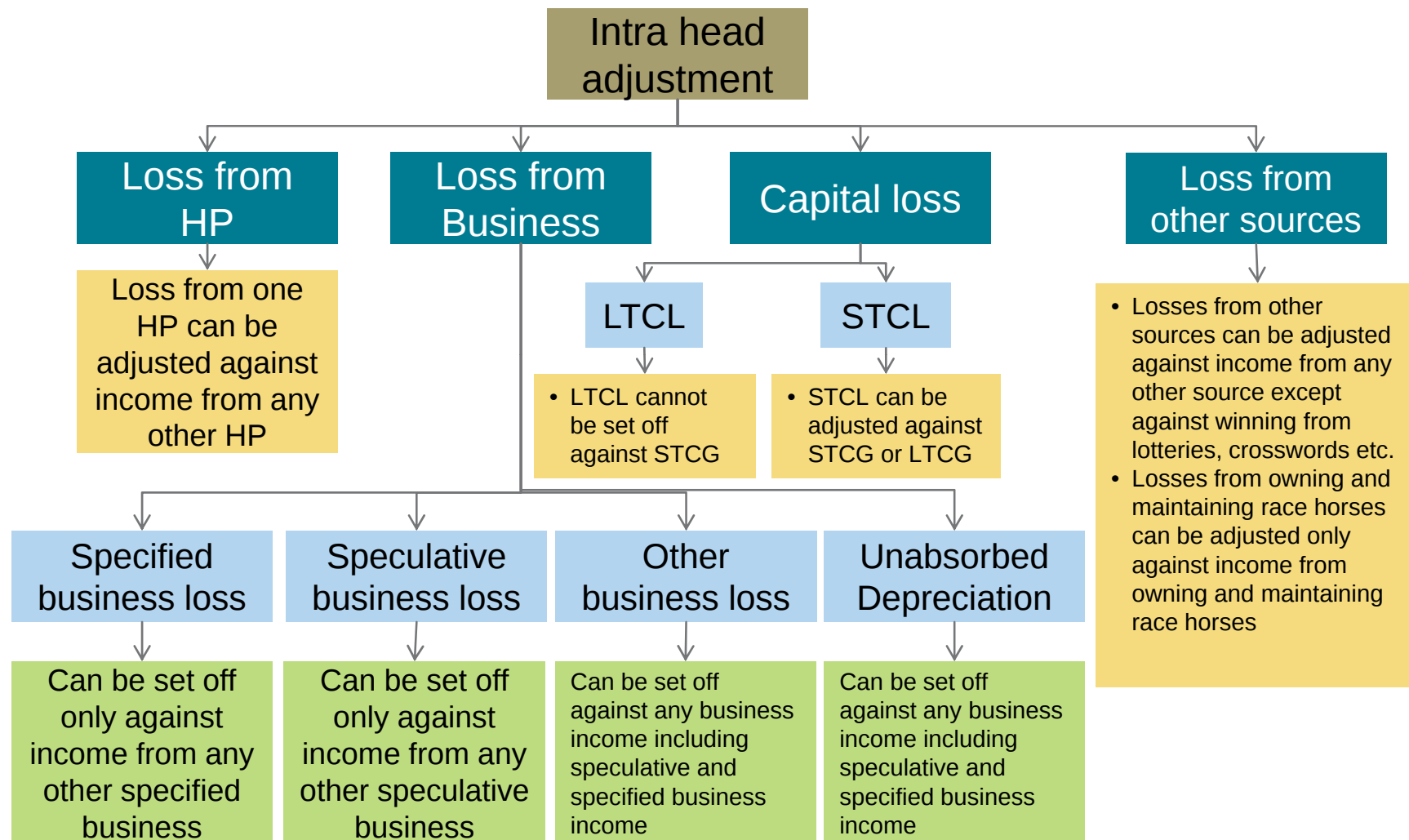


Setoff and carry forward of losses

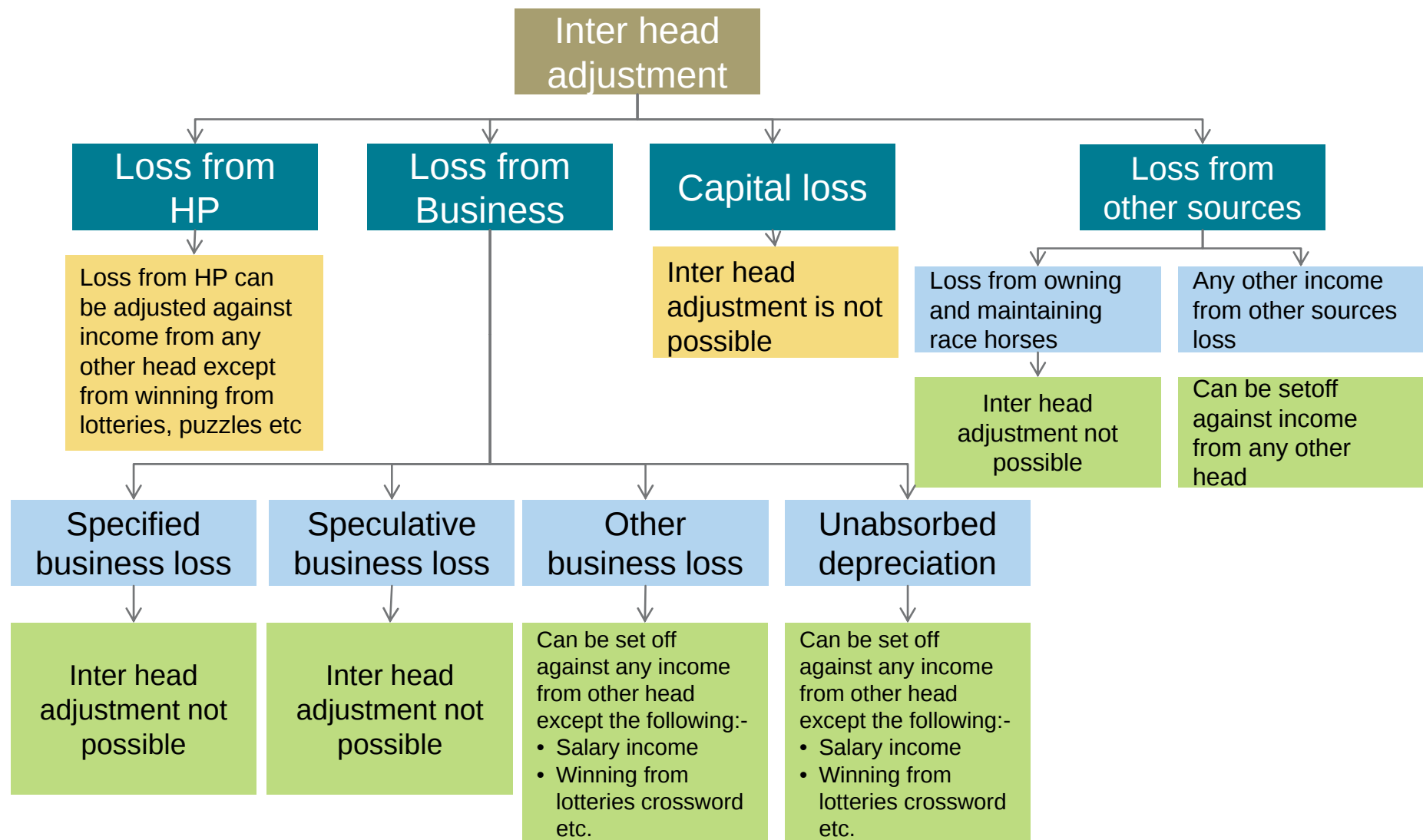
Set off of losses

- Steps to adjust and carry forward losses
 - Step 1 - Inter – source adjustment under the head of income (intra head adjustment) – Sec 70
 - Step 2 - Inter – head adjustment in the same assessment year. (if adjustment is not possible in step 1)
 - Step 3 - Carry forward of loss. (if adjustment is not possible in step 2)

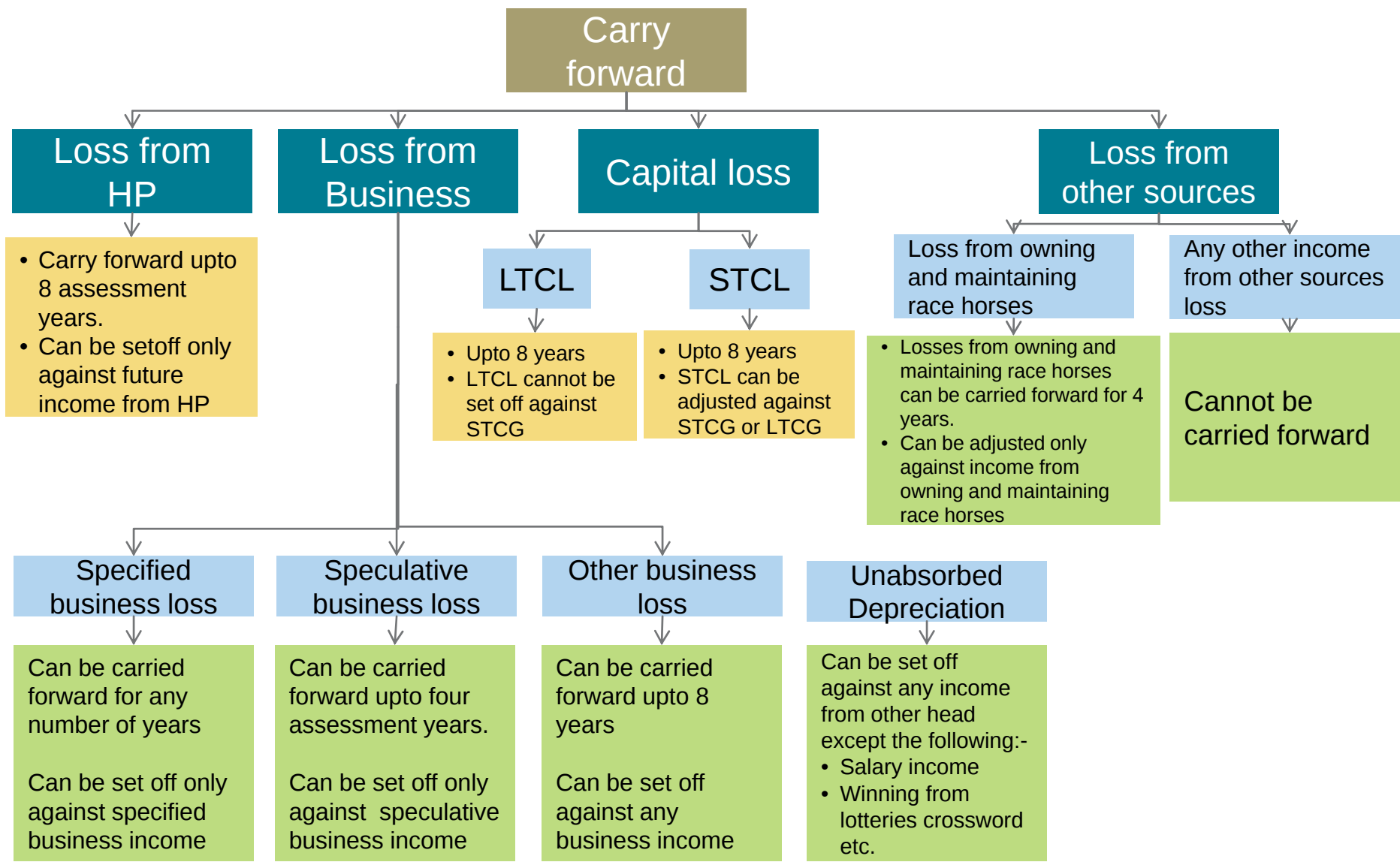
Within head adjustment:



Adjustment of loss against other heads of income:



Carry forward of losses:



Hierarchy of setting off brought forward losses

1. Current year profit before depreciation
2. Current year depreciation
3. B/f losses
4. Unabsorbed depreciation

Special losses

Dividend stripping:-

If the below mentioned conditions are satisfied:

1. A person acquires securities / shares/ units within a period of 3 months before the record date(date on which dividend will be received).
2. He sells or **transfers** such securities / shares/ units within a period of 3 months (9 months in the case of units) after the record date (i.e after receiving dividend).
3. The dividend receivable on such securities is exempt in the hands of the receiver.

Any capital loss on such sale, to the extent of dividend received will not be allowed to be setoff or carried forward.

Bonus stripping:-

If the below mentioned conditions are satisfied:

1. A person acquires units (original units) within a period of 3 months before the record date(date of issue of bonus units).
2. After receiving bonus units such person sells or transfers all or any of the original units within a period of 9 months after the record date

Any capital loss on such sale of original units shall be treated as loss but as cost of acquisition of the bonus units.

Please note the provisions of dividend stripping are applicable to shares, securities and units whereas the provisions of bonus stripping is applicable only in case of units and not shares or securities.

Examples

X submits the following particulars:-

Particular's	PY 2013 - 14	PY 2014 -15
Business profit (before depreciation)	-50,000	45,000
Current depreciation	-18,000	-20,000
Income from other sources	20,000	10,000

Particulars	PY 2013-14	PY 2014-15
PGBP		
Business gain / (loss)	(50,000)	45,000
Current depreciation	(18,000)	(20,000)
B/f business loss		(25,000)
B/f unabsorbed depreciation		
Income from other sources		
Income	20,000	70,000
Less business loss	(20,000)	
Less unabsorbed depreciation		(18,000)
Total income	NIL	52,000
Loss carried forward		
Business loss	(30,000)	Nil
Unabsorbed depreciation	(18,000)	Nil

Examples

X submits the following particulars:-

Particular's	PY 2013 - 14	PY 2014 -15
Business profit (before depreciation)	-50,000	45,000
Current depreciation	-18,000	-20,000
Income from other sources	20,000	10,000

Particulars	PY 2013-14	PY 2014-15
PGBP		
Business gain / (loss)	(50,000)	45,000
Current depreciation	(18,000)	(20,000)
B/f business loss		(25,000)
B/f unabsorbed depreciation		
Income from other sources		
Income	20,000	70,000
Less business loss	(20,000)	
Less unabsorbed depreciation		(18,000)
Total income	NIL	52,000
Loss carried forward		
Business loss	(30,000)	Nil
Unabsorbed depreciation	(18,000)	Nil



Thank You

Adjustment of losses

- **Step1 – Inter source adjustment**

- Loss from one source can be set off against income from any another source falling under the same head of income (e.g loss from one house property can be set off against income from another house property.)

Exceptions to the above rule:-

Particulars	Amount of exemption
Speculative Business loss – Sec 73	Can be set off only against profit from any other speculative business
Loss of business referred to in Sec 35AD – Sec 73A	Can be set off only against profit from any other section 35AD business
Long term capital loss – Sec 70	Can be set off only against long term capital gain
Loss from activity of owning and maintaining race horses – Sec 74A	Can be set off only against income from activity of owning and maintaining race horses

- **Step 2 – Inter head adjustment**

- Losses under one head of income can be set off against income from any another head

Exceptions to the above rule:-

Particulars	Amount of exemption
Non speculative business loss – Sec 71	Non speculative Business loss cannot be set off against Salary income
Speculative business loss – Sec 73	Cannot be setoff against income from any other head.
Loss of business specified under Section 35AD	Cannot be setoff against income from any other head.
Capital loss	Cannot be set off against income from any other head
Loss from activity of owning and maintaining race horses – Sec 74A	Cannot be setoff against income from any other head.

By virtue of section 58(4) no loss shall be adjusted against winnings from lotteries, crossword , puzzles etc either in step 1 or in step 2

Carry forward of losses – Step 3

Losses which could not be set off as discussed in step 1 and step 2 shall be carried forward as under:

Type of loss	Carry forward possible	Future income against which loss can be set off	Conditions to be satisfied
Loss from house property – Sec 71B	Can be forward to eight assessment years following the assessment year in which loss is incurred	Income from house property	
Non-speculative business loss – Sec 72	Can be forward to eight assessment years following the assessment year in which loss is incurred	Any business income be it speculative or non speculative or Section 35AD business. (not necessarily the same business in which the loss was incurred)	Return of loss should be filed within due date
Speculative Business loss – Sec 73	Can be forward to four assessment years following the assessment year in which loss is incurred	Only against speculative business Income (not necessarily the same business in which the loss was incurred)	Return of loss should be filed within due date
Loss of business referred to in Sec 35AD – Sec 73A	Can be carried forward for unlimited period	Only against section 35AD business Income (not necessarily the same business)	
Short term capital loss – Sec 74	Can be forward to eight assessment years following the assessment year in which loss is incurred	Can be set off against short or long term capital gains	Return of loss should be filed within due date
Long term capital loss – Sec 74	Can be forward to eight assessment years following the assessment year in which loss is incurred	Can be set off only against long term capital gains	Return of loss should be filed within due date
Loss from activity of maintaining race horses – Sec 74A	Can be forward to four assessment years following the assessment year in which loss is incurred	Can be set off only against income from activity of maintaining race horses	Return of loss should be filed within due date

Please note loss from other sources cannot be carried forward

Where any part of the business of a company consists of purchase and sale of shares of other companies such company shall be deemed to be carrying on a speculation business to the extent of purchase and sale of such shares