | | | |
|---------------------------------|-------------------------|--------------|-----------------|
| Self Occupied Property | (NIL) | | |
| Let Out Property | (30,000) | (30,000) C/F | NIL |
| Under head PGBP (Profession) | | (1,05,000) | |
| (+) adjusted from LTCCG | | 1,05,000 | NIL |
| Under head Capital Gain | | | |
| Long Term Capital Gain | 2,05,000 | | |
| Short Term Capital Loss | (55,000) | 1,50,000 | |
| (-) Loss under PBGP | | (1,05,000) | 45,000 |
| Under head other sources | | | |
| Casual Income (55,000+1,00,000) | | 1,55,000 | 1,55,000 |
| | GTI/Total Income | | 2,00,000 |

Solution 06**Computation of Total Income of Mr. X**

| Particulars | Amount | Amount |
|--|-------------------------|-----------------|
| Under head salary | 1,00,000 | |
| (-) Loss under house property | (40,000) | 60,000 |
| Under head House property | (40,000) | |
| (+) adjusted from salary | 40,000 | NIL |
| Under head PGBP | | |
| Speculative business loss | (60,000) C/F | |
| Non Speculative business (Textile) | 50,000 | 50,000 |
| Under head Capital Gain | | |
| Short term capital Gain | 1,40,000 | 1,40,000 |
| LTCCG 30,000 | | |
| LTCL (1,00,000) | (70,000) C/F | |
| Under head other sources | | |
| Income from Owning and maintaining Race Horses | 15,000 | 15,000 |
| | GTI/Total Income | 2,65,000 |

Losses to be carried forward :-

1. Speculative Business loss 60,000
2. Long term Capital Loss 70,000