

10. SET OFF AND CARRY FORWARD OF LOSSES

PROBLEM NO.1

Computation of total income of Sanjay for the A.Y. 2018-19

Particulars	Rs.	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	<u>(1,10,000)</u>	
	2,90,000	
Less: Set-off of brought forward loss relating to discontinued textile business	<u>(2,00,000)</u>	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.2017-18 under section 73	<u>50,000</u>	60,000
Less: Set-off of brought forward unabsorbed depreciation relating to A.Y. 2017-18		<u>Nil</u>
Total Income		1,50,000

PROBLEM NO.2

Computation of total income of Mr. Sitaraman for the A.Y. 2018-19

Particulars	Rs.	Rs.
Salaries		
Income from salaries	3,22,000	
Less: Loss from house property	<u>(1,65,000)</u>	1,57,000
Profits and gains of business or profession		
Income from speculation business	26,000	
Less: Loss from retail business set off	<u>(26,000)</u>	Nil
Capital gains		
Long-term capital gains from sale of residential house	3,60,000	
Less: Loss from retail business set off	<u>(1,99,000)</u>	1,61,000
Income from other sources		
Income from betting		51,000
Gross total income		3,69,000
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		2,79,000

Losses to be carried forward:

Particulars	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:

- i) Long term capital gains from sale of listed shares in a recognized stock exchange are exempt under section 10(38). Loss from an exempt source cannot be set off against profits from a taxable source. Therefore, long-term capital loss on sale of listed shares cannot be set-off against long-term capital gains from sale of residential house.
- ii) 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.

- iii) 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.
- iv) Loss from card games can neither be set off against any other income, nor can it be carried forward.
- 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.3**Computation of taxable income of Mr. A for the A.Y. 2018-19**

Particulars	Amount (Rs.)	Amount (Rs.)
Income from salary	4,00,000	
Income from house property [Rs.2,20,000 (70000+150000) 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 house property loss. The balance loss of Rs.20,000 will be carried forwarded to next 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

The capital gains taxable are as under:

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.2017-18	(37,000)	1,13,000
Long term capital gain	75,000	
Less: Brought forward long term capital loss of A.Y.2016-17 [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.2016-17 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**Computation of taxable income of Mr.D for the A.Y. 2018-19**

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		<u>96,000</u>
Loss from the activity of owning and maintaining race horses to be c/f to AY 2019-20	(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.6**Computation of Gross Total Income of Mr. Alok for A.Y. 2018-19**

Particulars	Rs.	Rs.
Salaries	1,38,000	
Less: Current year loss from house property	(66,000)	72,000
Profit and gains of business or profession		
Income from textile business	73,000	
Less: Loss from textile business brought forward from A.Y. 2010-11	82,000	
Balance business loss of A.Y. 2010-11 (See Note 1)	(9,000)	NIL
Income from the activity of owning and maintaining race Horses	21,000	
Less: Loss from activity of owning and maintaining race horses brought forward from A.Y. 2015-16	37,000	
Loss to be carried forward to A.Y. 2019-20 (See Note 2)	(16,000)	NIL
Capital Gain		
Short term capital gain		1,65,000
Long term capital gain on sale of land	27,000	
Less: Long term capital loss on sale of shares	1,06,000	
Loss to be carried forward to A.Y. 2019-20 (See Note 3)	(79,000)	NIL
Gross Total Income		2,37,000

Losses to be carried forward to A.Y. 2019-20

Particulars	Rs.
Current year loss from speculative business (See Note 4)	58,000
Current year long term capital loss on sale of shares (See Note 3)	79,000
Loss from activity of owning and maintaining of race horse pertaining to A.Y.2015-16 (See Note 2)	16,000

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. 2010-11 expired with the A.Y. 2018-19, the balance unabsorbed business loss of Rs. 9,000 cannot be carried forward to A.Y. 2019-20.
- As per section 74A(3), the loss incurred from the activity of owning and maintaining 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. Therefore, the unabsorbed loss of Rs. 16,000 from the activity of owning and maintaining race horses pertaining to A.Y. 2015-16 can be carried forward upto A.Y. 2019-20.
- Long term capital gains on sale of shares on which securities transaction tax is not paid is not exempt under section 10(38). Therefore, long-term capital loss on sale of such shares can be set-off against long-term capital gain on sale of land. The balance loss of Rs. 79,000 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.
- 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.7**Computation of gross total income of Mr. Soohan for the A.Y.2018-19**

Particulars	Rs.	Rs.
Salaries		
Income from salary	3,00,00	
Less: Loss from house property set-off against salary income as per section 71	40,000	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 section 72(1)	50,000	Nil
Balance business loss of Rs.70,000 of P.Y.2012-13 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.2019-20		
Loss of iron-ore business	70,000	
Short term capital loss (Rs. 20,000 + Rs. 10,000)	30,000	

Notes:

- The following income are exempt under section 10 –
 - Dividend income [Exempt under section 10(34)], assuming that dividend is received from a domestic company.
 - Agricultural income [Exempt under section 10(1)].
 - Long-term capital gains on which STT is paid [Exempt under section 10(38)] .
- It is presumed that loss from iron-ore business relates to P.Y.2012-13, the year in which the business was discontinued.

PROBLEM NO.8**Computation of total income of Simran for the A.Y. 2018-19**

Particulars	Amount	Amount
Profit of business of consumer and house-hold products	50,000	
Less: Loss of business of readymade garments for the year adjusted under section 70(1)	10,000	
Less: Brought forward loss of catering business closed in A.Y. 2016-17 set off against business income for the current year as per section 72(1)	15,000	25,000
Profit of speculative transaction		12,500
Total Income		37,500

Notes:

- Loss of speculative transaction of A.Y. 2013-14 is not allowed to be set off against the profit of speculative transaction of the A.Y.2018-19, 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.2017-18.
- 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.2018-19. 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.
- Students are advised to change the AY 2017-18 in point (c) as AY 2016-17.

PROBLEM NO.9

Computation of taxable income of Mr. E for the A.Y. 2018-19

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.10

Computation of taxable income of Mr. B for the A.Y. 2018-19

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:

1. 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.
2. 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.
3. 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.

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