SET OFF OF LOSSES (Sec 70 and 71)

INTRODUCTION :

Set off of losses refers to adjustment of current year losses against current year incomes.

VARIOUS RULES :

Rule No 1. Set off of losses – Intra head adjustments (Inter source adjustments)
Rule No 2. Set off of losses – Inter head adjustments

Rules A: Set off of losses – Intra head adjustments (Inter source adjustments)

Loss from one source of income can be adjusted against income from some other source of income under the same head.

example *:Loss from HP1 can be adjusted against income from HP2*

It is subject to the following exceptions

1 Loss from speculation business cannot be set of against profit from an non speculation business (Interpretation: Loss from non speculative business can be set-off against speculation income)
2 LTCL can only be set off against LTCG and cannot be set off against STCG (Interpretation: STCL can be set off against LTCG)
3 No loss can be set-off against casual income
4 No expenses can be claimed against casual income
5 Loss from the activity of owning and maintaining race horses cannot be set off against other incomes
6 Loss from an exempted source cannot be set off (e.g. Share of loss of firm, agricultural losses, cultivation expenses)

Rules B: Set off of losses – Inter head adjustments

Loss from one head of income (HP) can be adjusted against income from some other head of income.(Salary Income)

example *: Loss from HP can be adjusted against Salary Income or Business Income*

It is subject to the following exceptions:

1 Loss from speculation cannot be set of against any other head.
(Interpretation: Loss from other heads can be set-off against business income)
Ø For Example: HP loss can be set-off against Speculative Incomes but speculation loss cannot be set off against HP
2 Business loss cannot be set-off against salary income. (It can be set-off against other incomes)
3 Loss under the head Capital Gains (LTCL or STCL) cannot be set-off against any other head.
(Interpretation: Loss from other heads can be set-off against Capital Gains)
Ø For Example: HP loss can be set-off against CG but LTCL or STCL cannot be set off against HP
4 No loss can be set-off against casual income
5 No expenses can be claimed against casual income
6 Loss from the activity of owning and maintaining race horses cannot be set off
7 Loss from an exempted source cannot be set off
(e.g. Share of loss of firm, agricultural income, cultivation expenses)

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