

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		
Specified Business Loss (S.35AD) 	Can only be adjusted against specified business income	Not Applicable.
Speculative Business Loss 	Can only be adjusted against speculative business income	Not Applicable.
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		
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
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		
Loss of Owning & Maintaining Race Horses ✓	Can be adjusted only against Income from Owning and Maintaining Race Horses	Not Applicable
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 :-

- If there is income available then loss has to be adjusted against such income, i.e. Set-off is mandatory, not optional
- Only Intra-Head Adjustment is allowed once loss is carried forward to next assessment year. *Except Unabsorbed Dep → Allow for Intra head Adj except from Salary.*
- 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

Tomorrow ⇒ Clubbing Doubt + Set off doubt
 ↳ New chap ⇒ Deductions.

Tex Hle 100.000 } Intra → (4,00,000) → Intu Adj
 leather (5,00,000)

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 — Dismiss = H/W 28/11

Mr. Rajeev submits the following information: — New Regime / 019.

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 NIL
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 — H/W 28/11

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 — H/W 28/11

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 → Mr. X. (Deemed Owner)
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. → PURP loss → Mr. X. (Usbif)
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 <i>Salary</i>	15,000
Income from Business <i>PURP</i>	66,000
Long term capital gain on sale of Land <i>LTG</i>	10,800
Loss on maintenance of Race Horses <i>OMRH loss - OS</i>	15,000
Loss from Gambling → Not allowed.	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 → CIF
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: (24-25)

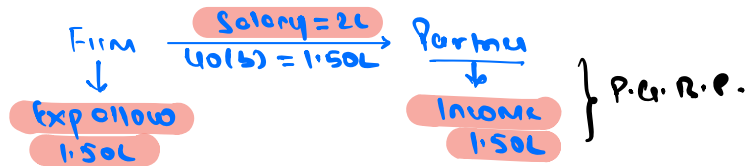
Particulars	Amount
Loss from profession — <i>PURP</i>	1,05,000
Capital loss on the sale of property-short term <i>STCL - LTG</i>	55,000
Capital gains on sale of shares-long term <i>LTCL - LTG</i>	2,05,000
Loss in respect of self occupied property <i>HP</i>	15,000
Loss in respect of let out property <i>HP</i>	30,000
Share of loss from firm (Important) Not Allowed	1,60,000 X.
Income from card games — <i>Casual Income = OS.</i>	55,000
Winnings from lotteries — <i>Casual Income = OS.</i>	1,00,000
Loss from horse races in Mumbai → Not allowed ⇒	40,000
Medical insurance premium paid by cheque → <i>Decl. U/s 80D.</i>	18,000

Compute the total income of Mr. X. → old Reg. | New.

Illustration 6

Mr. X furnishes the following details for year ended 31.03.2025. (24-25)

Firm	→ Partner	Firm	→ Partner
<u>Profit</u>		<u>10% @ 14%</u>	
<u>Exempt</u>		<u>1,40,000</u>	
		<u>Max 12%</u>	
		<u>12000</u>	
		<u>allow.</u>	
		<u>10% Taxable</u>	
		<u>1,20,000</u>	
			<u>P.G.B.P.</u>



Particulars	Amount
Short term capital gain — 14	1,40,000
Loss from speculative business — 8438	(60,000)
Long term capital gain on sale of land — 14	30,000
Long term capital loss on sale of shares (STT not paid) — 14	1,00,000
Income from business of textile (after allowing C.Y. depreciation) full	50,000
Income from activity of owning and maintaining race horses 08	15,000
Income under the head salary 501	1,00,000
Loss from house property 41	(40,000)

Following are the carry forward losses:

- Losses from activity of owning and maintaining race horses-pertaining to A.Y. 2020-21 25,000 (PY 19-20) ----> losses 23-24 was lost year.
- Carry forward loss from business of textile 60,000-Loss pertains to A.Y. 2018-19.