

SET OFF & CARRY FORWARD OF LOSSES

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MANNER OF SET OFF

Step 1	Inter source Adjustment under the same head of income
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Inter Source Adjustment: If the net result for any assessment year, in respect of any source under any head of income, is a loss, the assessee is entitled to have the amount of such loss set off against his income from any other source under the same head of income for the same assessment year.

Inter Head Adjustment: Where the net result of computation made for any assessment year in respect of any head of income is a loss, the same can be set off against the income from other heads.

Exceptions to Inter Source Adjustment And Inter Head Adjustment:

Loss from speculation business	Can be set off only against the profit from a speculation business.
Loss from 'Specified Business' u/s 35AD	Can be set off only against profit from another specified business and against no other income.
Long-Term capital loss	Can be set off only against long-term capital gain.
Loss from the activity of Owning and Maintaining Race Horses	Cannot be set off against any income except income from such activity.
Loss cannot be set off against winnings from lotteries, crossword puzzles, etc.	By virtue of <u>Section 58(4)</u> , No loss can be set off against winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature.
Note: If income from a particular source is exempt, then the loss from such source cannot be set off against an income which is chargeable to tax.	
Note: HP loss can be set off against any other head to the extent of Rs. 2,00,000 only. The remaining amount will have to be carried forward.	

SUMMARY OF SET OFF & CARRY FORWARD

TYPE OF LOSS	SET OFF IN CURRENT YEAR	SET OFF IN SUBSEQUENT YEARS	CARRY FORWARD PERIOD
Salary (Not Possible)	N.A.	N.A.	N.A.
House Property	Any Income including Salary income, but other than Winning incomes (upto Rs. 2 lakhs only; the rest shall be carried forward)	Only House Property Income	8 years
Loss from Business:			
Speculative Business	Speculative Income	Speculative Income	4 Years
Specified Business u/s 35AD	Income from other Specified Income u/s 35AD	Specified Business Income	Indefinite
Non- Speculative Business (excluding Specified Business u/s 35AD)	Any income, other than Winning incomes & Salary	Non- Speculative Business (excluding Specified Business u/s 35AD)	8 years
Unabsorbed Depreciation	Any income, other than Winning incomes & Salary	Any income, other than Winning incomes & Salary	Indefinite
Capital Gain:			
LTCL	LTCG	LTCG	8 Years
STCL	STCG/ LTCG	STCL/ LTCG	8 Years
Other Sources:			
Owning and Maintaining Race Horse	Income from Owning and Maintaining Race Horse	Owning and Maintaining Race Horse	4 Years
Loss from Gambling, Betting, Horse Racing, etc.	Not Allowed	Not Allowed	N.A.
Other Losses under IFOS	Any income, other than Winning incomes	Not Allowed	N.A.

OTHER POINTS

1. Carry forward of losses ***shall not be allowed if the return is filed after the due date.*** However, this does not apply to loss from
 - a. House Property
 - b. Unabsorbed depreciation.
 - c. Unabsorbed capital expenditure on scientific research
 - d. Unabsorbed capital expenditure on family planning
2. No loss can be set off against Casual Incomes [e.g. income from winnings from lotteries, crossword puzzles, race including horse race, card game, and any other game of any sort or from gambling or betting of any form or nature].
3. There is no provision in the law which specifies or prescribes carry forward of Loss under the head income from other sources and hence such loss cannot be carried forward.
4. No set off of any loss is allowed from any undisclosed income referred to in section 68 or section 69 or section 69A or section 69B or section 69C or section 69D from AY 2017-18.
5. No set off of any loss is allowed from dividend income referred to in section 115BBDA. The taxation of dividend income shall be on gross basis and no deduction for any expenditure or allowance or set off of loss shall be allowed in computing the income by way of dividend. [Section 115BBDA is applicable till AY 2020-21.]

ORDER OF SET OFF OF BUSINESS LOSSES

Brought forward business loss is to be set-off before setting off unabsorbed depreciation. In case where profits are insufficient to absorb brought forward losses, current depreciation and current business losses, the same should be deducted in the following order:

- i) Current year depreciation/ current year capital expenditure on scientific research and current year expenditure on family planning, to the extent allowed.
- ii) Brought forward loss from business/profession.
- iii) Unabsorbed expenditure on family planning
- iv) Unabsorbed depreciation
- v) Unabsorbed capital expenditure on scientific research

Please Note:

The following special cases has not been discussed here:

1. Carry forward & set off of losses in case of change of constitution of Firm
2. Carry forward & set off of losses in case of Succession
3. Carry forward & set off of losses in case of Amalgamation
4. Carry forward & set off of losses in case of Demerger
5. Carry forward & set off of losses in case of certain closely held companies

THANK YOU

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