

SET OFF OR CARRY FORWARD AND SET OFF OF LOSSES

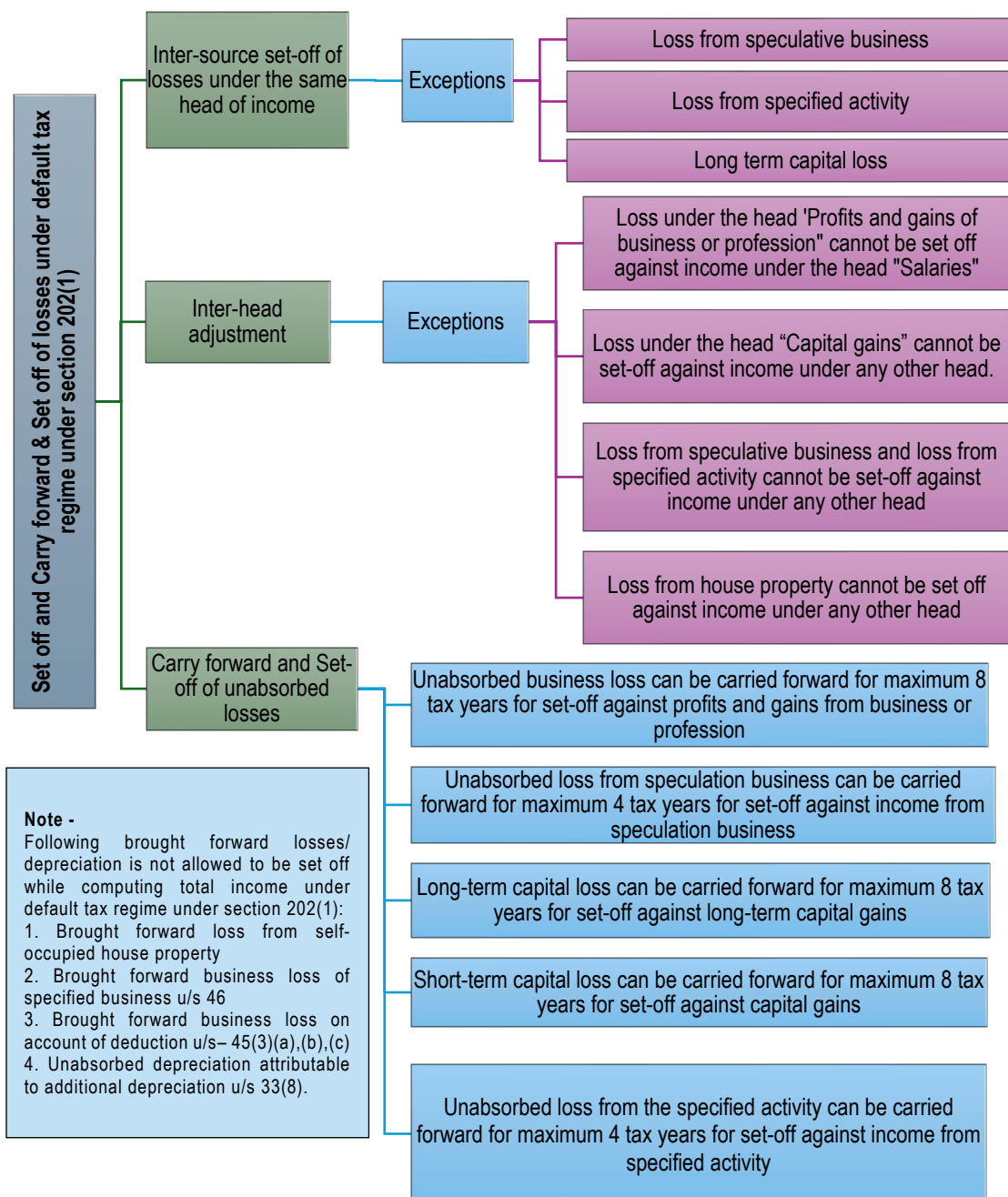


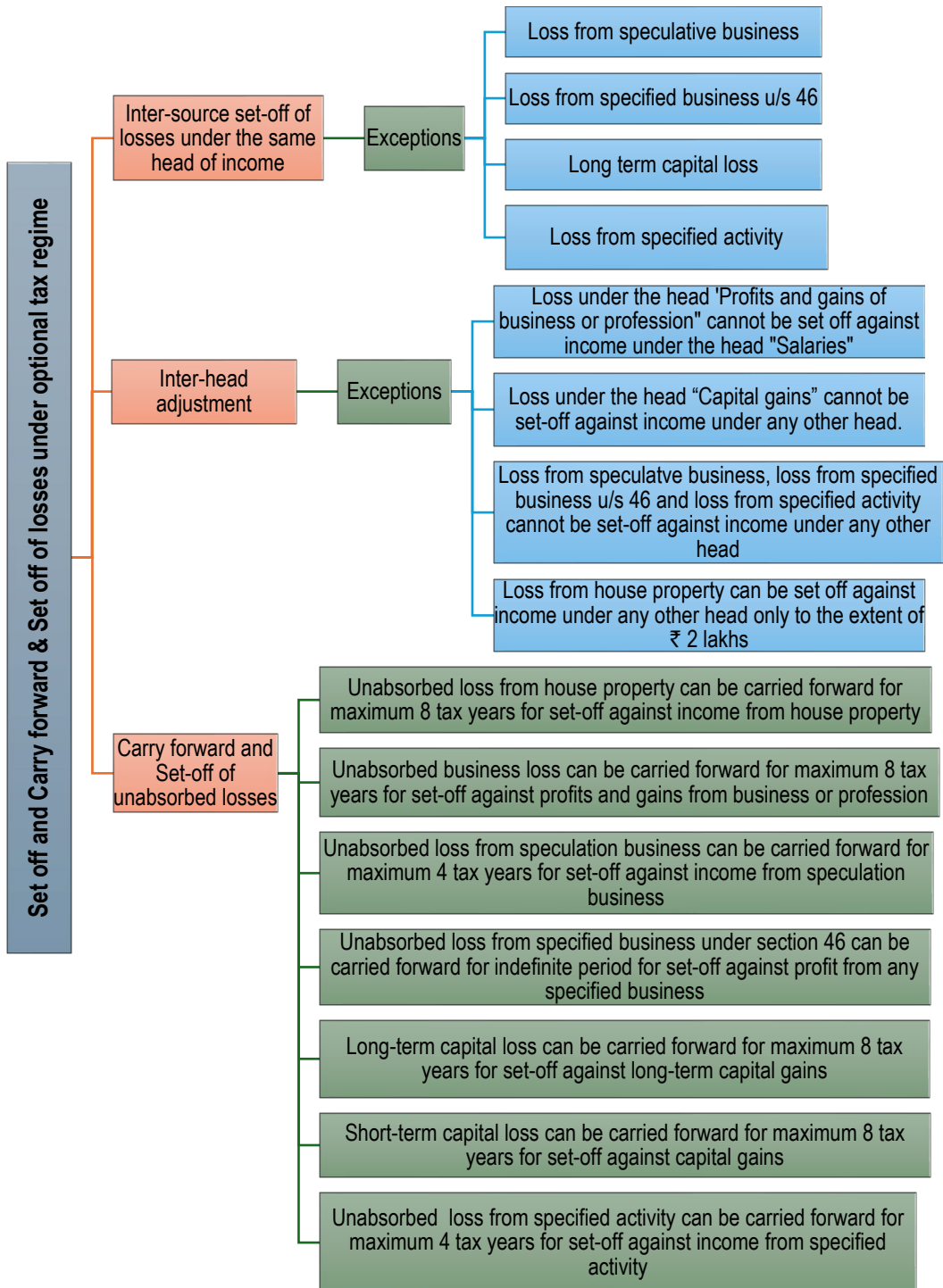
LEARNING OUTCOMES

After studying this chapter, you would be able to –

- ♦ **identify** the permissible inter-source and inter-head adjustments;
- ♦ **identify** the restrictions to inter-source and inter-head set-off of losses;
- ♦ **comprehend** the conditions to be satisfied for carry forward and set-off of losses under different heads;
- ♦ **state** the maximum period for which different losses can be carried forward;
- ♦ **comprehend** and arrange the order of set-off of losses;
- ♦ **apply** the above provisions to arrive at the total income of an assessee.

CHAPTER OVERVIEW







1. STRUCTURED SECTIONAL LEARNING

Section	Particulars
108	Set off of losses under same head of income
109	Set off of losses under any other head of income
110	Carry forward and set off of loss from house property
111	Carry forward and set off of loss from Capital gains
112	Carry forward and set off of business loss
113	Set off and carry forward of losses computed in respect of speculation business
114	Set off and carry forward of losses computed in respect of specified business
115	Set off and carry forward of losses from specified activity
121	Submission of return for losses



2. CONCEPT OF SET-OFF AND CARRY FORWARD OF LOSSES

Concept of Set off or carry forward and set off of losses has been dealt with in Chapter VII of Income-tax Act, 2025.

- ♦ "Set off" means adjustment of losses against the eligible income from another source/head of income in the same tax year.
- ♦ If losses cannot be set off in the same tax year due to inadequacy of eligible income, then such losses are carried forward to the next tax year for adjustment against the eligible income of that year.
- ♦ The maximum period for which different losses can be carried forward for set-off has been provided in the Act.



3. INTER SOURCE ADJUSTMENT [SECTION 108]

- (i) **Inter-source set-off of losses:** Under this section, the losses incurred by the assessee in respect of any source under any head of income (other than Capital gains) shall be set-off against income from any other source under the same head of income, since the income under each head is to be

computed by grouping together the net result of the activities of all the sources covered by that head.

In simpler terms, loss from one source of income can be adjusted against income from another source, both the sources being under the same head.



Loss from one house property can be set off against the income from another house property.



Loss from one business, say textiles, can be set off against income from any other business, say printing, in the same year as both these sources of income fall under one head of income. Therefore, the loss in one business may be set-off against the profits from another business in the same tax year.

- (ii) **Impermissible inter-source set-off:** Inter-source set-off, however, is not permissible in the following cases –



(a) Long-term capital loss [Section 108(2)]

- Short-term capital loss is allowed to be set off against both short-term capital gain and long-term capital gain.
- However, long-term capital loss can be set-off only against long-term capital gain and not against short-term capital gain.



(b) Loss from speculation business [Section 113(1)]

- A loss in speculation business can be set-off only against the profits and gains of another speculation business and not against any other business or professional income.
- However, losses from other business or profession can be adjusted against profits from speculation business.



(c) Loss from specified activity (Activity of owning and maintaining race horses) [Section 115(1)]

- Loss from specified activity can be set-off only against income from specified activity (Activity of owning and maintaining race horses)



(d) Losses from Specified business [Section 114(1)]

- In case an assessee opts out of the default tax regime, loss in any specified business u/s 46 can be set-off only against profits and gains of another specified business.
- However, losses from other business can be set-off against profits and gains from specified business.



No loss can be set off against casual income i.e., 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 [Section 94].



4. INTER HEAD ADJUSTMENT [SECTION 109]

Loss under one head of income can be adjusted or set off against income under another head. However, the following points should be considered:

Loss under any head other than "Capital gains"

Loss under any head other than capital gains can be set-off against income of the assessee under any other head, including "Capital Gains".

Loss under the head "Profits and gains of business or profession"

Loss under the head "Profits and gains of business or profession" cannot be set off against income under the head "Salaries".

It shall be allowed to set off from income under any other head except "Salaries".

Loss under the head "Capital Gains"

Loss under the head 'Capital Gains', whether short term or long term, cannot be set off against income under any other head.

Loss under the head "Income from house property"

• **If assessee opts out of the default tax regime** - Loss under the head "Income from house property" can be set off against income under any other head to the extent of ₹ 2,00,000. The rest shall be carried forward to next year for set off.

• **If assessee pays tax under concessional rates u/s 202(1)** - Loss under the head "Income from House Property" is not allowed to be set off against income under any other head.

Loss from speculation business and loss from specified activity

Loss from speculation business and loss from specified activity cannot be set off against income under any other head.

Losses from specified business u/s 46

In case the assessee opts out of the default tax regime, loss from specified business under section 46 can be set off only against income from any other specified business. Such loss cannot be set off against income under any other head.



If the income from a source is exempt from tax, loss from that exempt source cannot be set off against taxable income from a different source or taxable income under a different head.



1.	Choose the correct answer from the following:
(a)	Loss from specified activity can be set off against any income.
(b)	Speculation business loss can be set off only against speculation business profits.
(c)	Loss from lotteries, card games, etc., can be set off against any income.
(d)	Long-term capital loss can be set off against long-term or short-term capital gains.
2.	Loss under the head "Profits and Gains of Business or Profession" cannot be set off against:
(a)	Income chargeable under the head "Salaries"
(b)	Income chargeable under the head "Capital Gains"
(c)	Income chargeable under the head "House Property"
(d)	All of the above
3.	The correct sequence for set-off of losses is:
(a)	(i) Inter-source set-off; (ii) Inter-head set-off; and (iii) Set-off of brought forward losses.
(b)	(i) Inter-head set-off; (ii) Inter-source set-off; and (iii) Set-off of brought forward losses.
(c)	(i) Set-off of brought forward losses; (ii) Inter-source set-off; and (iii) Inter-head set-off.
(d)	(i) Set-off of brought forward losses; (ii) Inter-head set-off; and (iii) Inter-source set-off.



5. CARRY FORWARD & SET OFF OF LOSS FROM HOUSE PROPERTY [SECTION 110]

(i) Set-off and Carry Forward & Set-off of losses

If the assessee exercises the option of shifting out of the default tax regime

In any tax year, if there is a loss under the head "Income from house property", such loss will first be set-off against income from any other head to the extent of ₹ 2,00,000 during the same tax year.

The unabsorbed loss will be carried forward to the following tax year to be set-off against income under the head "Income from house property".

If the assessee pays tax at concessional rates u/s 202(1)

In any tax year, if there is a loss under the head "Income from house property", such loss is not allowed to be set-off against income under any other head.

The unabsorbed loss cannot be carried forward to the following tax year.

- (ii) **Maximum period for carry forward & set-off of losses:** Any unabsorbed loss under the head "Income from house property" is allowed to be carried forward to the following tax year up to **8 tax years** immediately succeeding the tax year for which the loss was first computed.



Once a loss is carried forward, it can be set off only against the income from the same head in the succeeding tax years.

ILLUSTRATION 1

Mr. A, aged 35 years, submits the following particulars pertaining to the tax year 2026-27:

Particulars	₹
Income from salary (computed)	4,00,000
Loss from let-out property	(-) 2,20,000
Business loss	(-) 1,00,000
Bank interest (FD) received	80,000

Compute the total income of Mr. A for the tax year 2026-27, assuming that

- He has exercised the option of shifting out of the default tax regime.
- He pays tax under the default tax regime.

SOLUTION

- Computation of total income of Mr. A for the tax year 2026-27 under normal provisions of the Act**

Particulars	Amount (₹)	Amount (₹)
Income from salary	4,00,000	
Less: Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of section 109(1)	(-) 2,00,000	2,00,000
Balance loss of ₹ 20,000 from house property to be carried forward to following tax year		
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	-
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the following tax year		
Gross total income/ Total Income [See Note below]		2,00,000

Notes:

- (i) Gross Total Income includes salary income of ₹ 2,00,000 after adjusting loss of ₹ 2,00,000 from house property. The balance loss of ₹ 20,000 from house property to be carried forward to the following tax year for set-off against income from house property of that year.
- (ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

(ii) Computation of total income of Mr. A for the tax year 2026-27 under default tax regime

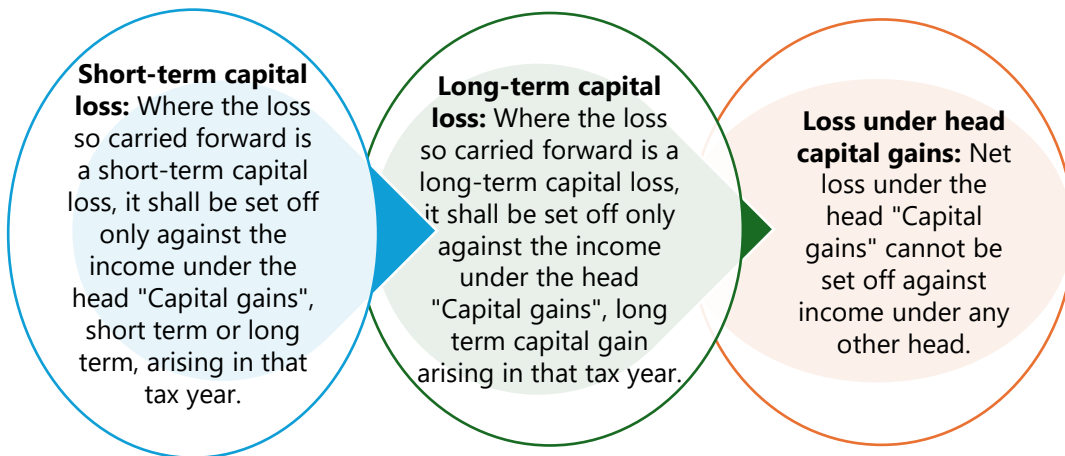
Particulars	Amount (₹)	Amount (₹)
Income from salary		4,00,000
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	-
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the following tax year		
Gross total income/ Total Income		4,00,000

Notes:

- (i) Under the default tax regime, loss from house property of ₹ 2,20,000 cannot be set off against income under any other head and cannot be carried forward to the following tax year.
- (ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

6. CARRY FORWARD & SET OFF OF LOSSES FROM CAPITAL GAINS [SECTION 111]

- (i) **Carry forward & set-off of losses:** Section 111 provides that where for any tax year, unabsorbed loss under the head 'Capital gains' is short term capital loss or long-term capital loss, the loss shall be carried forward to the following tax year to be set off in the following manner:



- (ii) **Maximum period for carry forward & set-off of loss:** Any unabsorbed loss shall be carried forward to the following tax year up to a maximum of **8 tax years** immediately succeeding the tax year for which the loss was first computed.

Long-term capital gain exceeding ₹ 1,25,000 arising on sale of equity shares or units of equity-oriented fund or unit of business trust on which STT is paid

- *in respect of equity shares, both at the time of acquisition and sale and*
- *in respect of units of equity-oriented fund or unit of business trust, at the time of sale*

is taxable under section 198 @12.5%. Long-term capital loss on sale of such shares/units can, therefore, be set off and carried forward for set-off against long-term capital gains by virtue of section 108(2) and section 111.

ILLUSTRATION 2

During the tax year 2026-27, Mr. C has the following income and the brought forward losses:

Particulars	₹
Short term capital gains on sale of shares	1,50,000
Long term capital loss of tax year 2024-25	(96,000)
Short term capital loss of tax year 2025-26	(37,000)
Long term capital gain u/s 197	75,000

What is the capital gain taxable in the hands of Mr. C for the tax year 2026-27?

SOLUTION**Taxable capital gains of Mr. C for the tax year 2026-27**

Particulars	₹	₹
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short-term capital loss of the tax year 2025-26	(37,000)	1,13,000
Long term capital gain	75,000	
Less: Brought forward long-term capital loss of tax year 2024-25		
₹ 96,000 set off to the extent of ₹ 75,000		
[See Note below]	(75,000)	Nil
Taxable short-term capital gains		1,13,000

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long-term capital loss of tax year 2024-25 of ₹ 21,000 (i.e. ₹ 96,000 – ₹ 75,000) can be carried forward to the next tax year to be set-off against long-term capital gains of that tax year.



4.	<i>Short-term capital loss can be set off against:</i>	
(a)	<i>Short-term capital gains</i>	
(b)	<i>Long-term capital gains</i>	
(c)	<i>Income under any other head</i>	
(d)	<i>Either (a) or (b)</i>	
5.	<i>What is the maximum amount of loss from a self-occupied house property that can be claimed under the head "Income from House Property" under default tax regime?</i>	
(a)	<i>Nil</i>	
(b)	<i>₹ 30,000</i>	
(c)	<i>₹ 1,50,000</i>	
(d)	<i>₹ 2,00,000</i>	
6.	<i>Under default tax regime, loss under the head "Income from House Property"</i>	
(a)	<i>can be set off against income chargeable under the head "Salaries"</i>	
(b)	<i>can be set off against income chargeable under the head "Capital Gains"</i>	
(c)	<i>can be set off against income chargeable under the head "Profits and gains of business or profession"</i>	
(d)	<i>cannot be set off against income under any other head</i>	

7. CARRY FORWARD AND SET-OFF OF BUSINESS LOSSES [SECTIONS 112]

Under the Act, the assessee has the right to carry forward the loss from business and profession in cases where such loss cannot be fully set-off in the same year against income from any head (*other than salary*) as per section 109. The loss so carried forward can be set-off only against the business or professional income of subsequent years.

Section 112 covers the carry forward and set-off of losses arising from a business or profession.

Conditions

The assessee's right to carry forward business losses under this section is, however, subject to the following conditions:

- (i) The loss should be a loss under the head "Profits and gains of business or profession".
- (ii) The loss should not be a loss from speculation business.
- (iii) **Loss from one business can be carried forward & set-off against the income from any other business:** The loss may be carried forward and set-off against the income from business or profession though not necessarily against the profits and gains of the same business or profession in which the loss was incurred.

However, a loss carried forward cannot, under any circumstances, be set-off against the income from any head other than "Profits and gains of business or profession".

- (iv) **Person who incurred the loss alone is entitled to carry forward & set-off the loss:** The loss can be carried forward and set off only against the profits of the assessee who incurred the loss. That is, only the person who has incurred the loss is entitled to carry forward & set off the same. Consequently, the successor of a business cannot carry forward & set off the losses of his predecessor except in the case of succession by inheritance.
- (v) **Maximum period for carry forward & set-off of losses:** Any unabsorbed business loss can be carried forward to the following tax year for a maximum period of **8 tax years** immediately succeeding the tax year for which the loss was first computed.

ILLUSTRATION 3

Mr. B, a resident individual, furnishes the following particulars for the tax year 2026-27:

Particulars	₹
<i>Income from salaries (computed)</i>	45,000
<i>Income from house property</i>	(24,000)
<i>Income from non-speculative business</i>	(22,000)
<i>Income from speculative business</i>	(4,000)

Short-term capital losses	(25,000)
Long-term capital gains taxable u/s 197	19,000

What is the total income chargeable to tax for the tax year 2026-27, assuming that he pays tax under section 202(1)?

SOLUTION

Total income of Mr. B for the tax year 2026-27

Particulars	Amount (₹)	Amount (₹)
Income from salaries		45,000
Income from house property		
Loss from house property can neither be set-off nor can be carried forward, since Mr. B is paying tax under the default tax regime u/s 202(1)	Nil	
Profits and gains of business and profession		
Business loss to be carried forward [Note (i)]	(22,000)	
Speculative loss to be carried forward [Note (ii)]	(4,000)	
Capital Gains		
Long term capital gain taxable u/s 197	19,000	
Short term capital loss of ₹ 25,000 set off against long-term capital gains to the extent of ₹ 19,000	(19,000)	
	Nil	
Balance short term capital loss of ₹ 6,000 to be carried forward [Note (iii)]		
Taxable income		45,000

Notes:

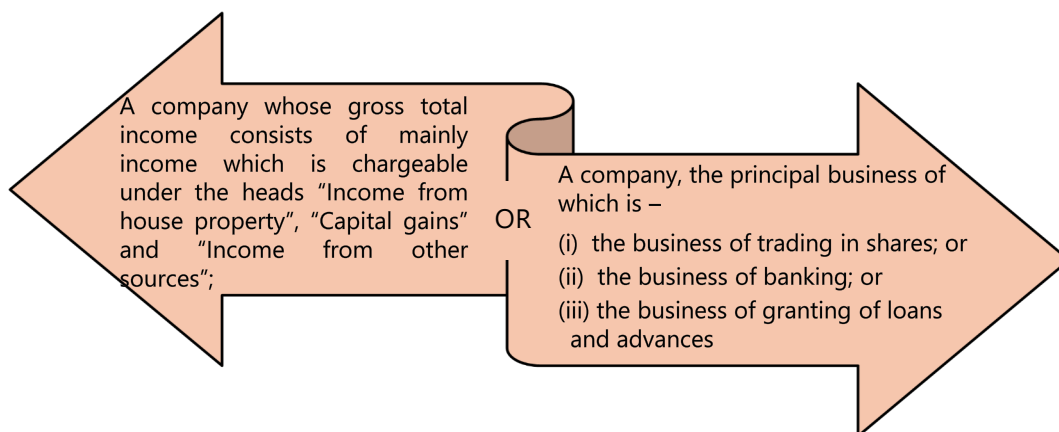
- (i) Business loss cannot be set-off against salary income. Therefore, loss of ₹ 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss must be carried forward to the next tax year for set-off against business profits, if any.
- (ii) Loss of ₹ 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss must be carried forward.

- (iii) Short term capital loss can be set off against both short term capital gain and long-term capital gain. Therefore, short-term capital loss of ₹ 25,000 can be set-off against long-term capital gains to the extent of ₹ 19,000. The balance short term capital loss of ₹ 6,000 cannot be set-off against any other income and has to be carried forward to the next tax year for set-off against capital gains, if any.

8. LOSSES IN SPECULATION BUSINESS [SECTION 113]

- (i) **Meaning of Speculation business** - The meaning of the expression 'speculative transaction' as defined in section 66(31) and 'speculation business' as defined in section 26(3) has already been discussed under the head "Profits and gains of business or profession".
- (ii) **When a business of a company deemed to be carrying on a speculation business:** Where any part of the business of a company consists of purchase and sale of shares of other companies, then such company shall be deemed to be carrying on speculation business, to the extent to which its business consists of purchase and sale of such shares.

However, this deeming provision does **not** apply to the following companies –



- (iii) **Set-off and carry forward & set-off of loss from speculation business:** Since speculation is deemed to be a business distinct and separate from any other business carried on by the assessee, the losses incurred in speculation business can neither be set off in the same year against any other non-

speculation income nor be carried forward and set off against other income in the subsequent years.

Therefore, if the losses sustained by an assessee in a speculation business cannot be set-off in the same year against any other speculation profit, they can be carried forward to subsequent tax years and set-off only against income from any speculation business carried on by the assessee. Loss from the activity of trading in derivatives, however, is not to be treated as speculative loss.

- (iv) **Maximum period for carry forward & set-off of losses:** Any unabsorbed loss in speculation business can be carried forward to the following tax year for a **maximum period of 4 tax years** immediately succeeding the tax year for which the loss was first computed.

									
7.	<i>A company engaged in the business of purchase and sale of shares of other companies shall not be deemed to be carrying on a speculation business if:</i> <table> <tr> <td>(a)</td><td><i>The principal business of the company is trading in shares, banking, or granting of loans and advances.</i></td></tr> <tr> <td>(b)</td><td><i>The gross total income of the company mainly consists of income chargeable under the heads "Income from House Property", "Capital Gains", and "Income from Other Sources".</i></td></tr> <tr> <td>(c)</td><td><i>Both (a) and (b)</i></td></tr> <tr> <td>(d)</td><td><i>Either (a) or (b)</i></td></tr> </table>	(a)	<i>The principal business of the company is trading in shares, banking, or granting of loans and advances.</i>	(b)	<i>The gross total income of the company mainly consists of income chargeable under the heads "Income from House Property", "Capital Gains", and "Income from Other Sources".</i>	(c)	<i>Both (a) and (b)</i>	(d)	<i>Either (a) or (b)</i>
(a)	<i>The principal business of the company is trading in shares, banking, or granting of loans and advances.</i>								
(b)	<i>The gross total income of the company mainly consists of income chargeable under the heads "Income from House Property", "Capital Gains", and "Income from Other Sources".</i>								
(c)	<i>Both (a) and (b)</i>								
(d)	<i>Either (a) or (b)</i>								
8.	<i>Mr. Amit has earned salary income of ₹ 6,00,000 during T.Y. 2026-27. He has incurred a loss from house property of ₹ 2,00,000 and a business loss of ₹ 3,00,000. Compute his Gross Total Income if he shifts out of the default tax regime for T.Y. 2026-27.</i> <table> <tr> <td>(a)</td><td><i>₹ 6,00,000</i></td></tr> <tr> <td>(b)</td><td><i>₹ 4,00,000</i></td></tr> <tr> <td>(c)</td><td><i>₹ 1,00,000</i></td></tr> <tr> <td>(d)</td><td><i>₹ 3,00,000</i></td></tr> </table>	(a)	<i>₹ 6,00,000</i>	(b)	<i>₹ 4,00,000</i>	(c)	<i>₹ 1,00,000</i>	(d)	<i>₹ 3,00,000</i>
(a)	<i>₹ 6,00,000</i>								
(b)	<i>₹ 4,00,000</i>								
(c)	<i>₹ 1,00,000</i>								
(d)	<i>₹ 3,00,000</i>								



9. CARRY FORWARD & SET OFF OF LOSSES OF SPECIFIED BUSINESSES [SECTION 114]

(i) Set-off and Carry forward & set-off of losses of specified business:

If the assessee exercises the option of shifting out of the default tax regime and carrying on specified business

Any loss computed from specified business referred to in section 46 can be set off only against profits and gains, of any other specified business.

The unabsorbed loss, if any, will be carried forward for set off against profits and gains of any specified business in the following tax year and so on.

If the assessee pays tax at concessional rate u/s 202(1)

The deductions under section 46 would not be available; therefore, no PGBP loss can be generated from this specific provision.

In such case, the loss, if any, from this business will be normal business loss and such losses can be set off and carry forward as per section 112.

(ii) **Loss can be set-off indefinitely:** There is no time limit specified for carry forward and set-off and therefore, such loss can be carried forward indefinitely for set-off against income from specified business.

Under the optional tax regime, the loss of an assessee claiming deduction under section 46 in respect of a specified business can be set-off against the profit of another specified business under section 114, irrespective of whether the latter is currently eligible for deduction under section 46. An assessee can, therefore, set-off the losses of a hospital or hotel which begins to operate after 1st April, 2010 and which is eligible for deduction under section 46, against the profits of the existing business of operating a hospital (with atleast 100 beds for patients) or a hotel (of two-star or above category), even if the latter is currently not eligible for deduction under section 46.

10. LOSSES FROM THE SPECIFIED ACTIVITY [SECTION 115]

- (i) **Set-off and Carry forward & set-off of loss:** According to the provisions of section 115, the losses incurred by an assessee from the specified activity shall be set-off only against income from specified activity.
- (ii) **Meaning of specified activity:** Activity of owning and maintaining race horses.



Loss from owning and maintaining race horses should **not be confused** with casual winnings from horse races (i.e. betting). No loss shall be allowed to be set off against income from such casual income such as 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.

- (iii) **Maximum period for carry forward & set-off of losses:** If loss from the specified activity cannot be fully set off in the same tax year, the amount of loss not so set off shall be carried forward to the next tax year and set off only against income from that same activity.

Such loss can be carried forward to the following tax year for a **maximum of 4 tax years** immediately succeeding the year for which the loss was first computed.

- (iv) **Meaning of certain terms:**

Term	Meaning
Horse race	A horse race upon which wagering or betting maybe lawfully made.
Income by way of stake money	The gross amount of prize money received on a race horse or race horses by the owner thereof on account of the horse or horses or anyone or more of the horses winning winning a particular position in horse race.
Loss incurred by the assessee in specified activity	The amount by which the income by way of stake money, if any, falls short of the expenditure, not being capital expenditure, incurred wholly and exclusively for maintaining race horses i.e., Loss = Stake money – revenue expenditure for the purpose of owning and maintaining race horses.

ILLUSTRATION 4

Mr. D has the following income for the tax year 2026-27:

Particulars	₹
Income from the activity of owning and maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss (relating to tax year 2025-26)	50,000
Brought forward loss from the activity of owning and maintaining the race horses (relating to tax year 2023-24)	96,000

What is the total income in the hands of Mr. D for the tax year 2026-27?

SOLUTION**Total income of Mr. D for the tax year 2026-27**

Particulars	₹	₹
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss of ₹ 96,000 from the activity of owning and maintaining race horses set-off to the extent of ₹ 75,000	(75,000)	
	Nil	
Balance loss of ₹ 21,000 (₹ 96,000 – ₹ 75,000) from the activity of owning and maintaining race horses to be carried forward to tax year 2027-28		
Income from textile business	85,000	
Less: Brought forward business loss from textile business	(50,000)	35,000
Total income		35,000

Note: Loss from the activity of owning and maintaining race horses cannot be set-off against any other source/head of income.

11. ORDER OF SET-OFF OF LOSSES

As per the provisions of section 112, brought forward business loss is to be set-off before setting off unabsorbed depreciation. Therefore, the order in which set-off will be effected is as follows –

- (a) Current year depreciation [Section 33(1)];

- (b) Current year capital expenditure on scientific research and current year expenditure on family planning, to the extent allowed.
- (c) Brought forward loss from business/profession [Section 112];
- (d) Unabsorbed depreciation [Section 33(11)];
- (e) Unabsorbed capital expenditure on scientific research [Section 45(7)];
- (f) Unabsorbed expenditure on family planning [Section 32(i)].



Is brought forward unabsorbed depreciation treated as brought forward business loss as per section 112?

No, as per section 33(11)(b), the unabsorbed depreciation brought forward from the previous tax year is added to the current year's depreciation and is deemed to form part of the depreciation allowance of the current year. Consequently, the entire depreciation (current year's depreciation plus the brought-forward unabsorbed depreciation) is allowable as deduction in the computation of income for the year. In accordance with section 109, such depreciation being treated as current year's depreciation may be set off against income assessable under any head of income, except income under the head "Salaries".

Since brought-forward unabsorbed depreciation is not treated as a business loss as per section 112, the provisions governing the carry forward and set-off of business losses do not apply to it.

ILLUSTRATION 5

Mr. E has furnished his details for the tax year 2026-27 as under:

Particulars	₹
<i>Income from salaries (computed)</i>	<i>1,50,000</i>
<i>Income from speculation business</i>	<i>60,000</i>
<i>Loss from non-speculation business</i>	<i>(40,000)</i>
<i>Short term capital gain</i>	<i>80,000</i>
<i>Long term capital loss of tax year 2024-25</i>	<i>(30,000)</i>
<i>Winning from lotteries (Gross)</i>	<i>20,000</i>

Compute the total income of Mr. E for the tax year 2026-27.

SOLUTION**Computation of total income of Mr. E for the tax year 2026-27**

Particulars	₹	₹
Income from salaries		1,50,000
Income from speculation business	60,000	
Less: Loss from non-speculation business	(40,000)	20,000
Short-term capital gain		80,000
Winnings from lotteries		20,000
Taxable income		2,70,000

Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the next tax year.

12. SUBMISSION OF RETURN OF LOSSES [SECTION 121]

As per section 121,

- ♦ loss under the head "Capital Gains" under section 111(1)
- ♦ business loss under section 112(1),
- ♦ speculation business loss under section 113(2),
- ♦ loss from specified business under section 114(2), in case the assessee exercises the option of shifting out of the default tax regime and
- ♦ loss from specified activity i.e., activity of owning and maintaining race horses under section 115(2),

which has not been determined in pursuance of a return filed under section 263(1) cannot be carried forward and set-off. Thus, the assessee must have filed a return of loss under section 263(1) in order to carry forward and set off of such losses. Such a return of loss should be filed within the time allowed under section 263(1).



This condition does not apply to a loss from house property carried forward under section 110 and unabsorbed depreciation carried forward under section 33(11).

Quiz Time

9.	A person is eligible to claim the following deductions/losses: (1) Unabsorbed depreciation (2) Current scientific research expenditure (3) Current year depreciation (4) Brought forward business loss The correct order of priority for set-off is:
(a)	(4), (3), (2) and (1)
(b)	(2), (3), (4) and (1)
(c)	(3), (2), (4) and (1)
(d)	(1), (2), (3) and (4)
10.	Mr. Naveen having a sales turnover of ₹ 60 lakhs filed his return of income for the Tax Year 2026-27 after the due date. He has a business loss of ₹ 55,000 and unabsorbed depreciation of ₹ 1,00,000. Which of the following amounts can be carried forward to subsequent tax years for set off?
(a)	Both unabsorbed business loss of ₹ 55,000 and unabsorbed depreciation of ₹ 1,00,000
(b)	Only unabsorbed business loss of ₹ 55,000
(c)	Neither unabsorbed business loss of ₹ 55,000 nor unabsorbed depreciation of ₹ 1,00,000
(d)	Only unabsorbed depreciation of ₹ 1,00,000



LET US RECAPITULATE

Inter-source and Inter-head set-off of losses [Sections 108 & 109]

Section	Provision	Exceptions	
108	<u>Inter-source set-off of losses under the same head of income</u> Any loss in respect of one source shall be set-off against income from any other source under the same head of income. For example, - loss from textile business can be set-off against profit from printing business. - loss from one house property can be set-off against income from another house property. - short-term capital loss (STCL) can be set-off against both STCG and LTCG.	(i)	Loss from speculation business can be set-off only against profits and gains from another speculation business.
		(ii)	Long term capital loss (LTCL) can be set-off only against Long term capital gains (LTCG).
		(iii)	Loss from specified activity can be set-off only against income from specified activity (Activity of owning and maintaining race horses).
		(iv)	An assessee carrying on specified business u/s 46 and exercising the option of shifting out of the default tax regime would be eligible for deduction u/s 46. In such a case, loss from specified business under section 46 can be set-off only against profits from any other specified business.
109	<u>Inter head adjustment</u> Loss under one head of income can be set-off against income under another head. For example, business loss can be set-off against income from house property.	(i)	Loss under the head "Profits and gains of business or profession" cannot be set off against income under the head "Salaries"
		(ii)	Loss under the head "Capital gains" cannot be set-off against income under any other head.
		(iii)	Loss from speculation business and loss from specified activity cannot be set-off against income under any other head.

		(iv)	In case of an assessee exercising the option of shifting out of the default tax regime and claiming deduction u/s 46, loss from specified business u/s 46 cannot be set off against income under any other head.
		(v)	The loss under the head "Income from house property" would not be allowable to be set-off against income under the other head and cannot be carried forward if the assessee pays tax at concessional rate u/s 202(1). However, if the assessee exercises the option of shifting out of the default tax regime, loss from house property can be set-off against income under any other head only to the extent of ₹ 2 lakhs. The remaining loss can be carried forward for set-off against income from house property of the succeeding tax year(s).

Losses which cannot be set-off or carried forward

Loss from gambling, betting, card games etc.

Loss from an exempt source [for example, share of loss of partnership firm cannot be set-off against any other business income]

Maximum period of carry forward of losses & Manner of set-off of brought forward losses

Section	Nature of loss to be carried forward	Income against which brought forward loss can be set-off	Maximum period [from the end of the tax year] for carry forward of losses
33(11)	Unabsorbed depreciation	Income under any head other than salaries	Indefinite period

110	Unabsorbed loss from house property	Income from house property	8 tax years
111	Long-term capital loss	Long-term capital gains	8 tax years
	Short-term capital loss	Short-term/Long-term capital gains	8 tax years
112	Unabsorbed business loss	Profits and gains from business or profession	8 tax years
113	Loss from speculation business	Income from any speculation business	4 tax years
114	Loss from specified business u/s 46, in case of an assessee exercising the option of shifting out of the default tax regime	Profit from any specified business, irrespective of whether such business is eligible for deduction u/s 46.	Indefinite period
115	Loss from specified activity i.e., the activity of owning and maintaining race horses	Income from specified activity.	4 tax years

Order of set-off of losses

1. Current year depreciation / Current year capital expenditure on scientific research and current year expenditure on family planning, to the extent allowed.
2. Brought forward loss from business/profession [Section 112(1)]
3. Unabsorbed depreciation [Section 33(11)]
4. Unabsorbed capital expenditure on scientific research [Section 45(7)].
5. Unabsorbed expenditure on family planning [Section 32(i)]

Note - As per section 121, filing of loss return under section 263(1) within the due date specified under section 263(1) is mandatory for carry forward of the above losses except loss from house property and unabsorbed depreciation.



TEST YOUR KNOWLEDGE

1. Compute the gross total income of Mr. F for the tax year 2026-27 from the information given below –

Particulars	₹
Income from house property (Computed)	1,25,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of unlisted shares	56,000
Long term capital loss from sale of property (brought forward from tax year 2025-26)	(90,000)
Income from tea business	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

2. Mr. Soohan submits the following details of his income for the tax year 2026-27:

Particulars	₹
Income from salary (computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron ore business for tax year 2021-22 (discontinued in tax year 2022-23)	(-) 1,20,000
Short term capital loss	(-) 60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Short-term capital loss under section 196	(-) 10,000
Bank interest on Fixed deposit	5,000

Calculate gross total income and losses to be carried forward, assuming that he has exercised the option of shifting out of the default tax regime.

3. Mr. Batra furnishes the following details for tax year year ending 31.03.2027:

Particulars	₹
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 unlisted shares	1,00,000
Income from business of textile (after allowing current year depreciation)	50,000
Income from activity of owning and maintaining race horses	15,000
Income from salary (computed)	1,00,000
Loss from house property	40,000

Following are the brought forward losses:

- (i) Losses from activity of owning and maintaining race horses-pertaining to tax year 2023-24 - ₹25,000.
- (ii) Brought forward loss from business of textile ₹60,000 - Loss pertains to tax year 2018-19.

Compute gross total income of Mr. Batra for the tax year 2026-27, assuming that he has exercised the option of shifting out of the default tax regime. Also determine the losses eligible for carry forward to the tax year 2027-28.

4. Mr. A furnishes you the following information for the tax year ended 31.03.2027:

		(₹)
(i)	Income from plying of vehicles (Computed as per books) (He owned 5 light goods vehicle throughout the year)	3,20,000
(ii)	Income from retail trade of garments (Computed as per books) (Sales turnover ₹1,35,70,000) Mr. A had declared income on presumptive basis for the first time in tax year 2025-26. Assume 10% of the turnover during the tax year 2026-27 was received in cash and	7,50,000

	<i>balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card.</i>	
(iii)	<i>He has brought forward depreciation relating to tax year 2024-25</i>	<i>1,00,000</i>

Compute taxable income of Mr. A and his tax liability for the tax year 2026-27 with reasons for your computation, assuming that he exercises the option of shifting out of the default tax regime.

5. Mr. Aditya furnishes the following details for the tax year ended 31-03-2027:

Particulars	Amount (₹)
<i>Loss from speculative business A</i>	<i>25,000</i>
<i>Income from speculative business B</i>	<i>5,000</i>
<i>Loss from specified business covered under section 46</i>	<i>20,000</i>
<i>Income from salary (computed)</i>	<i>3,00,000</i>
<i>Loss from let out house property</i>	<i>2,50,000</i>
<i>Income from trading business</i>	<i>45,000</i>
<i>Long-term capital gain from sale of urban land</i>	<i>2,00,000</i>
<i>Long-term capital loss on sale of shares (STT not paid)</i>	<i>75,000</i>
<i>Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)</i>	<i>1,02,000</i>

Following are the brought forward losses:

- (1) *Losses from owning and maintaining of race horses pertaining to tax year 2024-25 ₹ 2,000.*
- (2) *Brought forward loss from trading business ₹ 5,000 relating to tax year 2021-22.*

Compute the total income of Mr. Aditya and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime.

6. Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the tax year 2026-27:

	Particulars	₹
(1)	Income from Salary (computed)	15,000
(2)	Income from business	66,000
(3)	Long term capital gain on sale of land	10,800
(4)	Loss on maintenance of race horses	15,000
(5)	Loss from gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to tax year 2025-26 are as follows:

	Particulars	₹
(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. Garg for the tax year 2026-27 and the amount of loss, if any that can be carried forward or not.

7. The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the tax year ended 31.3.2027:

	Particulars	₹
	Income from salaries (computed)	2,20,000
	Loss from house property	1,90,000
	Loss from cloth business	2,40,000
	Income from speculation business	30,000
	Loss from specified business covered by section 46	20,000
	Long-term capital gains from sale of urban land	2,50,000
	Loss from card games	32,000
	Income from betting (Gross)	45,000

Compute the gross total income and show the items eligible for carry forward, assuming that he has exercised the option of shifting out of the default tax regime.

8. Mr. Rajat submits the following information for the tax year ending 31st March, 2027. He decides to pay tax under the default tax regime u/s 202(1). He desires that you should:

- (a) Compute the total income; and
- (b) Ascertain the amount of losses that can be carried forward.

Particulars	₹
(i) He has two let out house property:	
(a) House No. I – Income after all statutory deductions	72,000
(b) House No. II – Current year loss	(30,000)
(ii) He has three proprietary businesses:	
(a) Textile Business:	
(i) Discontinued from 31 st October, 2025 – Current year loss	40,000
(ii) Brought forward business loss of tax year 2021-22	95,000
(b) Chemical Business:	
(i) Discontinued from 1 st March, 2023 – hence no profit/loss	Nil
(ii) Bad debts allowed in earlier years recovered during this year	35,000
(iii) Brought forward business loss of tax year 2022-23	50,000
(c) Leather Business: Profit for the current year	1,00,000
(d) Share of profit in a firm in which he is partner since 2009	16,550
(iii) (a) Short-term capital gain	60,000
(b) Long-term capital loss	35,000
(iv) Contribution to LIC towards premium	10,000

9. Ms. Geeta, a resident individual, provides the following details of her income/losses for the year ended 31.3.2027:
- (i) Salary received as a partner from a partnership firm ₹7,50,000. The same was allowed to the firm.

- (ii) Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
- (iii) Long-term capital gain on sale of land ₹ 5,00,000.
- (iv) ₹ 51,000 received in cash from friends in party.
- (v) ₹ 55,000, being dividend income on listed equity shares of domestic companies.
- (vi) Brought forward business loss of tax year 2025-26 ₹ 12,50,000.

Compute gross total income of Ms. Geeta for the tax year 2026-27 and ascertain the amount of loss that can be carried forward.

10. Mr. P, a resident individual, furnishes the following particulars of his income and other details for the tax year 2026-27:

Sl. No.	Particulars	₹
(i)	Income from salary (computed)	18,000
(ii)	Net annual value of house property	70,000
(iii)	Income from business	80,000
(iv)	Income from speculative business	12,000
(v)	Long term capital gain on sale of land	15,800
(vi)	Loss on maintenance of race horse	9,000
(vii)	Loss on gambling	8,000

Depreciation allowable under the Income-tax Act, 2025, comes to ₹ 8,000, for which no treatment is given above.

The other details of unabsorbed depreciation and brought forward losses (pertaining to tax year 2025-26) are:

Sl. No.	Particulars	₹
(i)	Unabsorbed depreciation	9,000
(ii)	Loss from speculative business	16,000
(iii)	Short term capital loss	7,800

Compute the gross total income of Mr. P for the tax year 2026-27, and the amount of loss that can or cannot be carried forward.

11. Mr. Prakash furnishes the following information for the tax year 2026-27:

Particulars	₹
Loss from speculation business-X	85,000
Profit from speculation business-Y	45,000
Interest on borrowings in respect of self-occupied house property	3,18,000
Income from let out house property	1,20,000
Presumptive Income from trading and manufacturing business under section 58	1,00,000
Salary from XYZ (P) Ltd.	5,25,000
Interest on PPF deposit	75,000
Long term capital gain on sale of Vacant site	1,25,000
Short term capital loss on sale of Jewellery	65,000
Investment in tax saver deposit on 31-03-27	60,000

Compute the total income of Mr. Prakash for the tax year 2026-27 also show the loss eligible to be carried forward. Assume that he has opted out of the default tax regime.

12. Mr. Jaji is a chartered accountant and his income from profession for the year 2026-27 is ₹ 10,00,000. He provides you with the following information for the year 2026-27.

Particulars	₹
Income of minor son Biju from company deposit	1,50,000
Income of minor daughter Chitra (professional dancer)	20,00,000
Interest from SBI received by Chitra on deposit made in 2026 out of her special talent	20,000
Gift received by Chitra on 30-09-2026 from friends of Mr. Jaji on winning National award	45,000
Short term capital loss of Mr. Jaji	6,00,000
Long term capital gain of Mr. Jaji	4,00,000
Long term capital gains from shares (STT paid) of Mr. Jaji	10,00,000
Short term capital loss under section 196 of Mr. Jaji	10,00,000

Compute the total income of Mr. Jaji for tax year 2026-27 and the losses to be carried forward. Mr. Jaji has opted out of the default tax regime.

ANSWERS

1. Gross Total Income of Mr. F for the tax year 2026-27

Particulars	₹	₹
Income from house property (Computed)		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	(26,000)	
Less: Brought forward business loss	(45,000)	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Capital gains		
Short-term capital gains		56,000
Income from Other Sources		
Dividend income		80,000
Gross Total Income		3,73,000

Notes:

- (1) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;
- (2) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of ₹ 90,000 brought forward from tax year 2025-26 cannot be set-off in the tax year 2026-27, since there is no long-term capital gains in that year. It has to be carried forward for set-off against long-term capital gains, if any, during tax year 2027-28.

2. Computation of Gross Total Income of Mr. Soohan for the tax year 2026-27

Particulars	₹	₹
Salaries		
Income from salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 109	(40,000)	2,60,000

Profits and gains of business or profession		
Income from sugar business	50,000	
Less: Brought forward loss of ₹ 1,20,000 from iron-ore business set-off as per section 112(1) to the extent of ₹ 50,000	(50,000)	Nil
Balance business loss of ₹ 70,000 of tax year 2021-22 to be carried forward to tax year 2027-28		
Capital gains		
Long term capital gain	40,000	
Less: Short term capital loss of ₹ 60,000 set-off to the extent of ₹ 40,000	(40,000)	Nil
Balance short-term capital loss of ₹ 20,000 to be carried forward to tax year 2027-28		
Short-term capital loss of ₹ 10,000 u/s 196 also to be carried forward		
Income from other sources		
Dividend	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank FD interest	5,000	66,000
Gross Total Income		3,26,000
Losses to be carried forward to tax year 2027-28		
Loss of iron-ore business (₹ 1,20,000 – ₹ 50,000)	70,000	
Short term capital loss (₹ 20,000 + ₹ 10,000)	30,000	

Note: Agricultural income is exempt under Schedule II (Table: S. No. 1).

3. Computation of Gross Total Income of Mr. Batra for the tax year 2026-27

Particulars	₹	₹
Salaries	1,00,000	
Less: Current year loss from house property	(40,000)	60,000

Profit and gains of business or profession		
Income from textile business	50,000	NIL
Less: Loss of ₹ 60,000 from textile business b/f from tax year 2018-19 set-off to the extent of ₹ 50,000 [See Note 1]	(50,000)	
Income from specified activity i.e., the activity of owning and maintaining race horses	15,000	NIL
Less: Loss of ₹ 25,000 from specified activity i.e., activity of owning and maintaining race horses b/f from tax year 2023-24 set-off to the extent of ₹ 15,000	(15,000)	
Balance loss of ₹ 10,000 to be carried forward to tax year 2027-28 [See Note 2]		1,40,000
Capital Gain		
Short term capital gain		NIL
Long term capital gain on sale of land	30,000	
Less: Long term capital loss of ₹ 1,00,000 on sale of unlisted shares set-off to the extent of ₹ 30,000	(30,000)	2,00,000
Balance loss of ₹ 70,000 to be carried forward to tax year 2027-28 [See Note 3]		
Gross Total Income		

Losses to be carried forward to tax year 2027-28

Particulars	₹
Current year loss from speculative business [See Note-4]	60,000
Current year long term capital loss on sale of unlisted shares	70,000
Loss from specified activity i.e., activity of owning and maintaining of race horse pertaining to tax year 2023-24	10,000

Notes: -

- (1) As per section 112, business loss can be carried forward for a maximum of eight tax years immediately succeeding the tax year for which the loss was first computed. Since the eight year period for carry forward of business loss of tax year 2018-19 expired in the tax year 2026-27, the balance unabsorbed business loss of ₹ 10,000 cannot be carried forward to tax year 2027-28.
- (2) As per section 115, the loss from specified activity cannot be set-off against income from any source other than specified activity i.e., the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 tax years.
- (3) Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of ₹ 70,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent tax year. Such long-term capital loss can be carried forward for a maximum of eight tax years.
- (4) Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 113 to be set-off against income from speculation business.

**4. Computation of total income and tax liability of
Mr. A for the tax year 2026-27**

Particulars	₹
Income from retail trade – as per books (See Note 1 below)	7,50,000
Income from plying of vehicles – as per books (See Note 2 below)	3,20,000
	10,70,000
Less : Set off of b/f depreciation relating to tax year 2024-25	(1,00,000)
Total income	9,70,000
Tax liability	1,06,500
Add: Health and Education cess@4%	4,260
Total tax liability	1,10,760

Note:

1. **Income from retail trade:** Presumptive business income under section 58(2) (Table: S. No. 1) is ₹ 8,41,340 i.e., 8% of ₹ 13,57,000, being 10% of the turnover received in cash and 6% of ₹ 1,22,13,000, being the amount of sales turnover received through specified banking or online mode. However, the income computed as per books is ₹ 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ₹ 1,00,000. Since the income computed as per books is lower than the income deemed under section 58, the assessee can adopt the income as per books.

However, if he does not declare profits as per presumptive taxation under section 58, he has to get his books of accounts audited under section 63, since his turnover exceeds ₹ 1 crore (the enhanced limit of ₹ 10 crore would not be available, since more than 5% of the turnover is received in cash). Also, his case would be falling under section 58(3) and hence, tax audit is mandatory. It may further be noted that he cannot declare income under presumptive provisions under section 58 for next five tax years, if he does not declared profits as per presumptive provisions under section 58 this year.

2. **Income from plying of light goods vehicles:** Income calculated under section 58(2) (Table: S. No. 2) would be ₹ 7,500 x 12 x 5 which is equal to ₹ 4,50,000. However, the income from plying of vehicles as per books is ₹ 3,20,000, which is lower than the presumptive income of ₹ 4,50,000 calculated as per section 58(2) (Table S. No. 2). Hence, the assessee can adopt the income as per books i.e. ₹ 3,20,000, provided he maintains books of account as per section 62 and gets his accounts audited and furnishes an audit report as required under section 63.

It is to be further noted that in both the above cases, if income is declared under presumptive provisions, no loss, allowance or deduction shall be allowable against income computed as per section 58(2).

If income is declared as per presumptive provisions, his total income would be as under:

Particulars	₹
Income from retail trade under section 58 [₹ 13,57,000@ 8% plus ₹ 1,22,13,000 @6%]	8,41,340
Income from plying of light goods vehicles under section 58 [₹ 7,500 x 12 x 5]	4,50,000
	12,91,340
Less: Set off of brought forward depreciation – not possible as it is deemed that it has been allowed and set off	Nil
Total income	12,91,340
Tax thereon	1,99,902
Add : Health and Education cess @4%	7,996
Total tax liability	2,07,898
Total tax liability (rounded off)	2,07,900

5. **Computation of total income of Mr. Aditya for the tax year 2026-27**

Particulars	₹	₹
Salaries		
Income from Salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 109 [Loss from house property to the extent of ₹ 23,000 can be set off first against remaining capital gain and then balance ₹ 1,77,000 against Salaries]	(1,77,000)	1,23,000
Loss from house property to the extent not set off i.e. ₹ 50,000 (₹ 2,50,000 – ₹ 2,00,000) to be carried forward to tax year 2027-28		
Profits and gains of business or profession		
Income from trading business	45,000	
Less: Brought forward loss from trading business of tax year 2021-22 can be set off against current year income from trading business as per section		

112, since the eight year time limit as specified under section 112, within which set-off is permitted, has not expired.	(5,000)	40,000
Income from speculative business B	5,000	
<i>Less:</i> Loss of ₹ 25,000 from speculative business A set-off as per section 113 to the extent of ₹ 5,000	(5,000)	Nil
Balance loss of ₹ 20,000 from speculative business A to be carried forward to tax year 2027-28 as per section 113		
Loss of ₹ 20,000 from specified business covered under section 46 to be carried forward for set-off against income from specified business as per section 114.		
Capital Gains		
Long term capital gain on sale of urban land	2,00,000	
<i>Less:</i> Long term capital loss on sale of shares (STT not paid) set-off as per section 111]	(75,000)	
<i>Less:</i> Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 111, since long-term capital arising on sale of such shares is taxable under section 198	(1,02,000)	
<i>Less:</i> Set-off of loss from house property to the extent of	(23,000)	Nil
Total Income		1,63,000

Items eligible for carried forward to tax year 2027-28

Particulars	₹
<u>Loss from House property</u>	50,000
As per section 109, loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 since Mr. Aditya is exercising the option of shifting out of the default tax regime.	
As per section 110, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight tax years i.e., upto Tax Year 2034-35, in this case.	

<u>Loss from speculative business A</u> Loss from speculative business can be set-off only against profits and gains from any other speculation business. As per section 113, balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four tax years i.e., upto Tax Year 2030-31, in this case, as specified under section 113.	20,000
<u>Loss from specified business</u> Loss from specified business under section 46 can be set-off only against profits and gains of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 114, such loss can be carried forward indefinitely for set-off against profits of any specified business. Mr. Aditya is entitled to deduction u/s 46, since he has exercised the option of shifting out of the default tax regime. He can, accordingly, carry forward loss from such business indefinitely for set off against profits of any other specified business.	20,000
<u>Loss from specified activity i.e., the activity of owning and maintaining race horses</u> Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from specified activity i.e., the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four tax years, i.e., upto Tax Year 2028-29, in this case, as specified under section 115.	2,000

6. Computation of Gross Total Income of Mr. Garg for the tax year 2026-27

Particulars	₹	₹
(i) Income from salary		15,000
(ii) Profits and gains of business or profession	66,000	
Less: Unabsorbed depreciation brought forward from tax year 2025-26 (Unabsorbed depreciation can be set-off against any head of income other than "salary")	(11,000)	55,000

(iii) Capital gains		
Long-term capital gain on sale of land	10,800	
Less: Brought forward short-term capital loss [Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 111]	(9,800)	1,000
Gross Total Income		71,000

Amount of loss to be carried forward to tax year 2027-28

	Particulars	₹
(1)	Loss from speculative business [to be carried forward as per section 113] [Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from tax year 2025-26 has to be carried forward to tax year 2027-28 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 113, i.e., upto tax year 2029-30]	22,000
(2)	Loss on maintenance of race horses [to be carried forward as per section 115] [As per section 115, the loss incurred in the activity of owning and maintaining race horses in any tax year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four tax years i.e., upto tax year 2030-31]	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	

7. Computation of total income of Mr. Srivatsan for the tax year 2026-27

Particulars	₹	₹
Salaries		
Income from Salaries	2,20,000	
Less: Set off of balance loss of ₹ 1,50,000 from house property	(1,50,000)	70,000

Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business of ₹ 2,40,000 set off to the extent of ₹ 30,000	(30,000)	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Set-off of balance loss of ₹ 2,10,000 from cloth business	(2,10,000)	
Less: Set-off of loss from house property to the extent of	(40,000)	Nil
Income from other sources		
Income from betting		45,000
Gross Total Income		1,15,000

Losses to be carried forward:

Particulars	₹
(1) Loss from cloth business (₹ 2,40,000 – ₹ 30,000 – ₹ 2,10,000)	Nil
(2) Loss from specified business covered by section 46	20,000

Notes:

- Loss from specified business covered by section 46 can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year. Mr. Srivatsan is entitled to deduction u/s 46, since he has exercised the option of shifting out of the default tax regime. Therefore, he can carry forward loss of ₹ 20,000 from specified business referred u/s 46 indefinitely for set off against profits of any specified business.
- Business loss cannot be set off against salary income. However, the balance business loss of ₹ 2,10,000 (₹ 2,40,000 – ₹ 30,000 set-off against income from speculation business) can be set-off against long-term capital gains of ₹ 2,50,000 from sale of urban land.
- Loss from card games can neither be set off against any other income, nor can be carried forward.

- (iv) Income from betting is chargeable at a flat rate of 30% under section 194 and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

8. Computation of total income of Mr. Rajat for the tax year 2026-27

Particulars	₹	₹
1. Income from house property		
House No.1	72,000	
House No.2	(-) 30,000	42,000
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	
Bad debts recovered taxable under section 38(1)(d)	35,000	
	1,35,000	
Less: Current year loss of textile business	(-) 40,000	
	95,000	
Less: Brought forward business loss of textile business for tax year 2021-22 set off against the business income of current year	(-) 95,000	Nil
3. Capital Gains		
Short-term capital gain		60,000
Gross Total Income		1,02,000
Less: Deduction under Chapter VIII		
Under section 123 – LIC premium paid (not available since he is paying tax under the default tax regime)		-
Total Income		1,02,000

Statement of losses to be carried forward to tax year 2027-28

Particulars	₹
Brought forward chemical business loss of tax year 2022-23 to be carried forward u/s 112	50,000
Long term capital loss of tax year 2026-27 to be carried forward u/s 111	35,000

Notes:

- (1) Share of profit from firm of ₹ 16,550 is exempt under Schedule III (Table: Sl. No. 2).
- (2) Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set-off against long-term capital gains of that year.

**9. Computation of Gross Total Income of Ms. Geeta
for the tax year 2026-27**

Particulars	₹
Profits and gains of business and profession	
Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession"	7,50,000
Less: B/f business loss of tax year 2025-26 ₹ 12,50,000 to be set-off to the extent of ₹ 7,50,000	(7,50,000)
	Nil
(Balance b/f business loss of ₹ 5,00,000 can be carried forward to the next year)	
Capital Gains	
Long term capital gain on sale of land	5,00,000
Less: Long-term capital loss on shares on STT paid (See Note 2 below)	(3,00,000)
	2,00,000
Income from other sources	
Cash gift received from friends - since the value of cash gift exceeds ₹ 50,000, the entire sum is taxable	51,000
Dividend income from a domestic company	55,000
Gross Total Income	3,06,000

Notes:

1. Balance brought forward business loss of tax year 2025-26 of ₹ 5,00,000 has to be carried forward to the next tax year.
2. Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is

taxable under section 198. Therefore, it can be set-off against long-term capital gain on sale of land as per section 108.

10. Computation of Gross Total Income of Mr. P for the tax year 2026-27

Particulars	₹	₹
(i) Income from salary		18,000
(ii) Income from House Property		
Net Annual Value	70,000	
Less: Deduction under section 22(1) (30% of ₹ 70,000)	(21,000)	49,000
(iii) Income from business and profession		
(a) Income from business	80,000	
Less : Current year depreciation	(8,000)	
	72,000	
Less : Unabsorbed depreciation	(9,000)	63,000
(b) Income from speculative business	12,000	
Less : B/f loss of ₹ 16,000 from speculative business set-off to the extent of ₹ 12,000	(12,000)	Nil
(Balance loss of ₹ 4,000 (i.e. ₹ 16,000 – ₹ 12,000) can be carried forward to the next year)		
(iv) Income from capital gain		
Long-term capital gain on sale of land	15,800	
Less: Brought forward short-term capital loss	(7,800)	8,000
Gross total income		1,38,000

Amount of loss to be carried forward to the next tax year

Particulars	₹
Loss from speculative business (to be carried forward as per section 113)	4,000
Loss on maintenance of race horses (to be carried forward as per section 115)	9,000

Notes:

- (i) Loss on gambling can neither be set-off nor be carried forward.
- (ii) As per section 115, the loss from specified activity cannot be set-off against income from any other source other than the specified activity. Such loss can be carried forward for a maximum period of 4 tax years.
- (iii) Brought forward speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to tax year 2027-28. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 113.

11. Computation of total income of Mr. Prakash for tax year 2026-27

Particulars	₹	₹
Salary from XYZ (P) Ltd.	5,25,000	
Less: Standard Deduction u/s 19(1) (Table: S. No. 2)	50,000	
	4,75,000	
Less: Loss from house property of ₹ 20,000 [₹ 80,000 - ₹ 60,000, being the loss set-off against long-term capital gains]	(20,000)	4,55,000
Income from house property		
Income from let out house property	1,20,000	
Less: Loss from self-occupied house property to the extent of ₹ 2 lakhs, allowable as deduction u/s 22(2) in respect of interest on borrowings	(2,00,000)	
	(80,000)	
Profits and gains from business or profession		
Profit from speculation business Y	45,000	
Less: Loss of ₹ 85,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(45,000)	Nil
Presumptive Income from trading and manufacturing business		1,00,000

Capital Gains		
Long term capital gain on sale of vacant site	1,25,000	
Less: Short term capital loss on sale of jewellery	(65,000)	
	60,000	
Less: Loss from house property to be set-off to the extent of LTCG	(60,000)	Nil
Income from Other Sources		
Interest on PPF deposit	75,000	
Less: Exempt	75,000	Nil
Gross Total Income		5,55,000
Less: Deduction under Chapter VIII		
Deduction under section 123		
Investment in tax saver deposit on 31.3.2027		60,000
Total Income		4,95,000

Losses to be carried forward to tax year 2027-28

Particulars	₹
Loss from speculation business X (₹ 85,000 - ₹ 45,000)	40,000
Loss from speculation business can be set-off only against profits of any other speculation business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from speculation business, if any, in that year.	

12. Computation of Total Income of Mr. Jaji for tax year 2026-27

Particulars	₹	₹	₹
<u>Profits and gains from business and profession</u>			
Income from chartered accountancy profession			10,00,000
<u>Capital gains</u>			
Long term capital gains from STT paid shares		10,00,000	

Long term capital gain (other than above)		4,00,000	
		14,00,000	
<i>Less:</i> Short term capital loss set off against long-term capital gain as per section 108		(6,00,000)	
<i>Less:</i> Short term capital loss u/s 196 set off against long-term capital gain as per section 108 to the extent of		(8,00,000)	Nil
<u>Income from other sources</u>			
Income of minor son Biju			
Income from company deposit includible in the hands of Mr. Jaji as per section 99(1)(c)	1,50,000		
<i>Less:</i> Exemption in respect of income of minor child under schedule III (Table: S. No. 17)	1,500	1,48,500	
Income of minor daughter Chitra			
- Income of ₹ 20,00,000 of minor daughter Chitra (professional dancer) not includible in the hands of parent, since such income is earned on account of her special skills	Nil		
- Interest received on deposit with SBI made out of amount earned on account of her special talent is includible as per section 99(1)(c), since interest income arises out of deposit made and not on account of her special skills	20,000		
<i>Less:</i> Exemption in respect of income of minor child under Schedule III (Table: S. No. 17)	1,500	18,500	

Other incomes: - Gift of ₹ 45,000 received by her from friends of Mr. Jaji is not taxable under section 92(2)(m), since the aggregate amount from non-relatives does not exceed ₹ 50,000			
		Nil	1,67,000
Total Income			11,67,000

Losses to be carried forward to tax year 2027-28

Particulars	₹
Short term capital loss under section 196	2,00,000

Note – Short-term capital loss under section 196 can be set-off against long-term capital gains first. In such a case, the losses to be carried forward to tax year 2027-28 would be as under –

Particulars	₹
Short term capital loss (other than u/s 196)	2,00,000



Q.NO.	ANSWERS	
1.	(b)	Speculation business loss can be set off only against speculation business profits.
2.	(a)	Income chargeable under the head "Salaries"
3.	(a)	(i) Inter-source set-off; (ii) Inter-head set-off; and (iii) Set-off of brought forward losses.
4.	(d)	Either (a) or (b)
5.	(a)	Nil
6.	(d)	Cannot be set off against income under any other head
7.	(d)	Either (a) or (b)
8.	(b)	₹ 4,00,000
9.	(c)	(3), (2), (4) and (1)
10.	(d)	Only unabsorbed depreciation of ₹ 1,00,000