Set off losses against other income heads

Everyone strives to make profits from whatever venture he/she undertakes, but in the quest for gains, the possibility of losses can't be ruled out

Income is categorised under five heads — salary, income from house property, business income, capital gain and income from other sources. The I-T Act allows you to set off losses under one head against gains in another, subject to conditions.

Capital gains and losses

If a capital asset is sold after three years of purchase, the resultant gain/loss is long term. If sold before three years, it's a short-term capital gain/loss. Short-term capital loss can be set off against any capital gain — long or short term. However, long-term capital loss can be set off only against a long-term capital gain. Any capital loss after the set-off can be carried forward up to eight financial years. A short-term loss that is carried forward can be set off against any capital gain. But a long-term capital loss that is carried forward can be set off against only long-term capital gains.

Loss incurred on selling equity

Equity and equity-based mutual funds are considered long-term assets when held for at least a year. Any loss you make on the sale of equity stocks bought less than 12 months ago are short-term capital losses and can be adjusted against short-term capital gains as well as long-term gains. Also, the unadjusted losses can be carried forward for up to eight FYs. The loss incurred on selling equity stocks bought more than 12 months ago are long-term capital losses.

Long-term capital loss on listed equities where STT is paid cannot be adjusted because the income is exempt. However, if you sell the shares offline without paying STT, the loss can be adjusted against a long-term capital gain.

Business income

Losses from business/profession can be set off against all income heads other than salary, whereas losses from a speculative activity or owning/maintaining race horses can be set off only against profits under the respective heads. The loss can be carried forward up to eight FYs and set off only against the income from business/profession.

House property

Houses bought or constructed on borrowed money are eligible for deduction of loan interest from the net annual value while calculating the income from house property. The annual value of a self-occupied house is treated as nil. So, the entire interest paid for it becomes a loss from house property, subject to the R1.5-lakh limit. House property losses can be set off against income from any other head, including salary, in the same financial year. The remaining losses can be carried forward up to eight FYs. In subsequent FYs, such a loss can be set off only against income from house property.

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