

9. SET OFF AND CARRY FORWARD OF LOSSES**ASSIGNMENT SOLUTIONS****PROBLEM NO.1**

Computation of total income of Sanjay for the A.Y. 2019-20

Particulars	Amount (Rs.)	Amount (Rs.)
Profit from wholesale trade in furniture items (as per section 44AD)	4,00,000	
Less: Set-off of current year loss from automobile business	(1,10,000)	
	2,90,000	
Less: Set-off of brought forward loss relating to discontinued textile business	(2,00,000)	90,000
Profit from speculation business related to oil seeds	1,10,000	
Less: Set-off of loss from speculation business brought forward from A.Y.2018-19 under section 73	(50,000)	60,000
Less: Set-off of brought forward unabsorbed depreciation relating to A.Y. 2018-19	Nil	
Total Income		1,50,000

PROBLEM NO.2

Computation of total income of Mr. Sitaraman for the A.Y. 2019-20

Particulars	Amount (Rs.)	Amount (Rs.)
Salaries		
Income from salaries	3,22,000	
Less: Loss from house property	(1,65,000)	1,57,000
Profits and gains of business or profession		
Income from speculation business	26,000	
Less: Loss from retail business set off	(26,000)	Nil
Capital gains		
Long-term capital gains from sale of residential house	3,60,000	
Less: Loss from retail business set off	(1,99,000)	
Less: Loss from sale of listed shares in recognised stock exchange	(1,21,000)	40,000
Income from other sources:		
Income from betting		51,000
Gross total income		2,48,000
Less: Deduction under section 80C for life insurance premium paid (restricted to 10% of Rs. 9 Lakh, being actual capital sum assured)		90,000
Total income		1,58,000

Losses to be carried forward:

Particulars	Amount (Rs.)
Loss from retail business (Rs. 2,25,000 - Rs. 26,000 - Rs. 1,99,000)	Nil
Loss from specified business covered by section 35AD	31,000

Notes:

- Loss from specified business covered by section 35AD 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 indefinitely for set-off against profits and gains of any specified business.
- Business loss cannot be set off against salary income. However, the balance business loss of Rs.1,99,000 (Rs.2,25,000 - Rs.26,000 set-off against income from speculation business) can be set-off against long-term capital gains of Rs.3,60,000 from sale of residential house. Consequently, the taxable long-term capital gains would be Rs.1,61,000.
- Loss from card games can neither be set off against any other income, nor can it be carried forward.
- Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

PROBLEM NO.3**Computation of taxable income of Mr. A for the A.Y. 2019-20**

Particulars	Amount (Rs.)	Amount (Rs.)
Income from salary	4,00,000	
Income from house property [Rs.2,20,000 (70,000 + 1,50,000) to be restricted to Rs. 2 lakhs by virtue of section 71(3A)]	(2,00,000)	2,00,000
Business income	(1,00,000)	
Income from other sources (interest on fixed deposit with bank)	80,000	
Business loss to be carried forward	(20,000)	-
Gross total income [See Note below]		2,00,000
Less: Deduction under Chapter VIA		Nil
Taxable income		2,00,000

Note: Gross Total Income includes salary income of Rs. 2,00,000 after adjusting loss of Rs. 2,00,000 from house property. The balance loss of Rs. 20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.

Business loss of Rs. 1,00,000 is set off against bank interest of Rs. 80,000 and remaining business loss of Rs. 20,000 will be carried forward as it cannot be set off against salary income.

PROBLEM NO.4**Taxable capital gains of Mr. C for the A.Y. 2019-20**

Particulars	(Rs.)	(Rs.)
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short term capital loss of the A.Y.2018-19	(37,000)	1,13,000
Long term capital gain	75,000	
Less: Brought forward long term capital loss of A.Y.2017-18 [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 A.Y.2017-18 of Rs. 21,000 (i.e. Rs. 96,000 - Rs. 75,000) has to be carried forward to the next year to be set-off against long-term capital gains of that year.

PROBLEM NO.5**Calculation of Gross Total Income of Mr. F for the A.Y. 2019-20**

Particulars	Amount (Rs.)	Amount (Rs.)
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
Gross Total Income		2,93,000

Note:

- Dividend from Indian companies is exempt from tax under section 10(34) to the extent of Rs. 10 lakh.
- 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;
- Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of Rs. 90,000 brought forward from A.Y. 2018-19 cannot be set-off in the A.Y. 2019-20, 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 A.Y. 2020-21.

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PROBLEM NO.6**Computation of Gross Total Income of Mr. Garg for the A.Y. 2019-20**

Particulars	Amount (Rs.)	Amount (Rs.)
i) Income from salary		15,000
ii) Profits and gains of business or profession	66,000	
Less: Unabsorbed depreciation brought forward from A.Y.2017-18	11,000	55,000
(Unabsorbed depreciation can be set-off against any head of income other than "salary")		
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 74(1)]	9,800	1,000
Gross Total Income		71,000

Amount of loss to be carried forward to A.Y. 2020-21

Particulars	Amount (Rs.)
1. Loss from speculative business [to be carried forward as per section 73]	22,000
[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 Rs. 22,000 brought forward from A.Y.2017-18 has to be carried forward to A.Y. 2020-21 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 73(4), i.e., up to A.Y.2021-22]	
2. Loss on maintenance of race horses [to be carried forward as per section 74A]	15,000
[As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment 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 assessment years i.e., up to A.Y.2023-24]	
3. Loss from gambling can neither be set-off nor be carried forward.	

PROBLEM NO.7**Computation of total income of Mr. Srivatsan for the A.Y.2019-20**

Particulars	Amount (Rs.)	Amount (Rs.)
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property	1,90,000	30,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business set off	30,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Loss from cloth business set off	2,10,000	40,000
Income from other sources		
Income from betting		45,000
Gross Total Income		1,15,000
Less: Deduction under section 80C (life insurance premium paid)		30,000
Total income		85,000

Losses to be carried forward:

Particulars	Amount (Rs.)
1. Loss from cloth business (Rs. 2,40,000 - Rs. 30,000 - Rs. 2,10,000)	Nil
2. Loss from specified business covered by section 35AD	20,000

Notes:

- i) Loss from specified business covered by section 35AD 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.

- ii) Business loss cannot be set off against salary income. However, the balance business loss of Rs. 2,10,000 (Rs. 2,40,000 – Rs. 30,000 set-off against income from speculation business) can be set-off against long-term capital gains of Rs. 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be Rs. 40,000.
- iii) Loss from card games can neither be set off against any other income, nor can be carried forward.
- iv) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium paid has to be restricted to Rs. 30,000 [i.e., Gross Total Income of Rs.1,15,000 – Rs. 40,000 (LTCG) – Rs. 45,000 (Casual income)].
- v) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

PROBLEM NO.8**Computation of taxable income of Mr. D for the A.Y. 2019-20**

Particulars	Rs.	Rs.
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss from the activity of owning and maintaining race horses	96,000	
Loss from the activity of owning and maintaining race horses to be c/f to A.Y. 2020-21	(21,000)	
Income from textile business	85,000	
Less: Brought forward business loss from textile business.	50,000	35,000
Taxable business 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.

PROBLEM NO.9**Computation of Gross Total Income of Mr. Batra for the A.Y. 2019-20**

Particulars	Amount (Rs.)	Amount (Rs.)
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	
Less: Loss from textile business brought forward from A.Y. 2011-12	60,000	
Balance business loss of A.Y. 2011-12 [See Note 1]	(10,000)	NIL
Income from the activity of owning and maintaining race horses	15,000	
Less: Loss from activity of owning and maintaining race horses brought forward from A.Y. 2016-17	25,000	
Loss to be carried forward to A.Y. 2020-21 [See Note 2]	(10,000)	NIL
Capital Gain		
Short term capital gain		1,40,000
Long term capital gain on sale of land	30,000	
Less: Long term capital loss on sale of unlisted shares	1,00,000	
Loss to be carried forward to A.Y. 2020-21 [See Note 3]	(70,000)	NIL
Gross Total Income		2,00,000

Losses to be carried forward to A.Y. 2020-21

Particulars	Amount (Rs.)
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 activity of owning and maintaining of race horse pertaining to A.Y.2016-17	10,000

Notes:

- As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of A.Y. 2011-12 expired in the A.Y. 2019-20, the balance unabsorbed business loss of Rs. 10,000 cannot be carried forward to A.Y. 2020-21.

2. As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment 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 Rs. 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 assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment 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 73(4) to be set off against income from speculation business.

PROBLEM NO.10**Computation of gross total income of Mr. Soohan for the A.Y.2019-20**

Particulars	(Rs.)	(Rs.)
Salaries		
Income from salary	3,00,000	
Less: Loss from house property set-off against salary income as per sec. 71	<u>40,000</u>	2,60,000
Profits and gains of business or profession		
Income from sugar business	50,000	
Less: Brought forward loss from iron-ore business set-off as per sec. 72(1)	<u>(50,000)</u>	Nil
Balance business loss of Rs.70,000 of P.Y.2013-14 carried forward to A.Y.2019-20	-	
Capital gains		
Long term capital gain	40,000	
Less: Short term capital loss set-off	40,000	Nil
Balance short-term capital loss of Rs. 20,000 to be carried forward		
Short-term capital loss of Rs. 10,000 under section 111A also to be carried forward		
Income from other sources		
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank interest	5,000	61,000
Gross Total Income		3,21,000
Losses to be carried forward to A.Y.2020-21		
Loss of iron-ore business	70,000	
Short term capital loss (Rs. 20,000 + Rs. 10,000)	30,000	

Notes:

1. The following income are exempt under section 10:
 - i) Dividend income [Exempt under section 10(34)], assuming that dividend is received from a domestic company.
 - ii) Agricultural income [Exempt under section 10(1)].
2. It is presumed that loss from iron-ore business relates to P.Y.2013-14, the year in which the business was discontinued.
3. Long-term capital gain on sale of shares on which STT is paid both at the time of acquisition & sale is exempt up to Rs. 1 lakh.

PROBLEM NO.11**Computation of total income of Simran for the A.Y. 2019-20**

Particulars	Rs.	Rs.
Profit of business of consumer and house-hold products	50,000	
Less: Loss of business of readymade garments for the year adjusted under sec. 70(1)	10,000	
Less: Brought forward loss of catering business closed in A.Y. 2018-19 set off against business income for the current year as per section 72(1)	<u>15,000</u>	25,000
Profit of speculative transaction		<u>12,500</u>
Total Income		37,500

Notes:

- Loss of speculative transaction of A.Y. 2014-15 is not allowed to be set off against the profit of speculative transaction of the A.Y.2019-20, since, as per the provisions of section 73(4), such loss can be carried forward for set-off for a maximum period of 4 years only i.e. up to A.Y.2018-19.
- Short term capital loss of Rs.15,000 on sale of securities and shares has to be carried forward as per section 74 since there is no income under the head Capital Gains for the A.Y.2019-20. The loss is to be carried forward for set off in future years against income chargeable under the head Capital Gains. Such loss can be carried forward for a maximum period of 8 assessment years.

PROBLEM NO.12**Computation of taxable income of Mr. E for the A.Y. 2019-20**

Particulars	Amount (Rs.)	Amount (Rs.)
Income from salary		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 Rs. 30,000 has to be carried forward to the next assessment year.

PROBLEM NO.13**Computation of taxable income of Mr. B for the A.Y. 2019-20**

Particulars	Amount (Rs.)	Amount (Rs.)
Income from salary	45,000	
Income from house property	(24,000)	21,000
Profits and gains of business and profession		
Business loss to be carried forward [Note 1]	(22,000)	
Speculative loss to be carried forward [Note 2]	(4,000)	
Capital gains		
Long term capital gain	19,000	
Short term capital loss	(25,000)	
Short term capital loss to be carried forward [Note 3]	(6,000)	
Taxable income		21,000

Notes:

- Business loss cannot be set-off against salary income. Therefore, loss of Rs. 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.
- Loss of Rs. 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.
- 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 Rs. 25,000 can be set off against long-term capital gains to the extent of Rs. 19,000. The balance short term capital loss of Rs. 6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.

PROBLEM NO.14**Computation of total income of Mr. Arihant for the A.Y. 2019-20**

Particulars	Amount (Rs.)	Amount (Rs.)
Salaries		
Income from Salary	3,50,000	
Less: Loss from house property set-off against salary income as per section 71(3A), restricted to	2,00,000	1,50,000
Profits and gains of business or profession		
Income from trading business	75,000	

Less: Brought forward loss from trading business of A.Y. 2015-16 can be set off against current year income from trading business, as per section 72(1), since the eight-year time limit as specified under section 72(3), within which setoff is permitted has not expired.	8,000	
	67,000	
Less: Unabsorbed depreciation	11,000	56,000
Income from speculative business Y	15,000	
Less: Loss from speculative business X to be set-off as per section 73(1)	15,000	
Loss from speculative business X to be carried forward to A.Y.2020-21 as per section 73(2)	10,000	
Capital Gains		
Long term capital gain on sale of urban land	2,30,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 70(3)]	85,000	
Long-term capital loss of Rs. 1,02,000 on sale of listed shares on which STT is paid both at the time of acquisition and sale can be set-off against long-term capital gain on sale of urban land u/s 112A	1,02,000	43,000
Total Income		2,49,000

Items eligible for carried forward to A.Y.2020-21

Particulars	Amount (Rs.)
Loss from House Property	20,000
As per section 71(3A), Loss from house property can be set –off against any other head of income to the extent of Rs. 2,00,000 only. As per section 71B, 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 assessment years i.e., up to A.Y. 2027-28, in this case.	
Loss from speculative business X	10,000
Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), 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 assessment years i.e., up to A.Y. 2023-24, in this case, as specified under section 73(4).	
Loss from specified business under section 35AD	40,000
Loss from specified business under section 35AD can be set-off only against profits 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 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business.	
Loss from the activity of owning and maintaining race horses	5,000
Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from 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 assessment years, i.e., up to A.Y.2022-23, in this case as specified under section 74A(3).	

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