

CHAPTER 12

SET OFF AND CARRY FORWARD OF LOSSES

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1

Mr. A submits the following particulars pertaining to the A.Y. 2022-23:

Particulars	Amount
Income from salary (computed)	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. 2022-23, assuming that he does not opt for the provisions of section 115BAC.

Solution

Computation of total income of Mr. A for the A.Y. 2022-23

Particulars	Amount	Amount
Income from salary	4,00,000	
Loss from house property of INR 2,20,000 to be restricted to INR lakhs by virtue of section 71(3A)	(-) 2,00,000	2,00,000
Balance loss of INR 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	-
Business loss of INR 20,000 to be carried forward for set-off against business income of the next assessment year		
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 INR 2,00,000 after adjusting loss of INR 2,00,000 from house property. The balance loss of INR 20,000 from house property will be carried forward.

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

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Concept Problem 2

Mr. Ram, a resident individual, furnishes the following particulars for the PY 2021-22

Income under the head Salary (computed)	45,000
Loss from house property	(24,000)
Loss from business – non-speculative	(22,000)
Loss from speculative business	(4,000)
Short-term loss	(25,000)
Long-term capital gains u/s 112	19,000

What is the total income chargeable to tax for the A.Y.2022-23, assuming that he does not opt for the provisions of section 115BAC?

Solution

Total Income chargeable to tax for the A.Y. 2022-23 is calculated as under:

Particulars	Amount (INR)	Amount (INR)
Income under the head salaries	45,000	
Less: Loss from house property	(24,000)	21,000
Profit 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	
Less: Short term capital loss INR 25,000 set off against long- term capital gains to the extent of INR 19,000	(19,000)	Nil
Short term capital loss to be carried forward [Note 3]	(6,000)	
Gross Total Income		21,000

Note 1: Business loss cannot be set-off against salary income. Therefore, loss of INR 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 profit, if any.

Note 2: Loss of INR 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 INR 25,000 can be set-off against long-term capital gains to the extent of INR 19,000. The balance short term capital loss of INR 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.

Concept Problem 3

During the P.Y. 2021-22, Mr. C has the following income and the brought forward losses:

Particulars	Amount
Short term capital gains on sale of shares	1,50,000
Long term capital loss of AY 2020-21	(96,000)
Short term capital loss of AY 2021-22	(37,000)
Long term capital gain u/s 112	75,000

What is the taxable income in the hands of Mr. C for the AY 2022-23?

Solution

The taxable income of Mr. C for AY 2022-23

Particulars	Amount	
STCG on sale of shares	1,50,000	
Less: Brought forward STCL of AY 2021-22	(37,000)	1,13,000
LTCG	75,000	
Less: Brought forward long-term capital loss of A.Y.2020-21; 96,000 set off to the extent of 75,000	(75,000)	Nil
Taxable short-term capital gains		1,13,000

Note: Brought forward long-term capital loss cannot be set-off against short term capital gain. Hence, unadjusted long-term capital loss of AY 2019-20 of 21,000 (96,000 - 75,000) has to be carried forward to next year to be set-off against LTCG of that year.

Concept Problem 4

Mr. D has the following income for the P.Y. 2021-22:

Particulars	Amount
Income from the activity of owning and maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss (relating to A.Y. 2021-22)	50,000
Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y. 2019-20)	96,000

What is the total income in the hands of Mr. D for the A.Y. 2022-23?

Solution

Total income of Mr. D for the A.Y. 2022-23

Particulars	Amount	Amount
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss of 96,000 from the activity of owning and maintaining race horses set-off to the extent of 75,000	(75,000)	Nil
Balance loss of 21,000 (96,000 – 75,000) from the activity of owning and maintaining race horses to be carried forward to A.Y.2023-24		
Income from textile business	85,000	
Less: Brought forward business loss from textile business.	50,000	35,000

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Particulars	Amount	Amount
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.

Concept Problem 5

Mr. E has furnished his details for the A.Y. 2022-23 as under:

Particulars	Amount
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.2020-21	(30,000)
Winning from lotteries (gross)	20,000

What is the taxable income of Mr. E for the A.Y. 2022-23?

Solution

Computation of taxable income of Mr. E for the A.Y. 2022-23

Particulars	Amount	Amount
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 INR 30,000 has to be carried forward to the next assessment year.

Concept Problem 6

Compute the gross total income of Mr. F for the A.Y. 2022-23 from the information given below

Particulars	Amount
Net income from house property (computed)	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. 2021-22)	(90,000)
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)

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Solution**Gross Total Income of Mr. F for the A.Y. 2022-23**

Particulars	Amount	Amount
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
Income from Other Sources		
Dividend income (taxable in the hands of shareholders)		80,000
Gross Total Income		3,73,000

Note:

- Dividend from Indian companies is fully taxable in the hands of shareholders.
- 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 INR 90,000 brought forward from A.Y. 2021-22 cannot be set-off in the A.Y. 2022-23, 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. 2023-24.

Concept Problem 7

Mr. Soohan submits the following details of his income for the assessment year 2022-23:

Particulars	Amount
Income from salary (computed)	3,00,000
Loss from let out house property	(40,000)
Income from sugar business	50,000
Loss from iron ore business b/f (discontinued in P.Y. 2016-17)	(1,20,000)
Short term capital loss	(60,000)
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games	6,000
Agricultural income	20,000
Short term capital loss under section 111A	(10,000)
Bank interest	5,000

Calculate gross total income and losses to be carried forward, assuming that he does not opt for the provisions of section 115BAC.

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Solution**Computation of Gross Total Income of Mr. Soohan for the A.Y.2022-23**

Particulars	Amount	Amount
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 of 1,20,000 from iron-ore business set-off as per section 72(1) to the extent of 50,000	(50,000)	Nil
Balance business loss of INR 70,000 of P.Y. 2016-17 carried forward to AY 2023-24		
Capital gains		
Long term capital gain	40,000	
Less: Short term capital loss set-off	(40,000)	Nil
Balance short-term capital loss of INR 20,000 to be carried forward		
Short-term capital loss of INR 10,000 under section 111A also to be carried forward		
Income from Other Sources		
Dividend (fully taxable in the hands of shareholders)	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank interest	5,000	66,000
Gross Total Income		3,26,000
Losses to be carried forward to A.Y. 2023-24		
Loss of iron-ore business (INR 1,20,000 – INR 50,000)	70,000	
Short term capital loss (INR 20,000 + INR 10,000)	30,000	

Notes:

1. Agricultural income is Exempt under section 10(1).
2. It is presumed that loss from iron-ore business relates to P.Y. 2016-17, the year in which the business was discontinued.

Concept Problem 8

Mr. Batra furnishes the following details for year ended 31.03.2022:

Particulars	Amount
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 unlisted shares	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 AY 2019-20 INR 25,000.
- Brought forward loss from business of textile INR 60,000 - Loss pertains to AY 2014-15.

Compute GTI of Mr. Batra for the AY 2022-23. Also state the eligible carry forward losses for the AY 2023-24.

Solution**Computation of Gross Total Income of Mr. Batra for the A.Y. 2022-23**

Particulars	Amount	Amount
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 of 60,000 from textile business b/f from A.Y.2014-15 set-off to the extent of 50,000	(50,000)	
Balance business loss of A.Y. 2014-15 carry forward to AY 2023-24- Nil [Note 1]		Nil
Income from the activity of owning and maintaining race horses		
Less: Loss of 25,000 from activity of owning and maintaining race horses b/f from A.Y. 2019-20 set-off to the extent of 15,000	(15,000)	
Loss to be carried forward to A.Y. 2023-24 - (10,000) [See Note 2]		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	(30,000)	
Balance loss of 70,000 to be carried forward to A.Y.2023-24 [See Note 3]		Nil
Gross Total Income		2,00,000

Losses to be carried forward to A.Y. 2022-23

Particulars	Amount
Current year loss from speculative business [See Note-4]	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 AY 2019-20	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. 2014-15 expired with the A.Y. 2022-23, the balance unabsorbed business loss of INR 10,000 cannot be carried forward to A.Y. 2023-24.
- 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.
- Long term capital gains on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of INR 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.
- 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.

Concept Problem 9

Mr. A furnishes you the following information for the year ended 31.03.2021:

Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicles throughout the year)	3,20,000
Income from retail trade of garments (Computed as per books) (Sales turnover 1,35,70,000) Mr. A had declared income on presumptive basis u/s 44AD for the first time in AY 2021-22. Assume 10% of the turnover during the previous year 2021-22 was received in cash and balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card.	7,50,000
He has brought forward depreciation relating to A.Y. 2020-21	1,00,000

Compute taxable income of Mr. A and his tax liability for the AY 2022-23 along with reasons for computation, assuming that he does not opt for section 115BAC

Solution

Computation of total income and tax liability of Mr. A for the A.Y. 2022-23

Particulars	Amount
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
Less: Set off of brought forward depreciation relating to A.Y. 2020-21	1,00,000
Gross total income	9,70,000
Less: Deduction under Chapter VI A	Nil
Taxable income	9,70,000
Tax liability	1,06,500
Add: Health and education cess @4%	4,260
Tax Payable	1,10,760

Notes:

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1. **Income from retail trade:** Presumptive business income under section 44AD is INR 8,41,340 i.e., 8% of INR 13,57,000, being 10% of the turnover received in cash and 6% of INR 1,22,13,000, being the amount of sales turnover received through A/c payee cheque.

However, the income computed as per books is INR 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of INR 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 INR 1 crore (the enhanced limit of INR 10 crore would not be available, since more than 5% of the turnover is received in cash). Also, his case would be falling under section 44AD(4) and hence tax audit is mandatory. It may further be noted that he cannot opt for section 44AD for next five A.Ys, if he does not opt for section 44AD this year.

2. **Income from plying of vehicles:** Income calculated under section 44AE(1) would be INR 7,500 x 12 x 5 which is equal to INR 4,50,000. However, the income from plying of vehicles as per books is INR 3,20,000, which is lower than the presumptive income of INR 4,50,000 calculated as per section 44AE(1).

Hence, the Assessee can adopt the income as per books i.e. INR 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	Amount
Income from retail trade under section 44AD [13,57,000 @ 8%] plus 1,22,13,000 @ 6%]	8,41,340
Income from plying of vehicles under section 44AE [7,500 x 12 x 5]	4,50,000
Income from business	12,91,340
Less: Set off of b/f depreciation not possible as its deemed that it has been allowed	Nil
Gross total income	12,91,340
Less: Deduction under Chapter VI A	Nil
Total income	14,23,600
Tax thereon	1,99,902
Add: Health and education cess @4%	7,996
Total tax liability	2,07,898
Total tax liability (rounded off)	2,07,900

Concept Problem 10

Mr. Aditya furnishes the following details for the year ended 31-03-2022:

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 (computed)	3,00,000

Particulars	Amount
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)	1,02,000

Following are the brought forward losses:

- (1) Losses from owning and maintaining of race horses pertaining to A.Y. 2020-21 INR 2,000.
- (2) Brought forward loss from trading business INR 5,000 relating to A.Y. 2017-18.

Compute the total income of Mr. Aditya and show the items eligible for carryforward, assuming that he does not opt for the provisions of section 115BAC.

Solution

Computation of total income of Mr. Aditya for the A.Y. 2022-23

Particulars	Amount	Amount
Salaries		
Income from Salary	3,00,000	
Less: Loss from house property set-off against salary income u/s 71(1)	2,00,000	1,00,000
Loss from house property to the extent not set off i.e. INR 50,000 (INR 2,50,000 – INR 2,00,000) to be carried forward to AY 2023-24		
Profits and gains of business or profession		
Income from trading business	45,000	
Less: Brought forward loss from trading business of A.Y. 2016-17 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		
Less: Loss from speculative business A set-off as per section 73(1)	5,000	Nil
Balance loss of 20,000 from speculative business A to be carry forward to A.Y.2023-24 as per section 73(2)		
Loss of 20,000 from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A.		
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	
Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of	1,02,000	23,000

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Particulars	Amount	Amount
such shares is taxable under section 112A		
Total Income		1,63,000

Items eligible for carried forward to A.Y.2023-24

Particulars	Amount
<p>Loss from House property</p> <p>As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of INR 2,00,000 only.</p> <p>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.2030-31, in this case.</p>	50,000
<p>Loss from speculative business A</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. 2026-27, in this case, as specified under section 73(4).</p>	20,000
<p>Loss from specified business</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>Loss from the activity of owning and maintaining race horses</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.2024-25, in this case, as specified under section 74A(3).</p>	2,000

Concept Problem 11

Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for PY 2021-22.

S. No	Particulars	Amount
(1)	Income from Salary (computed)	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 AY 2021-22 are as follows:

S. No	Particulars	Amount
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(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 2022-23 and the amount of loss, if any that can be carried forward or not.

Solution

Computation of Gross Total Income of Mr. Garg for the A.Y. 2022-23

Particulars	Amount	Amount
(i) Income from salary		15,000
(ii) Profits and gains of business or profession	66,000	
Less: Unabsorbed depreciation brought forward from A.Y. 2021-22. (Unabsorbed depreciation can be set-off against any head of income other than salary)	<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. 2023-24

S. No	Particulars	Amount
(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 INR 22,000 brought forward from A.Y. 2021-22 has to be carried forward to A.Y. 2023-24 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. 2025-26]	22,000
(2)	Loss on maintenance of race horses [to be c/f 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. 2026-27]	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward	

Concept Problem 12

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2022:

Particulars	Amount
Income from salaries	2,20,000
Loss from house property	1,90,000

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Particulars	Amount
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
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	45,000

Compute the total income and show the items eligible for carry forward, assuming that he does not opt for the provisions of section 115BAC.

Solution

Computation of total income of Mr. Srivatsan for the A.Y. 2022-23

Particulars	Amount	Amount
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 of 2,40,000 set off to the extent of 30,000	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
(1) Loss from cloth business (INR 2,40,000 – INR 30,000 – INR 2,10,000)	Nil
(2) Loss from specified business covered by section 35AD	20,000

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 for set-off against profits and gains of any specified business in the following year.
- Business loss cannot be set off against salary income. However, the balance business loss of INR 2,10,000 (INR

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2,40,000 – INR 30,000) set-off against income from speculation business) can be set-off against long-term capital gains of INR 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be INR 40,000.

- iii) Loss from card games can neither be set off against any other income, nor can't 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 INR 30,000 [i.e., Gross Total Income of INR 1,15,000 – INR 40,000 (LTCG) - INR 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.

Concept Problem 13

Mr. Rajat submits the following information for the FY ending 31st March, 2022. He desires that you should:

- a) Compute the total income and
- b) Ascertain the amount of losses that can be carried forward.

S No.	Particulars	Amount
1	He has two houses: a) House No. I – Income after all statutory deductions b) House No. II – Current year loss	72,000 (30,000)
2	He has three proprietary businesses: a) Textile Business: i) Discontinued from 31 st October, 2021 – Current year loss ii) Brought forward business loss of A.Y. 2017-18 b) Chemical Business: i) Discontinued from 1 st March, 2019 – hence no profit/loss ii) Bad debts allowed in earlier years recovered during this year iii) Brought forward business loss of A.Y. 2018-19 c) Leather Business : Profit for the current year d) Share of profit in a firm in which he is partner since 2008	40,000 95,000 Nil 35,000 50,000 100,000 16,550
3	a) Short-term capital gain b) Long-term capital loss	60,000 35,000
4	Contribution to LIC towards premium	10,000

Solution

Computation of total income of Mr. Rajat for the A.Y. 2022-23

Particulars	Amount	Amount
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	

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Particulars	Amount	Amount
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. 2017-18 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. 2023-24

Particulars	Amount
Business loss of A.Y. 2018-19 to be carried forward under section 72	50,000
Long term capital loss of A.Y. 2022-23 to be carried forward under section 74	35,000

Notes:

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

Concept Problem 14

Ms. Geeta, a resident individual, provides the following details of her income/losses for the year ended 31.3.2022:

- Salary received as a partner from a partnership firm INR 7,50,000. The same was allowed to the firm.
- Loss on sale of shares listed in BSE INR 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
- Long-term capital gain on sale of land INR 5,00,000.
- INR 51,000 received in cash from friends in party.
- INR 55,000, received towards dividend on listed equity shares of domestic companies.
- Brought forward business loss of assessment year 2020-21 INR 12,50,000.

Compute gross total income of Ms. Geeta for the AY 2022-23 and ascertain the amount of loss to be carried forward.

Solution

Computation of Gross Total Income of Ms. Geeta for the A.Y. 2022-23

Particulars	Amount
Profits and gains of business and profession	
Salary received as a partner from a partnership firm is taxable under the head "Profits and	7,50,000

gains of business and profession”		
Less: : B/f business loss of A.Y. 2020-21 12,50,000 to be set-off to the extent of 7,50,000		7,50,000
(Balance b/f business loss of 5,00,000 can be carried forward to the next year)		Nil
Capital Gains		
Long term capital gain on sale of land (See Note 2)	5,00,000	
Less: Long term capital loss on shares on STT paid (See Note 2)	3,00,000	2,00,000
Income from other sources		
Cash gift received from friends - since the value of cash gift exceeds INR 50,000, the entire sum is taxable	51,000	
Dividend received from a domestic company fully taxable	55,000	1,06,000
Gross Total Income		3,06,000

Notes:

- Balance brought forward business loss of AY 2020-21 of INR 5,00,000 has to be carried forward to next year.
- Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under section 112A. Therefore, it can be set-off against long-term capital gain on sale of land u/s 70(3).

Concept Problem 15

Mr. P, a resident, furnishes the following particulars of his income and other details for the PY 2021-22:

Particulars	Amount
Income from salary (computed)	18,000
Net annual value taxable under income from house property	70,000
Income from business	80,000
Income from speculative business	12,000
Long term capital gain on sale of land	15,800
Loss on maintenance of race horses	9,000
Loss on gambling	8,000

Depreciation allowable under the Income-tax Act comes to INR 8,000 for which no treatment is given above. The other details of unabsorbed depreciation and brought forward losses are:

Particulars	Amount
Unabsorbed depreciation	9,000
Loss from speculative business	16,000
Short term capital loss	7,800

Compute the gross total income of Mr. P, for the Assessment year 2022-23 and amount of loss that can or cannot be carried forward.

Solution**Computation of Gross Total Income of Mr. P for the A.Y. 2022-23**

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Particulars	Amount	Amount
(i) Income from salary		18,000
(ii) Income from house property		
Net Annual Value	70,000	
Less: Deduction under section 24 (30% of amount 70,000)	(21,000)	49,000
(iii) Income from business and profession		
(a) Income from business	80,000	
Less: Current Year depreciation	(8,000)	
	72,000	
Less: Unabsorbed depreciation	(9,000)	63,000
(b) Income from speculative business	12,000	
Less: B/f loss of 16,000 from speculative business set off to the extent of 12,000	(12,000)	Nil
(Balance loss of 4,000 (16,000 - 12,000) can be carried forward to 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 AY 2023-24

Particulars	Amount
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 be neither 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 be set off only against income from speculative business of the current year and the balance loss can be carried forward to AY 2023-24. It may be notes that speculative business loss can be carried forward for a maximum of four years as per section 73(4).