Note:- We have assumed that profit of PY 24-25 of ₹ 150000 has been reinvested in business only. It means Assessee has not withdrawn the Profit.

★ Profit of PY 24-25 Not clubbed in hands of husband become gifted money not included in opening capital.

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Capital as on 1/4/24	500000
(-) Losses of PY 24-25	(200000)
	300000
Add:- Amt Gifted by Vaishaly on 1/4/25	500000
Capital as on 1/4/25	800000

Profit for PY 25-26 :- 400000

Vaishaly → Income × Gifted Amt / Op. capital

Income taxable in hands of Mr Vaibhav

$400000 \times \frac{500000}{800000}$

$= 250000$

$(400000 - 250000)$

$= 150000$

Note:- In this case if Vaishaly gave loan to Vaibhav instead of Gift then clubbing prov. not applicable because clubbing prov. is applicable only in case of Gift or low consideration.

Teacher's Signature:..................

— Cross Transfer —

If there are two transactions and they are interconnected and part of same transaction. It shall be considered to be device for evasion of Tax and clubbing provision shall apply.

Eg Mr Roshan gifted ₹700000 to his brother's wife Mrs Meera and his brother Meet gifted ₹500000 to his brother's wife Mrs Roshani. Roshani deposited ₹500000 in Bank @ 7% and earn income of ₹35000. Meera deposited ₹700000 @ 10% and earned income of ₹70000.

Clubbing provision is applicable only to the extent of income for matching Amt of cross gift. In the present Qn, ₹500000 is the matching Amt so income on ₹500000 is rec'd by Roshani i.e ₹35000 clubbed in hands of Roshan. Income on ₹500000 rec'd by Meera i.e 50000 $\left[\frac{70000}{700000} \times 500000\right]$ shall be clubbed in hands of Mr Meet and remaining income of ₹20000 is taxable in hands of Meera only.

(4 to 7 marks)

SET OFF AND CARRYFORWARD OF LOSSES

Sec 70 :- Intra Head Adjustment

It means loss from one source of Income can be set off against income from another source of income but in the same head of Income

Exception -

1) Specified Business loss (35AD) can be set off only against income from specified business.

2) Speculative Business loss can be set off only against speculative Business Income.

3) Long Term capital loss can be set off only against long term capital Gain.

4) loss from owning and maintaining race horses can be set off only against income from owning and maintaining race horses.

Sec 71 :- Inter Head Adjustment

It means loss under one head of income can be set off against income from another head of income but in the same PY.

* Mind Map *

1) Income from salary :- Losses not possible

2) Income from House Property :-

loss from HP → Intra head adjustment
loss from HP → Inter head adjustment [Max 200000]
loss from HP → carried forward (C/F)

3) PGBP

i) Loss from specified business (35AD) → Income from specified business
i) Loss from specified business (35AD) → C/F

ii) Loss from speculative Business → Income from speculative business
ii) Loss from speculative Business → C/F

iii) Other Business loss → Intra head adjustment
iii) Other Business loss → Inter head adjustment
iii) Other Business loss → C/F

4) capital Gain

i) LTCL → set off against LTCG
i) LTCL → C/F

ii) STCL → set off against STCG or LTCG
ii) STCL → C/F

5) IFOS

i) loss from owning and maintaining Race horses → set off against owning and maintaining Race horses
→ c/f

ii) Other losses of IFOS → Intra head adjustment
→ Inter head adjustment
→ c/f not allowed.

— Note —

1) If loss from House Property can be set up against any other head income is max ₹ 200000.
If Assessee opted default tax regime u/s 115BAC then House Property loss not allowed to be set off against any other head of Income and it is not allowed to be carried forward.

- Exception -

1) specified business loss can be set off only against income from specified business.

2) speculative Business loss can be set off only against speculative Business income.

3) Long Term capital loss can be set off only against long term capital gain.

4) Loss from owning and maintaining Race Horses can be set off only against income from owning and maintaining race horses.

5) Short term capital loss can be set off only against STCG and LTCG.

6) Losses from Business cannot be set off against salary.

— Carried forward and set off losses

It is to be remembered that once loss is carried forwarded it can be set off against only income from same [Intra head] in subsequent year.

Section	Losses to be c/f	Brought forward losses set off against	Time limit	Return file on time
71B	Losses from HP	Income from HP	8 years	NO
72	Normal Business Losses	Business Income	8 years	Yes
73	Speculative Business Losses	Speculative Business Income	4 years	Yes
73A	Specified Business Losses	Specified Business Income	unlimited time	Yes
74	STCL	STCG/LTCG	8 years	Yes
	LTCL	LTCG	8 years	Yes
74A	Losses from owning and Maintaining Race Horses	Income from owning and Maintaining Race Horses	4 years	Yes
32	Unabsorbed Depreciation	Any Income other than salary	unlimited time	NO

– Notes –

1) Loss from lottery, card game, horse races etc. not eligible to set off and carry forward and any other losses cannot be set off against income from lottery, card games etc.

2) Any losses cannot be set off against deemed income u/s 68, 69, 69A, 69B, 69C, 69D

3) Brought forward losses from Business can be set off even if that Business is discontinued.

4) Order of set up
i) Current year Depreciation
ii) Brought forward Business losses
iii) Unabsorbed depreciation.

5) If there is income under any Head and Eligible loss under any head then such losses shall be first set off against the income before set off brought forward losses.

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Mr Srivatsan PY25-26 AY26-27

Computation of Total Income

Particulars	₹	₹
Income from salary	220000	
(-) Loss from House Property	(190000)	
	30000	30000
Income from speculative business	30000	
(-) Loss from cloth Business (240000 - 30000)	(30000)	–
LTCG on sale of urban land	250000	
(-) Loss from cloth business	(210000)	40000
Income from Betting		450000
Gross Total Income		115000
(-) Dedn u/c VIA		
80C Life Insurance premium (45000)		(30000)
Net Taxable Income		85000

Losses to be c/f to Next AY (AY27-28)

losses from specified Business ₹ 20000

Notes –

1) Losses from card game not allowed to be set off and c/f

2) Any losses not allowed to be set off against betting income.

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3) Deduction u/c VI A not allowed against special rate of Income, so in the present it is restricted to ₹ 30000, i.e. salary Income

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Mr. Soohan PY 25-26 AY 26-27

Particulars	₹	₹
Income from salary	300000	
(-) Loss from House Property	(40000)	260000
Income from sugar Business	50000	
(-) Loss from Iron ore Business	(50000)	–
LTCG	40000	
– STCL (60000 – 40000)	(40000)	–
Dividend	5000	
Income from lottery	50000	
Income from card game	6000	
Bank Interest on FD	5000	66000
	GTI	326000

Losses to be c/f to Next AY (AY 27-28)

Loss from Iron ore Business (120000 - 50000)	70000
STCL (60000 - 40000)	20000
STCL 111A	10000

Teacher's Signature:..................

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Mr. Batra PY 25-26 AY 26-27

Particulars	₹	₹
Income from salary	100000	
(-) Losses from House Property	(40000)	
	60000	60000
Income from Textile Business	50000	
(-) Loss from Business of AY 18-19	(50000)	—
LTCG on sale of land	30000	
(-) LTCL on sale of unlisted shares	(30000)	—
STCG	140000	140000
Income from owning and maintaining Race Horses	15000	
(-) Loss from owning & Main. Race Horses	(15000)	—
	GTI / NTI	200000

Losses to be c/f to Next AY [AY 27-28]

Losses from speculative Business	60000
long term capital loss on unlisted shares (100000 - 300000)	70000
~~Long~~ loss from O & M Race Horses (25000 - 15000)	10000