



AGGREGATION OF INCOME, SET-OFF AND CARRY FORWARD OF LOSSES

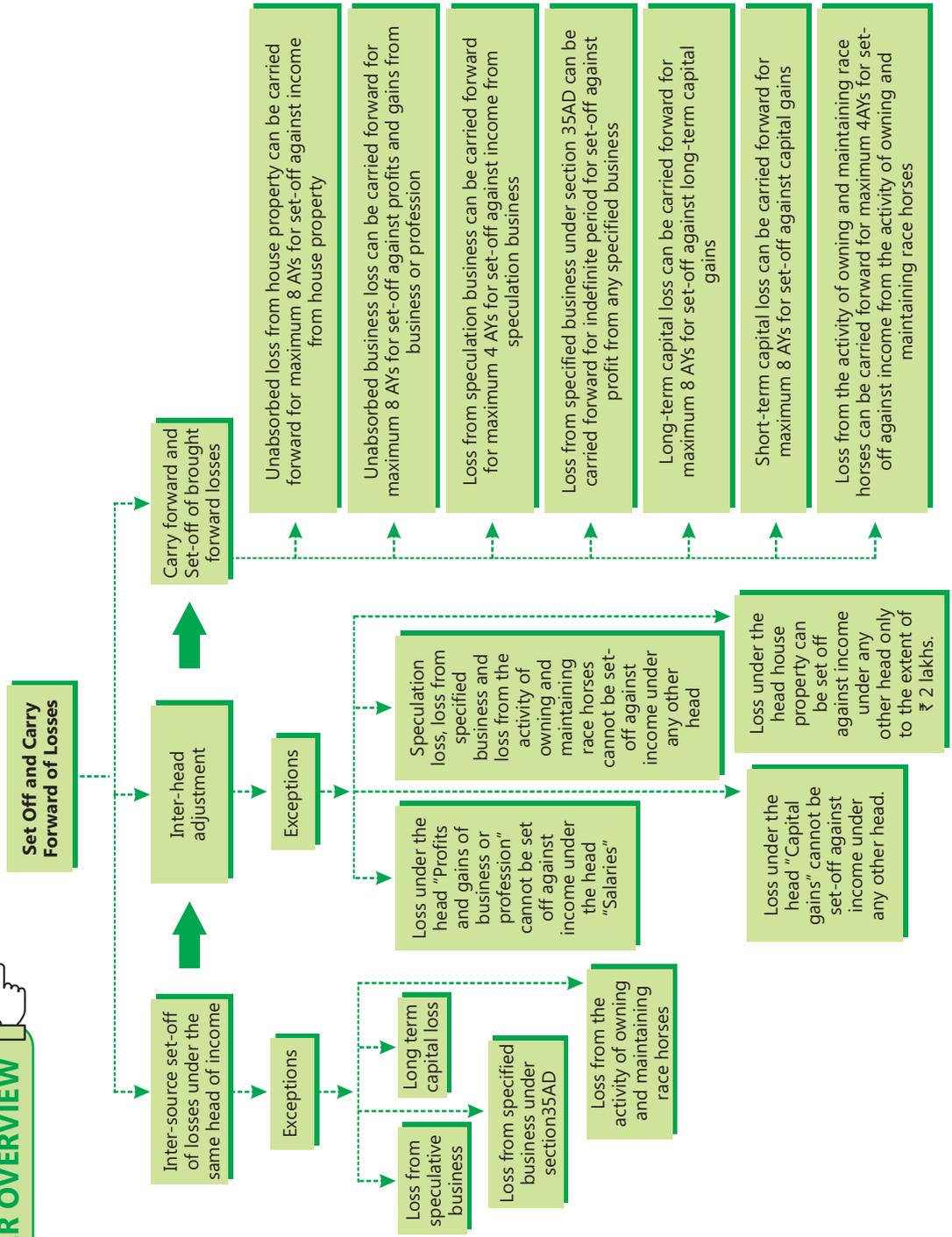


LEARNING OUTCOMES

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. AGGREGATION OF INCOME

In certain cases, some amounts are deemed as income in the hands of the assessee though they are actually not in the nature of income. These cases are contained in sections 68, 69, 69A, 69B, 69C and 69D. These are discussed in detail in Chapter 1. The Assessing Officer may require the assessee to furnish explanation in such cases. If the assessee does not offer any explanation or the explanation offered by the assessee is not satisfactory, the amounts referred to in these sections would be deemed to be the income of the assessee. Such amounts have to be aggregated with the assessee's income.

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

Specific provisions have been made in the Income-tax Act, 1961 for the set-off and carry forward of losses. In simple words, "Set-off" means adjustment of losses against the profits from another source/head of income in the same assessment year. If losses cannot be set-off in the same year due to inadequacy of eligible profits, then such losses are carried forward to the next assessment year for adjustment against the eligible profits 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 70]

- (i) Under this section, the losses incurred by the assessee in respect of one source 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.

Example 1: Loss from one house property can be set off against the income from another house property.

Example 2: 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 year.

- (ii) Inter-source set-off, however, is not permissible in the following cases -
- (a) **Long-term capital loss [Section 70(3)]**
- (1) Where the net result in respect of any short term capital asset is a loss, such loss shall be allowed to be set-off against income, if any, for that

assessment year under the head "capital gains" in respect of any other capital asset, and

- (2) Where the net result in respect of any long-term capital asset is a loss, such loss shall be allowed to be set-off against income, if any, for that assessment year under the head "capital gains" in respect of any other asset not being a short-term capital asset.

Thus, 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 short-term capital gain.

(b) **Speculation loss [Section 73(1)]**

A loss in speculation business can be set-off only against the profits of any other speculation business and not against any other business or professional income.

However, losses from other business can be adjusted against profits from speculation business.

(c) **Loss from the activity of owning and maintaining race horses [Section 74A(3)]**

Such loss can be set-off only against income from the activity of owning and maintaining race horses.

(d) **Losses from Specified business [Section 73A(1)]**

A loss in any specified business referred in section 35AD can be set-off only against any other specified business.

However, losses from other business can be set-off against profits from specified business.

- (iii) It must be noted that loss from an exempt source cannot be set-off against profits from a taxable source of income. For example, long-term capital loss on sale of shares sold through a recognized stock exchange, on which STT is paid at the time of acquisition as well as on sale of such shares, cannot be set-off against long-term capital gains on sale of land.

4. INTER HEAD ADJUSTMENT [SECTION 71]

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

- (i) Where the net result of the computation under any head of income (other than 'Capital Gains') is a loss, the assessee can set-off such loss against his income assessable for that assessment year under any other head, including 'Capital Gains'.

- (ii) Where the net result of the computation under the head "Profits and gains of business or profession" is a loss, such loss cannot be set off against income under the head "Salaries".
- (iii) Where the net result of computation under the head 'Capital Gains' is a loss, such capital loss cannot be set-off against income under any other head.
- (iv) **Where the net result of the computation under the head "Income from house property" is a loss and the assessee has income assessable under any other head of income, the amount of such loss exceeding ₹ 2 lakhs would not be allowable to be set-off against income under the other head. In other words, the maximum loss from house property which can be set-off against income from any other head is ₹ 2 lakhs.**
- (v) Speculation loss, loss from the activity of owning and maintaining race horses and losses from specified business referred to in section 35AD cannot be set off against income under any other head.

ILLUSTRATION 1

Mr. A submits the following particulars pertaining to the A.Y. 2018-19:

| Particulars | ₹ |
|----------------------------------|--------------|
| Income from salary | 4,00,000 |
| Loss from self-occupied property | (-)70,000 |
| Loss from let-out property | (-) 1,50,000 |
| Business loss | (-)1,00,000 |
| Bank interest (FD) received | 80,000 |

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

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

| Particulars | Amount (₹) | Amount (₹) |
|--|--------------|------------|
| Income from salary | 4,00,000 | |
| Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of section 71(3A) | (-) 2,00,000 | 2,00,000 |
| Balance loss of ₹ 20,000 from house property to be carry forward to next assessment year | | |
| Income from other sources (interest on fixed deposit with bank) | 80,000 | |
| Business loss set-off | (-) 1,00,000 | - |

| Particulars | Amount (₹) | Amount (₹) |
|---|---------------|-----------------|
| Business loss of ₹ 20,000 to be carried forward | | |
| Gross total income [See Note below] | | 2,00,000 |
| Less: Deduction under Chapter VI-A | | Nil |
| Total income | | 2,00,000 |

Note: 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 will be carried forward. 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.

5. SET-OFF AND CARRY FORWARD OF LOSS FROM HOUSE PROPERTY [SECTION 71B]

- (i) In any assessment 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 year.
- (ii) The unabsorbed loss will be carried forward to the following assessment year to be set-off against income under the head 'Income from house property'.
- (iii) The loss under this head is allowed to be carried forward upto 8 assessment years immediately succeeding the assessment year in which the loss was first computed.
- (iv) For example, loss from one house property can be adjusted against the profits from another house property in the same assessment year. Any loss under the head 'Income from house property' can be set off against any income under any other head to the extent of ₹ 2,00,000 in the same assessment year. However, if after such set off, there is still any loss under the head "Income from house property", then, the same shall be carried forward to the next year.
- (v) It is to be remembered that once a particular loss is carried forward, it can be set off only against the income from the same head in the forthcoming assessment years.

6. CARRY FORWARD AND SET-OFF OF BUSINESS LOSSES [SECTIONS 72 & 80]

Under the Act, the assessee has the right to carry forward the loss from the business and profession in cases where such loss cannot be set-off due to the absence or

inadequacy of income under any other head in the same year. The loss so carried forward can be set-off against the profits of subsequent previous years.

Section 72 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 have been incurred in business, profession or vocation.
- (ii) The loss should not be in the nature of a loss in the business of speculation.
- (iii) 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) 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 or set off the same. Consequently, the successor of a business cannot carry forward or set off the losses of his predecessor except in the case of succession by inheritance.
- (v) A business loss can be carried forward for a maximum period of 8 assessment years immediately succeeding the assessment year in which the loss was incurred.
- (vi) As per section 80, the assessee must have filed a return of loss under section 139(3) in order to carry forward and set off a loss. In other words, the non-filing of a return of loss disentitles the assessee from carrying forward the loss sustained by him. Such a return should be filed within the time allowed under section 139(1). However, this condition does not apply to a loss from house property carried forward under section 71B and unabsorbed depreciation carried forward under section 32(2).

ILLUSTRATION 2

Mr. B, a resident individual, furnishes the following particulars for the P.Y. 2017-18:

| <i>Particulars</i> | ₹ |
|---|----------|
| <i>Income from salary (Net)</i> | 45,000 |
| <i>Income from house property</i> | (24,000) |
| <i>Income from business – non-speculative</i> | (22,000) |
| <i>Income from speculative business</i> | (4,000) |
| <i>Short-term capital losses</i> | (25,000) |

| <i>Particulars</i> | ₹ |
|--------------------------------|--------|
| <i>Long-term capital gains</i> | 19,000 |

What is the total income chargeable to tax for the A.Y. 2018-19?

SOLUTION

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

| Particulars | Amount (₹) | Amount (₹) |
|---|---------------|---------------|
| Income from salaries | 45,000 | |
| Income from house property | (24,000) | 21,000 |
| | | |
| Profits and gains of business and profession | | |
| Business loss to be carried forward <i>[Note 1]</i> | (22,000) | |
| Speculative loss to be carried forward <i>[Note 2]</i> | (4,000) | |
| | | |
| Capital Gains | | |
| Long term capital gain | 19,000 | |
| Short term capital loss | (25,000) | |
| Short term capital loss to be carried forward <i>[Note 3]</i> | (6,000) | |
| Taxable income | | 21,000 |

Note 1: 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 has to be carried forward to the next year for set-off against business profits, if any.

Note 2: Loss of ₹ 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.

Note 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 ₹ 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 year for set-off against capital gains, if any.



7. LOSSES IN SPECULATION BUSINESS [SECTION 73]

- (i) The meaning of the expression 'speculative transaction' as defined in section

43(5) and the treatment of income from speculation business has already been discussed under the head "Profits and gains of business or profession".

- (ii) 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 can be neither 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.
- (iii) 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 years and set-off only against income from any speculation business carried on by the assessee.
- (iv) The loss in speculation business can be carried forward only for a maximum period of 4 years from the end of the relevant assessment year in respect of which the loss was computed. Loss from the activity of trading in derivatives, however, is not to be treated as speculative loss.
- (v) The *Explanation* to this section provides that where any part of the business of a company consists in the purchase and sale of the shares of other companies, such a company shall be deemed to be carrying on speculation business to the extent to which the business consists of the purchase and sale of such shares.

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

- (1) A company whose gross total income consists of mainly income chargeable under the heads "Interest on securities", "Income from house property", "Capital gains" and "Income from other sources";
- (2) A company, the principal business of which is –
 - (i) the business of trading in shares; or
 - (ii) the business of banking; or
 - (iii) the granting of loans and advances.

Thus, these companies would be exempted from the operation of this *Explanation*. Accordingly, if these companies carry on the business of purchase and sale of shares of other companies, they would not be deemed to be carrying on speculation business.



8. CARRY FORWARD & SET OFF OF LOSSES BY SPECIFIED BUSINESSES [SECTION 73A]

- (i) Any loss computed in respect of the specified business referred to in section 35AD shall be set off only against profits and gains, if any, of any other specified business.
- (ii) The unabsorbed loss, if any, will be carried forward for set off against profits and gains of any specified business in the following assessment year and so on.

- (iii) 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.
- (iv) However, return of loss has to be filed on or before the due date of filing of return under section 139(1) for carry forward of loss from specified business.

Note - The loss of an assessee claiming deduction under section 35AD in respect of a specified business can be set-off against the profit of another specified business under section 73A, irrespective of whether the latter is eligible for deduction under section 35AD. 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 35AD, 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 not eligible for deduction under section 35AD.

9. LOSSES UNDER THE HEAD 'CAPITAL GAINS' [SECTION 74]

Section 74 provides that where for any assessment year, the net result under the head 'Capital gains' is short term capital loss or long term capital loss, the loss shall be carried forward to the following assessment year to be set off in the following manner:

- (i) Where the loss so carried forward is a short term capital loss, it shall be set off against any capital gains, short term or long term, arising in that year.
- (ii) Where the loss so carried forward is a long term capital loss, it shall be set off only against long term capital gain arising in that year.
- (iii) Net loss under the head capital gains cannot be set off against income under any other head.
- (iv) Any unabsorbed loss shall be carried forward to the following assessment year up to a maximum of 8 assessment years immediately succeeding the assessment year for which the loss was first computed.

ILLUSTRATION 3

During the P.Y. 2017-18, Mr. C has the following income and the brought forward losses:

| <i>Particulars</i> | ₹ |
|--|----------|
| Short term capital gains on sale of shares | 1,50,000 |
| Long term capital loss of A.Y.2016-17 | (96,000) |
| Short term capital loss of A.Y.2017-18 | (37,000) |
| Long term capital gain | 75,000 |

What is the capital gain taxable in the hands of Mr. C for the A.Y. 2018-19?

SOLUTION**Taxable capital gains of Mr. C for the A.Y. 2018-19**

| Particulars | ₹ | ₹ |
|--|----------|-----------------|
| 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 [<i>See Note below</i>] | (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 ₹ 21,000 (i.e. ₹ 96,000 – ₹ 75,000) has to be carried forward to the next year to be set-off against long-term capital gains of that year.

10. LOSSES FROM THE ACTIVITY OF OWNING AND MAINTAINING RACE HORSES [SECTION 74A(3)]

- (i) According to provisions of section 74A(3), the losses incurred by an assessee from the activity of owning and maintaining race horses cannot be set-off against the income from any other source other than the activity of owning and maintaining race horses.
- (ii) Such loss can be carried forward for a maximum period of 4 assessment years for being set-off against the income from the activity of owning and maintaining race horses in the subsequent years.
- (iii) For this purpose, the “amount of loss incurred by the assessee in the activity of owning and maintaining race horses” means the amount by which such income by way of stake money falls short of the amount of revenue expenditure incurred by the assessee for the purpose of maintaining race horses. i.e. Loss = Stake money – revenue expenditure for the purpose of maintaining race horses.
- (iv) Further, the expression ‘horse race’ means a horse race upon which wagering or betting may be lawfully made.
- (v) “Income by way of stake money” means 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 any one or more of the horses winning or being placed second or in any lower position in horse races.

ILLUSTRATION 4

Mr. D has the following income for the P.Y. 2017-18-

| <i>Particulars</i> | ₹ |
|--|--------|
| <i>Income from the activity of owning and maintaining the race horses</i> | 75,000 |
| <i>Income from textile business</i> | 85,000 |
| <i>Brought forward textile business loss</i> | 50,000 |
| <i>Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y. 2015-16)</i> | 96,000 |

What is the total income in the hands of Mr. D for the A.Y. 2018-19?

SOLUTION**Total income of Mr. D for the A.Y. 2018-19**

| <i>Particulars</i> | ₹ | ₹ |
|---|----------|---------------|
| 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 carried forward to A.Y.2019-20 | (21,000) | |
| 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 72(2), 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 -

- Current year depreciation / Current year capital expenditure on scientific research and current year expenditure on family planning, to the extent allowed.
- Brought forward loss from business/profession [Section 72(1)]
- Unabsorbed depreciation [Section 32(2)]
- Unabsorbed capital expenditure on scientific research [Section 35(4)].

(e) Unabsorbed expenditure on family planning [Section 36(1)(ix)]

ILLUSTRATION 5

Mr. E has furnished his details for the A.Y. 2018-19 as under:

| Particulars | ₹ |
|--|----------|
| Income from salaries | 1,50,000 |
| Income from speculation business | 60,000 |
| Loss from non-speculation business | (40,000) |
| Short term capital gain | 80,000 |
| Long term capital loss of A.Y. 2016-17 | (30,000) |
| Winning from lotteries | 20,000 |

What is the taxable income of Mr. E for the A.Y. 2018-19?

SOLUTION

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

| 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 assessment year.

EXERCISE

Question 1

Compute the gross total income of Mr. F for the A.Y. 2018-19 from the information given below –

| Particulars | ₹ |
|--|----------|
| Net income from house property | 1,25,000 |
| Income from business (before providing for depreciation) | 1,35,000 |
| Short term capital gains on sale of shares | 56,000 |
| Long term capital loss from sale of property (brought forward from A.Y. 2017-18) | (90,000) |

| Particulars | ₹ |
|---|----------|
| Income from tea business | 1,20,000 |
| Dividends from Indian companies carrying on agricultural operations | 80,000 |
| Current year depreciation | 26,000 |
| Brought forward business loss (loss incurred six years ago) | (45,000) |

Answer**Gross Total Income of Mr. F for the A.Y. 2018-19**

| 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 |
| Income from the capital gains | | |
| Short term capital gains | | 56,000 |
| Gross Total Income | | 2,93,000 |

Note: (1) Dividend from Indian companies is exempt from tax under section 10(34) to the extent of ₹ 10 lakh.

(2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;

(3) 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 A.Y. 2017-18 cannot be set-off in the A.Y. 2018-19, 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. 2019-20.

Question 2

Mr. Soohan submits the following details of his income for the assessment year 2018-19:

| Particulars | ₹ |
|----------------------------------|---------------|
| Income from salary | 3,00,000.00 |
| Loss from let out house property | (-) 40,000.00 |
| Income from sugar business | 50,000.00 |

| Particulars | ₹ |
|---|-----------------|
| Loss from iron ore business b/f (discontinued in P.Y. 2012-13) | (-) 1,20,000.00 |
| Short term capital loss | (-) 60,000.00 |
| Long term capital gain | 40,000.00 |
| Dividend | 5,000.00 |
| Income received from lottery winning (Gross) | 50,000.00 |
| Winnings from card games | 6,000.00 |
| Agricultural income | 20,000.00 |
| Long term capital gain from shares (STT paid at the time of both acquisition and sale) | 10,000.00 |
| Short term capital loss under section 111A | (-) 10,000.00 |
| Bank interest | 5,000.00 |

Calculate gross total income and losses to be carried forward.

Answer

Computation of Gross Total Income of Mr. Soohan for the A.Y. 2018-19

| Particulars | ₹ | ₹ |
|---|----------|----------|
| Salaries | | |
| Income from salary | 3,00,000 | |
| 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 ₹ 70,000 of P.Y. 2012-13 to be 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 ₹ 20,000 to be carried forward | | |
| Short-term capital loss of ₹ 10,000 under section 111A also to be carried forward | | |

| Particulars | ₹ | ₹ |
|--|--------|-----------------|
| 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 (₹ 20,000 + ₹ 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.

Question 3

Mr. Batra furnishes the following details for year ended 31.03.2018:

| 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 shares (securities transaction tax not paid) | 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 | 1,00,000 |
| Loss from house property | 40,000 |

Following are the brought forward losses:

- Losses from activity of owning and maintaining race horses-pertaining to A.Y.2015-16 ₹ 25,000.

- (ii) Brought forward loss from business of textile ₹ 60,000 - Loss pertains to A.Y. 2010-11.

Compute gross total income of Mr. Batra for the Assessment Year 2018-19. Also state the eligible carry forward losses for the Assessment Year 2019-20.

Answer

Computation of Gross Total Income of Mr. Batra for the A.Y. 2018-19

| 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 | |
| Less: Loss from textile business brought forward from A.Y. 2010-11 | 60,000 | |
| Balance business loss of A.Y. 2010-11 <i>[See Note 1]</i> | (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. 2015-16 | 25,000 | |
| Loss to be carried forward to A.Y. 2019-20 <i>[See Note 2]</i> | (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 shares | 1,00,000 | |
| Loss to be carried forward to A.Y. 2019-20 <i>[See Note 3]</i> | (70,000) | NIL |
| Gross Total Income | | 2,00,000 |

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

| Particulars | ₹ |
|--|--------|
| Current year loss from speculative business <i>[See Note-4]</i> | 60,000 |
| Current year long term capital loss on sale of shares | 70,000 |
| Loss from activity of owning and maintaining of race horse pertaining to A.Y.2015-16 | 10,000 |

Notes:-

- (1) 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 ₹ 10,000 cannot be carried forward to A.Y. 2019-20.

- (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 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 ₹ 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.

Question 4

Mr. A furnishes you the following information for the year ended 31.03.2017:

| | | (₹) |
|-------|--|----------|
| (i) | Income from plying of vehicles (computed as per books) (He owned 5 heavy goods vehicle throughout the year) | 3,20,000 |
| (ii) | Income from retail trade of garments (Computed as per books) (Sales turnover ₹ 1,21,70,000) | 7,50,000 |
| (iii) | He has brought forward depreciation relating to A.Y. 2016-17 | 1,00,000 |

Compute taxable income of Mr. A and his tax liability for the assessment year 2018-19 with reasons for your computation.

Answer

Computation of total income and tax liability of Mr. A for the A.Y. 2018-19

| 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 |

| Particulars | ₹ |
|--|-----------------|
| Less: Set off of brought forward depreciation relating to A.Y. 2016-17 | 1,00,000 |
| Total income | 9,70,000 |
| Tax liability | 1,06,500 |
| Add: Education cess and SHEC@3% | 3,195 |
| Total tax liability | 1,09,695 |
| Tax payable (rounded off) | 1,09,700 |

Note:

- Income from retail trade:** Presumptive business income under section 44AD is ₹ 9,73,600 i.e., 8% of turnover of ₹ 1,21,70,000 assuming the amount of sales turnover was received in cash. 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 44AD, the assessee can adopt the income as per books.

However, if he does not opt for presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore.

- Income from plying of vehicles:** Income calculated under section 44AE(1) 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 44AE(1). Hence, the assessee can adopt the income as per books i.e. ₹ 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions under sections 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If the assessee opted for income to be assessed on presumptive basis, his total income would be as under:

| Particulars | ₹ |
|--|-----------|
| Income from retail trade under section 44AD [₹ 1,21,70,000 @ 8%] | 9,73,600 |
| Income from plying of vehicles under section 44AE [₹ 7,500 x 12 x 5] | 4,50,000 |
| | 14,23,600 |

| Particulars | ₹ |
|---|------------------|
| Less: Set off of brought forward depreciation – not possible as it is deemed that it has been allowed and set off | Nil |
| Total income | 14,23,600 |
| Tax thereon | 2,39,580 |
| Add : Education cess and SHEC@3% | 7,187 |
| Total tax liability | 2,46,767 |
| Total tax liability (rounded off) | 2,46,770 |

Question 5

Mr. Aditya furnishes the following details for the year ended 31-03-2018:

| Particulars | Amount (₹) |
|---|------------|
| Loss from speculative business A | 25,000 |
| Income from speculative business B | 5,000 |
| Loss from specified business covered under section 35AD | 20,000 |
| Income from salary | 3,00,000 |
| Loss from house property | 2,50,000 |
| Income from trading business | 45,000 |
| Long-term capital gain from sale of urban land | 2,00,000 |
| Long-term capital loss on sale of shares (STT not paid) | 75,000 |
| Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares) | 82,000 |

Following are the brought forward losses:

- (1) Losses from owning and maintaining of race horses pertaining to A.Y. 2016-17 ₹ 2,000.
- (2) Brought forward loss from trading business ₹ 5,000 relating to A.Y. 2013-14.

Compute the total income of Mr. Aditya and show the items eligible for carry forward.

Answer**Computation of total income of Mr. Aditya for the A.Y. 2018-19**

| Particulars | ₹ | ₹ |
|---|----------|----------|
| Salaries | | |
| Income from Salary | 3,00,000 | |
| Less: Loss from house property set-off against salary income as per section 71(1) | 2,00,000 | 1,00,000 |

| Particulars | ₹ | ₹ |
|---|----------|-----------------|
| Profits and gains of business or profession | | |
| Income from trading business | 45,000 | |
| Less: Brought forward loss from trading business of A.Y. 2013-14 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 set-off is permitted, has not expired. | 5,000 | 40,000 |
| Income from speculative business B | 5,000 | |
| Less: Loss from speculative business A set-off as per section 73(1) | 25,000 | |
| Loss from speculative business A to be carried forward to A.Y.2019-20 as per section 73(2) | 20,000 | |
| Loss from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A. | 20,000 | |
| Capital Gains | | |
| Long term capital gain on sale of urban land | 2,00,000 | |
| Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)] | 75,000 | 1,25,000 |
| Long-term capital loss of ₹ 82,000 on sale of listed shares on which STT is paid cannot be set-off against long-term capital gain on sale of urban land since loss from an exempt source cannot be set-off against profit from a taxable source. | | |
| Total Income | | 2,65,000 |

Items eligible for carried forward to A.Y.2019-20

| Particulars | ₹ |
|--|--------|
| Loss from House property | 50,000 |
| As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of ₹ 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., upto A.Y.2026-27, in this case. | |

| Particulars | ₹ |
|--|--------|
| <p><u>Loss from speculative business A</u></p> <p>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., upto A.Y.2022-23, in this case, as specified under section 73(4).</p> | 20,000 |
| <p><u>Loss from specified business</u></p> <p>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 .</p> | 20,000 |
| <p><u>Loss from the activity of owning and maintaining race horses</u></p> <p>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., upto A.Y.2020-21, in this case, as specified under section 74A(3).</p> | 2,000 |

Question 6

Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the previous year 2017-18.

| | Particulars | ₹ |
|-----|--|--------|
| (1) | Income from Salary | 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 Assessment Year 2016-17 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 Assessment Year 2018-19 and the amount of loss, if any that can be carried forward or not.

Answer

Computation of Gross Total Income of Mr. Garg for the A.Y. 2018-19

| Particulars | ₹ | ₹ |
|--|---------------|---------------|
| (i) Income from salary | | 15,000 |
| (ii) Profits and gains of business or profession | 66,000 | |
| Less : Unabsorbed depreciation brought forward from A.Y. 2016-17 (Unabsorbed depreciation can be set-off against any head of income) | <u>11,000</u> | 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 74(1)] | 9,800 | 1,000 |
| Gross Total Income | | 71,000 |

Amount of loss to be carried forward to A.Y. 2019-20

| | Particulars | ₹ |
|-----|---|--------|
| (1) | Loss from speculative business [to be carried forward as per section 73] [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 A.Y. 2016-17 has to be carried forward to A.Y. 2019-20 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., upto A.Y. 2020-21] | 22,000 |

| | Particulars | ₹ |
|-----|---|--------|
| (2) | Loss on maintenance of race horses [to be carried forward as per section 74A] [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., upto A.Y. 2022-23] | 15,000 |
| (3) | Loss from gambling can neither be set-off nor be carried forward | |

Question 7

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2018:

| Particulars | ₹ |
|---|----------|
| Income from salaries | 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 35AD | 20,000 |
| Long-term capital gains from sale of urban land | 2,50,000 |
| Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid at the time of sale and acquisition of shares) | 1,10,000 |
| Loss from card games | 32,000 |
| Income from betting (Gross) | 45,000 |
| Life Insurance Premium paid | 1,20,000 |

Compute the total income and show the items eligible for carry forward.

Answer**Computation of total income of Mr. Srivatsan for the A.Y.2018-19**

| Particulars | ₹ | ₹ |
|--------------------------------|----------|--------|
| Salaries | | |
| Income from salaries | 2,20,000 | |
| Less: Loss from house property | 1,90,000 | 30,000 |

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

Notes:

- (i) Long-term capital gains from sale of listed shares in a recognized stock exchange is exempt under section 10(38) on which STT is paid at the time of acquisition and sale. 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 on which STT is paid cannot be set-off against long-term capital gains from sale of urban land.
- (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 for set-off against profits and gains of any specified business in the following year.
- (iii) 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. Consequently, the taxable long-term capital gains would be ₹ 40,000.
- (iv) Loss from card games can neither be set off against any other income, nor can it be carried forward.

- (v) 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 ₹ 30,000 [i.e., Gross Total Income of ₹ 1,15,000 – ₹ 40,000 (LTCG) – ₹ 45,000 (Casual income)].
- (vi) 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.

Question 8

Mr. Rajat submits the following information for the financial year ending 31st March, 2018. 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 houses : | |
| | (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, 2017 – Current year loss | 40,000 |
| | (ii) Brought forward business loss of A.Y. 2013-14 | 95,000 |
| | (b) Chemical Business : | |
| | (i) Discontinued from 1 st March, 2015 – hence no profit/loss | Nil |
| | (ii) Bad debts allowed in earlier years recovered during this year | 35,000 |
| | (iii) Brought forward business loss of A.Y. 2015-16 | 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 2004 | 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 |

Answer**Computation of total income of Mr. Rajat for the A.Y. 2018-19**

| 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 41(4) | 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 A.Y. 2013-14 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 VI-A | | |
| Under section 80C – LIC premium paid | | 10,000 |
| Total Income | | 92,000 |

Statement of losses to be carried forward to A.Y. 2019-20

| Particulars | ₹ |
|---|--------|
| Business loss of A.Y. 2015-16 to be carried forward under section 72 | 50,000 |
| Long term capital loss of A.Y. 2018-19 to be carried forward under section 74 | 35,000 |

Notes:

- (1) Share of profit from firm of ₹ 16,550 is exempt under section 10(2A).
- (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.

Question 9

Ms. Geeta, a resident individual, provides the following details of her income / losses for the year ended 31.3.2018:

- (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, received towards dividend on listed equity shares of domestic companies.
- (vi) Brought forward business loss of assessment year 2016-17 ₹ 12,50,000.

Compute gross total income of Ms. Geeta for the Assessment Year 2018-19 and ascertain the amount of loss that can be carried forward.

Answer

Computation of Gross Total Income of Ms. Geeta for the A.Y. 2018-19

| 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: Brought forward business loss of Assessment Year 2016-17 to be set-off against business income | 7,50,000 |
| | Nil |
| Capital Gains | |
| Long term capital gain on sale of land (<i>See Note 2</i>) | 5,00,000 |
| 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 received from a domestic company is exempt under section 10(34) | Nil |
| | 51,000 |
| Gross Total Income | 5,51,000 |

Notes:

- Balance brought forward business loss of assessment year 2016-17 of ₹ 5,00,000 has to be carried forward to the next year.
- Long-term capital loss on sale of shares cannot be set-off against long-term capital gain on sale of land since loss from an exempt source cannot be set-off against profit from a taxable source. Since long-term capital gain on sale of listed shares on which STT is paid at the time of acquisition and sale is exempt under section 10(38), loss on sale of listed shares is a loss from an exempt source. So, it

cannot be set-off against long-term capital gain on sale of land, which is a profit from a taxable source.

Question 10

Mr. P, a resident individual, furnishes the following particulars of his income and other details for the previous year 2017-18:

| Sl. No. | Particulars | ₹ |
|---------|--|--------|
| (i) | Income from salary | 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, 1961, comes to ₹ 8,000, for which no treatment is given above.

The other details of unabsorbed depreciation and brought forward losses (pertaining to A.Y. 2017-18) 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 Assessment year 2018-19, and the amount of loss that can or cannot be carried forward.

Answer

Computation of Gross Total Income of Mr. P for the A.Y. 2018-19

| Particulars | ₹ | ₹ |
|---|--------|--------|
| (i) Income from salary | | 18,000 |
| (ii) Income from House Property | | |
| Net Annual Value | 70,000 | |
| Less : Deduction under section 24 (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 | |

| Particulars | ₹ | ₹ |
|--|--------|-----------------|
| | 72,000 | |
| Less : Unabsorbed depreciation | 9,000 | 63,000 |
| (b) Income from speculative business | 12,000 | |
| Less : Brought forward loss from speculative business | 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 year

| Particulars | ₹ |
|---|-------|
| Loss from speculative business (to be carried forward as per section 73) | 4,000 |
| Loss on maintenance of race horses (to be carried forward as per section 74A) | 9,000 |

Notes:

- (i) Loss on gambling can neither be set-off nor be carried forward.
- (ii) As per section 74A(3), the loss incurred on maintenance of race horses 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 period of 4 assessment years.
- (iii) Speculative business loss can set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2019-20. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4).

Question 11

Simran, engaged in various types of activities, gives the following particulars of her income for the year ended 31.3.2018:

| | Particulars | ₹ |
|-----|--|--------|
| (a) | Profit of business of consumer and house-hold products | 50,000 |

| | Particulars | ₹ |
|-----|--|----------|
| (b) | Loss of business of readymade garments | 10,000 |
| (c) | Brought forward loss of catering business which was closed in A.Y. 2016-17 | 15,000 |
| (d) | Short-term capital loss on sale of securities and shares | 15,000 |
| (e) | Profit of speculative transactions entered into during the year | 12,500 |
| (f) | Loss of speculative transactions of A.Y. 2013-14 not set off till A.Y. 2017-18 | 15,000 |

Compute the total income of Simran for the A.Y. 2018-19.

Answer

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

| Particulars | ₹ | ₹ |
|--|----------|---------------|
| 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 | |
| | 40,000 | |
| 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 :

1. 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.
2. Short term capital loss of ₹ 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.

Question 12

Compute the total income of Mr. Krishna for the assessment year 2018-19 from the following particulars:

| Particulars | Amount (₹) |
|---|-----------------------|
| <i>Income from business before adjusting the following items:</i> | 1,75,000 |
| <i>(a) Business loss brought forward from assessment year 2014-15</i> | 70,000 |
| <i>(b) Current year depreciation</i> | 40,000 |
| <i>(c) Unabsorbed depreciation of earlier year</i> | 1,55,000 |
| <i>Income from house property (Gross Annual Value)</i> | 4,32,000 |
| <i>Municipal taxes paid</i> | 32,000 |
| <i>Mr. Krishna sold a plot at Noida on 12th September, 2017 for a consideration of ₹ 6,40,000, which had been purchased by him on 20th December, 2015 at a cost of ₹ 4,10,000</i> | |
| <i>Long-term capital loss on sale of shares sold through recognized stock exchange (STT paid at acquisition and sale)</i> | 75,000 |
| <i>Long-term capital gain on sale of debentures</i> | 60,000 |
| <i>Dividend on shares held as stock in trade</i> | 22,000 |
| <i>Dividend from a company carrying on agricultural business</i> | 10,000 |

Answer**Computation of total income of Mr. Krishna for the A.Y 2018-19**

| | Particulars | ₹ | ₹ |
|------------|---|----------|----------|
| I. | Income from house property | | |
| | Gross Annual Value | 4,32,000 | |
| | Less: Municipal taxes paid | 32,000 | |
| | Net Annual Value (NAV) | 4,00,000 | |
| | Less: Deductions under section 24 | | |
| | (a) 30% of NAV | 1,20,000 | |
| | (b) Interest on housing loan | - | 2,80,000 |
| II. | Income from business | | |
| | Income from business | 1,75,000 | |
| | Less: Current year depreciation under section 32(1) | 40,000 | |
| | | 1,35,000 | |
| | Less: Set-off of brought forward business loss of A.Y. 2014-15 under section 72 | 70,000 | |
| | | 65,000 | |
| | Less: Unabsorbed depreciation set-off [See Note 3] | 65,000 | Nil |

| | Particulars | ₹ | ₹ |
|-------------|---|----------|-----------------|
| III. | Capital gains | | |
| | Long term capital gain on sale of debentures | 60,000 | |
| | Less: Unabsorbed depreciation set-off [<i>See Note 3</i>] | 60,000 | Nil |
| | Short term capital gain on sale of land [<i>See Note 2</i>] | 2,30,000 | |
| | Less: Unabsorbed depreciation set-off [<i>See Note 3</i>] | 30,000 | 2,00,000 |
| IV. | Income from other sources | | |
| | Dividend on shares (whether held as stock-in-trade or from a company carrying on agricultural operations) – exempt under section 10(34) | - | Nil |
| | Total income | | 4,80,000 |

Notes:

- (1) Loss from an exempt source cannot be set-off against gains from a taxable source. Since long-term capital gains on sale of listed equity shares through a recognized stock exchange is eligible for exemption under section 10(38) if STT is paid at the time of acquisition of such shares, consequently, long-term capital loss on sale of listed equity shares, being loss from an exempt source, cannot be set-off against long-term capital gains on sale of debentures.
- (2) Since land is held for a period of less than 24 months, the gain of ₹ 2,30,000 arising from sale of such land is a short-term capital gain.
- (3) Brought forward unabsorbed depreciation can be adjusted against any head of income. However, it is most beneficial to set-off unabsorbed depreciation first against long-term capital gains, since it is taxable at a higher rate of 20% (the other income of the assessee falling in the 10% slab rate). Therefore, unabsorbed depreciation is first set-off against long-term capital gains to the extent of ₹ 60,000. The remaining unabsorbed depreciation is adjusted against business income to the extent of ₹ 65,000 and the balance of ₹ 30,000 is adjusted against short-term capital gains.

In the alternative, the balance of ₹ 30,000 may also be set-off against income from house property, in which case, the net income from house property would be ₹ 2,50,000 and short-term capital gains would be ₹ 2,30,000. The gross total income and total income would, however, remain unchanged.

| LET US RECAPITULATE | | | |
|--|---|------------|--|
| Inter-source and Inter-head Set-off [Sections 70 & 71] | | | |
| Section | Provision | Exceptions | |
| 70 | <p><u>Inter-source set-off under the same head of income</u></p> <p>Any loss in respect of one source shall be set-off against income from any other source under the same head of income.</p> | (i) | Loss from speculative business |
| | | (ii) | Loss from specified business under section 35AD |
| | | (iii) | Long term capital loss and |
| | | (iv) | Loss from the activity of owning and maintaining race horses |
| 71 | <p><u>Inter head adjustment</u></p> <p>Loss under one head of income can be set-off against income assessable under any other head of income.</p> | (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) | Speculation loss, losses from specified business and loss from the activity of owning and maintaining race horses cannot be set-off against income under any other head. |
| | | (iv) | Loss under the head house property can be set-off against income under any other head to the extent of ₹ 2 lakhs only. |

| Carry forward and Set-off of brought forward losses | | | |
|--|---|---|--|
| Section | Nature of loss to be carried forward | Income against which the brought forward loss can be set-off | Maximum permissible period [from the end of the relevant assessment year] for carry forward of losses |
| 71B | Unabsorbed loss from house property | Income from house property | 8 assessment years |
| 72 | Unabsorbed business loss | Profits and gains from business or profession | 8 assessment years |
| 73 | Loss from speculation business | Income from speculation business | 4 assessment years |
| 73A | Loss from specified business under section 35AD | Profit from any specified business | Indefinite period |
| 74 | Long-term capital loss | Long-term capital gains | 8 assessment years |
| | Short-term capital loss | Short-term/Long-term capital gains | 8 assessment years |
| 74A | Loss from the activity of owning and maintaining race horses | Income from the activity of owning and maintaining race horses. | 4 assessment 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 72(1)] | | |
| 3. | Unabsorbed depreciation [Section 32(2)] | | |
| 4. | Unabsorbed capital expenditure on scientific research [Section 35(4)]. | | |
| 5. | Unabsorbed expenditure on family planning [Section 36(1)(ix)] | | |

 **TEST YOUR KNOWLEDGE**

1. According to section 80, no loss which has not been determined in pursuance of a return filed in accordance with the provisions of section 139(3), shall be carried forward. The exceptions to this are -
 - (a) Loss from specified business under section 73A
 - (b) Loss under the head "Capital Gains" and unabsorbed depreciation carried forward under section 32(2)
 - (c) Loss from house property and unabsorbed depreciation carried forward under section 32(2)
 - (d) Loss from speculation business under section 73
2. Section 70 enables set off of losses under one source of income against income from any other source under the same head. The exceptions to this section are -
 - (a) Loss under the head "Capital Gains", Loss from speculative business, Loss from house property and loss from the activity of owning and maintaining race horses
 - (b) Long-term capital loss, Loss from speculative business, Loss from specified business and loss from the activity of owning and maintaining race horses
 - (c) Short-term capital loss and loss from speculative business
 - (d) Loss from specified business and short-term capital loss
3. Mr. X incurred long-term capital loss from sale of listed shares in recognized stock exchange and STT is paid at the time of acquisition and sale of such shares. Such loss -
 - (a) can be set-off only against long-term capital gains
 - (b) can be set-off against both short-term capital gains and long-term capital gains
 - (c) can be set-off against any head of income.
 - (d) is not allowed to be set-off
4. The maximum period for which speculation loss can be carried forward is -
 - (a) 4 years
 - (b) 8 years
 - (c) indefinitely
 - (d) not allowed to be carry forward
5. Mr. A incurred short-term capital loss of ₹ 10,000 on sale of shares through the National Stock Exchange. Such loss -
 - (a) can be set-off only against short-term capital gains

- (b) can be set-off against both short-term capital gains and long-term capital gains
- (c) can be set-off against any head of income.
- (d) not allowed to be set-off
6. The maximum period for which loss from specified business can be carried forward is -
- (a) 4 years
- (b) 8 years
- (c) indefinitely
- (d) not allowed to be carry forward
7. Loss from house property of ₹ 3,10,000 of A.Y. 2016-17 is allowed to be set-off against income from house property of A.Y. 2018-19 of ₹ 5,00,00 to the extent of -
- (a) ₹ 2,00,000
- (b) fully allowed i.e, ₹ 3,10,000
- (c) ₹ 2,50,000
- (d) ₹ 1,00,000
8. Any loss from the specified business referred to in section 35AD can be set off against -
- (a) only profit and gains of same specified business of the assessee
- (b) profits and gains of any business of the assessee
- (c) profit and gains of any other specified business of the assessee
- (d) income from any other head
9. Business loss of the current year cannot be set-off against -
- (a) Any income other than business income
- (b) Long-term capital gain
- (c) Either long-term capital gain or short-term capital gain
- (d) Salary income
10. Brought forward loss from house property can be set-off -
- (a) Against any head of income to the extent of ₹ 2,00,000
- (b) Against income from house property to the extent of ₹ 2,00,000
- (c) Against income from house property without any limit
- (d) Against any head of income without any limit

Answers

1. (c) 2. (b) 3. (d) 4. (a) 5. (b) 6. (c)
7. (b) 8. (c) 9. (d) 10. (c)