

TEST 12
(SET OFF)

Time : 30 minutes Total Marks : 20

Question 1 : The following are the details relating to Mr. R, a resident Indian, relating to the year ended 31.03.2024

Particulars	Amount (₹)
Short term capital gain	1,40,000
Loss from house property	2,20,000
Loss from speculative business	50,000
Loss from card games	20,000
Brought forward Long term capital loss of A.Y. 2018-19	86,000
Dividend from Shaiba Ltd.	11,00,000
Loss from tea business	96,000

Mr. R's wife, Isha is employed with Shine Ltd., at a monthly salary of ₹ 25,000, where Mr. R holds 21% of the shares of the company. Isha is not adequately qualified for the post held by her in Shine Ltd.

You are required to compute taxable income of Mr. R for the A.Y. 2024-25. Ascertain the amount of losses which can be carried forward.

Question 2 : 1. Mr. K, residing in Indore, provides the following information for the financial year 2023-24:

Particulars	₹
Income from textile business	4,60,000
Income from speculation business	25,000
Loss from gambling	12,000
Loss on maintenance of race horse	15,000
Current year depreciation of textile business not adjusted in the income given above.	5,000
Unabsorbed depreciation of assessment year 2022-23	10,000
Speculation business loss of assessment year 2023-24	30,000

Compute the Gross Total Income of Mr. K for the Assessment year 2024-25 and also state the losses eligible for carry forward and period upto which such losses can be carried forward.

TEST 12 SOLUTION (SET OFF)

Solution 1:**Computation of Taxable Income of Mr. R for the A.Y. 2024-25**

Particulars	₹	₹
Salaries		
Isha's salary (₹ 25,000 x 12) [See Note 1]	3,00,000	
Less: Standard deduction under section 16(ia) upto ₹50,000	<u>(50,000)</u>	
	2,50,000	
Less: Loss from house property set off against salary income as per section 71(3A) [See Note 2]	<u>(2,00,000)</u>	50,000
Capital Gains		
Short term capital gain	1,40,000	
Less: Loss from tea business (₹ 96,000 x 40%) [See Note 3 & 4]	<u>(38,400)</u>	1,01,600
Income from Other Sources		
Dividend income		<u>11,00,000</u>
Taxable Income		12,51,600

The following losses can be carried forward for subsequent assessment years:

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|---|----------|
| (i) Loss from house property to be carried forward and set-off against income from house property | ₹ 20,000 |
| (ii) Long-term capital loss of A.Y. 2018-1 can be carried forward and set-off against long-term capital gains | ₹ 86,000 |
| (iii) Loss from speculative business to be carried forward and set-off against income from speculative business | ₹ 50,000 |

Notes:

- (1) As per section 64(1)(ii), all the income which arises directly or indirectly, to the spouse of any individual by way of salary, commission, fees or any other form of remuneration from a concern in which such individual has a substantial interest shall be included in the total income of such individual. However, where spouse possesses technical or professional qualification and the income is solely attributable to the application of such knowledge and experience, clubbing provisions will not apply. Since, Mrs. Isha is not adequately qualified for the post and Mr. R has substantial interest in Shine Ltd by holding 21% of the shares of the Shine Ltd., the salary income of Mrs. Isha to be included in Mr. Rajesh's income.
- (2) 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.
- (3) 60% of the losses from tea business is treated as agricultural income and therefore exempt. Loss from an exempt source cannot be set off against profits from a taxable source.
- (4) As per section 71(2A), business loss cannot be set off against salary income. Hence, 40% of the losses from tea business i.e., ₹ 38,400 set off against short term capital gains.
- (5) Loss from Card games can neither be set off against any other income, nor can it be carried forward.
- (6) Loss of ₹50,000 from speculative business can be set-off only against the income from the speculative business. Hence, such loss has to be carried forward.

As per section 74(1), brought forward Long-term capital loss can be set-off only against long-term capital gain. Such loss can be carried forward for eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since, 8 assessment years has not expired, such loss can be carried forward to A.Y. 2024-25 for set-off against long-term capital gains.

Solution 2 :

Particulars	₹	₹
Profits and gains of business or profession	4,60,000	
Income from Textile business		
Less: Current year depreciation allowable under section 32(1)	<u>(5,000)</u>	
	4,55,000	
Less: Unabsorbed depreciation brought forward from A.Y.2022-23 as per section 32(2)	<u>(10,000)</u>	4,45,000
Income from speculation business		
Current year income from speculation business	25,000	
Less: Speculation business loss for A.Y. 2023-24 set-off as per the provisions of section 73(2)	<u>(30,000)</u>	
Speculation business loss to be carried forward	<u>(5,000)</u>	<u>Nil</u>
Gross Total Income		4,45,000

Losses eligible for carry forward to A.Y.2024-25

	Particulars	₹
(1)	Loss from speculation business to be carried forward as per section 73 Loss from speculation business can be set off only against income from another speculation business. The remaining loss from speculation business can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y.2026-27	5,000
(2)	Loss on maintenance of race horses to be carried forward as per section 74A Loss on maintenance of race horses can be set-off only against income from the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A. Y. 2027-28	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	