INCOME TAX ACT, 2025 • INCOME TAX RULES, 2026

CHAPTER VII

Set Off or Carry Forward of Losses

Part Two — Component-Wise Tabulated Analysis

Sections 108 to 121 • Rule 60 • Form 29

DETAILED EDITION • TAX YEAR 2026 – 2027

In Plain Language — For Practitioners, Articles & Employees

GURUKRIPA
PUBLICATIONS

Shree Guru Kripa, Chennai

The Four-Question Framework

When a source generates a loss, Chapter VII answers four questions in strict sequence:

Q1

Same-Head Set-Off

Can the loss be set off against income from another source under the SAME head?

Sec. 108

Q2

Inter-Head Set-Off

If a head still has a net loss, can it flow into OTHER heads?

Sec. 109

Q3

Carry Forward

If still unabsorbed, can the loss be carried forward to future years?

Sec. 110 – 115

Q4

Future Set-Off

In carry-forward years, against what kind of income, and for how long?

Sec. 110 – 115, 121

Fourteen Sub-Parts at a Glance

A — Same-Head Set-Off — *Sec. 108*

B — Inter-Head Set-Off — *Sec. 109*

C — House Property Loss C/F — *Sec. 110*

D — Capital Gains Loss C/F — *Sec. 111*

E — Business Loss C/F — *Sec. 112*

F — Speculation Business Loss — *Sec. 113*

G — Specified Business Loss — *Sec. 114*

H — Race Horses / Spec. Activity — *Sec. 115*

I — Amalgamation / Demerger — *Sec. 116*

J — Banking / Insurance Merger — *Sec. 117*

K — Co-op Bank Reorg. — *Sec. 118*

L — Loss Restrictions — *Sec. 119*

M — Search / Survey Bar — *Sec. 120*

N — Return Filing — *Sec. 121*

How Losses Flow Through the System

Each loss must climb the waterfall in order — Sec. 108 → Sec. 109 → C/F → Future Set-Off.

STAGE 1

Same-Head Set-Off

Sec. 108

Loss in source A netted against profit in source B of the same head.

▼

STAGE 2

Inter-Head Set-Off

Sec. 109

Residual loss flows to other heads, subject to three carve-outs.

▼

STAGE 3

Carry Forward

Sec. 110 – 115

Unabsorbed loss carried forward to future years — within prescribed limits.

▼

STAGE 4

Future-Year Set-Off

Sec. 110 – 115, 121

Set-off only against eligible income; return must be timely-filed under Sec. 263(1).

THE GOLDEN RULE

Skipping a stage is not optional — Sec. 108 must be applied before Sec. 109; Sec. 109 before any carry-forward.

Why it matters: The order determines how much of each loss is absorbed in the current year — and what carries forward and for how long.

PART A

Same-Head Set-Off

Section 108

GENERAL RULE – INTRA-HEAD SET-OFF

VERBATIM TEXT

Unless provided otherwise in this Act, for any tax year, if net result of computation from any source under any head of income (other than "Capital gains") is a loss, then assessee shall be entitled to set off such loss against his income from any other source under the same head for that tax year.

ANALYSIS & PLAIN LANGUAGE

The rule	Loss from one source under a head can be set off against income from another source under the SAME head for the SAME tax year.
Source vs head	A 'head' has multiple 'sources'. House Property head – each property is a separate source. PGBP head – each business / profession is a source. Other Sources head – each item (interest, dividend, rent on P&M etc.) is a source.
Capital Gains excluded	Sec. 108(1) excludes Capital Gains. Special rule under Sec. 108(2) governs Capital Gains intra-head set-off (Table 2).
"Unless provided otherwise"	Carve-outs exist – speculation business losses (Sec. 113), specified business losses (Sec. 114), specified activity / race horses (Sec. 115). For these special categories, the same-head set-off is restricted to the same special category.
Same year only	Sec. 108 is intra-year. Carry-forward to future years is governed by Sec. 110-115.
Practical examples – Property	Property X has GAV – Standard ded. – interest = loss of ₹ 80,000; Property Y has annual income of ₹ 50,000. Net under House Property head = ₹ 30,000 LOSS – moves to Sec. 109 inter-head set-off.

ILLUSTRATION

Same-head set-off

Mr. A has two house properties. Property 1 – self-occupied – interest paid on home loan ₹ 1,80,000 → loss ₹ 1,80,000. Property 2 – let out – net rental income (after standard deduction and other interest) ₹ 1,50,000.

Solution: Net House Property income = ₹ 1,50,000 – ₹ 1,80,000 = ₹ 30,000 LOSS. This is the figure to be carried to Sec. 109 inter-head set-off (capped at ₹ 2,00,000 anyway – no problem here).

CAPITAL GAINS – STCL vs LTCL SET-OFF RULE

VERBATIM TEXT

Where the net result of computation of income made for any tax year under sections 72 to 90 in respect of—
(a) any short-term capital asset is a loss, such loss shall be set off against the income, computed in respect of any other capital asset for that year;
(b) any long-term capital asset is a loss, such loss shall be set off against the income computed in respect of …

ANALYSIS & PLAIN LANGUAGE

Why a special rule for Capital Gains	Capital Gains income is bifurcated into Short-Term and Long-Term. The set-off rules deliberately distinguish between them to prevent gaming – e.g., turning a high-tax-rate STCL into a low-tax-rate LTCG offset.
STCL – clause (a)	Short-term capital LOSS can be set off against income from ANY OTHER capital asset – whether short-term OR long-term. STCL is the more flexible loss.
LTCL – clause (b)	Long-term capital LOSS can be set off ONLY against income from ANOTHER LONG-TERM capital asset. NOT against STCG. LTCL is the more restricted loss.
Asymmetry rationale	Long-term gains usually attract concessional tax rates (e.g., 12.5% under Sec. 197). The Act prevents LTCL from neutralising STCG that would otherwise be taxed at higher slab rates.
Mechanics – STCL first	Within Capital Gains, recommended computational order: (1) Compute all asset-by-asset gains and losses. (2) Apply Sec. 108(2)(b) – set off LTCL against LTCG only. (3) Apply Sec. 108(2)(a) – set off STCL against any remaining gain (LT or ST). (4) The resulting net is taken to inter-head – but Sec. 109(2) bars carry-out from Capital Gains.
Cross-reference Sec. 72-90	Sec. 108(2) applies to losses computed UNDER Secs. 72 to 90 of the 2025 Act (the Capital Gains charging and computation provisions). Aligns with the 2025 Act's reorganised numbering.

ILLUSTRATION

Capital Gains set-off
Mr. B's TY 2026-27 capital transactions: STCG on listed equity shares ₹ 4,00,000; STCL on unlisted shares ₹ 1,80,000; LTCG on debt mutual fund ₹ 2,50,000; LTCL on real estate ₹ 3,80,000.
Solution: Step 1 – LTCL ₹ 3,80,000 vs LTCG ₹ 2,50,000 → LTCG fully set off; LTCL balance ₹ 1,30,000 (cannot offset STCG, by Sec. 108(2)(b) – cannot move). Step 2 – STCL ₹ 1,80,000 vs STCG ₹ 4,00,000 → STCG balance after set-off ₹ 2,20,000. Net under Capital Gains head = STCG ₹ 2,20,000 (taxed at applicable ST rate). LTCL balance ₹ 1,30,000 carried forward (Table 11), to be set off only against future LTCG.

SOURCE-TO-SOURCE SET-OFF – ILLUSTRATIVE WALKTHROUGH

ANALYSIS & PLAIN LANGUAGE

Order of set-off – within a head	(i) Identify each SOURCE under the head; (ii) Compute net result for each source; (iii) Net the loss-sources against the profit-sources within the head.
Example 1 – House Property	Property A profit ₹ 80,000; Property B loss ₹ 50,000; Property C loss ₹ 20,000. Net = 80 – 50 – 20 = ₹ 10,000 income → final figure to consolidate.
Example 2 – PGBP	Trading business loss ₹ 3,00,000; consultancy profit ₹ 5,00,000; rental of warehouse profit ₹ 1,00,000 (assumed PGBP). Net = 5 + 1 – 3 = ₹ 3,00,000 income.
Example 3 – Other Sources	Interest income ₹ 1,20,000; family pension net of ded. ₹ 80,000; loss from hire of machinery ₹ 50,000. Net = 1.20 + 0.80 – 0.50 = ₹ 1,50,000 income.
Negative outcome possible	If sum of losses > sum of incomes within a head, the head as a whole shows a NET LOSS. That net loss moves to inter-head set-off under Sec. 109.
Capital Gains – special order	First apply Sec. 108(2)(b) (LTCL → LTCG only), then 108(2)(a) (STCL → any gain). Order matters – running STCL first against LTCG would 'waste' the more flexible STCL and leave the rigid LTCL stranded.

PART B

Inter-Head Set-Off

Section 109

GENERAL INTER-HEAD SET-OFF RULE

VERBATIM TEXT

Subject to the provisions of this Chapter, for any tax year, if income computed under any head of income (other than "Capital gains") is a loss, such loss shall be set off against income of the assessee under any other head, including "Capital gains", if any, assessable for that tax year, subject to the following conditions:—
(a) loss under the head "Profits and gains of …

ANALYSIS & PLAIN LANGUAGE

The general rule	After Sec. 108 intra-head netting, any remaining net LOSS under a head (other than Capital Gains) can be set off against income under any OTHER head – INCLUDING Capital Gains.
Loss can flow INTO Capital Gains	Sec. 109(1) explicitly permits inter-head loss to be absorbed by Capital Gains income. (Cannot flow OUT of Capital Gains – see Sec. 109(2)/Table 7.)
Two restrictions inside (1)	(a) PGBP loss cannot offset Salaries (Table 5); (b) House Property loss capped at ₹ 2,00,000 (Table 6).
Heads that can have a loss for this purpose	House Property, PGBP, Other Sources. (Salaries cannot be a loss; Capital Gains is dealt with in (2).)
Order of set-off in practice	Most efficient: (i) net House Property loss first (cap matters); (ii) PGBP loss against non-Salary heads; (iii) OS loss against any other head freely. The taxpayer may choose the order that maximises savings.

BAR – PGBP LOSS NOT AGAINST SALARIES

ANALYSIS & PLAIN LANGUAGE

The bar	Loss under PGBP head CANNOT be set off against Salaries income. PGBP loss can offset HP / Capital Gains / Other Sources, but Salaries is off-limits.
Why this carve-out	Anti-abuse. A salaried employee setting up a small business deliberately to generate (real or paper) losses, and using those losses to wipe out salary tax, was the perceived mischief.
Salaries is permanent ground	Salaries always shows a positive amount (subject to standard deduction etc.) – cannot be a 'loss' itself. So this restriction is one-way – Salaries can absorb other losses (HP loss within ₹ 2 lakh cap; OS loss freely), but not give in to PGBP.
Effect when both salary and business loss exist	The salary remains taxable in full (subject to its own deductions). Business loss has to find its home elsewhere – HP / CG / OS, OR get carried forward under Sec. 112.
Speculation business loss – stricter still	Sec. 113 confines speculation loss to speculation profits – never absorbs anything else, regardless of head.
Strategic implication	Salaried professionals running side businesses should plan losses carefully – they cannot 'shelter' salary tax with business losses. Loss carry-forward under Sec. 112 may be the next best option.

ILLUSTRATION

PGBP loss, salary income

Mr. C earned salary ₹ 18,00,000 in TY 2026-27. He also operated a small textile business that incurred a loss of ₹ 4,00,000 (after PGBP intra-head netting). He had no other income.

Solution: Salary ₹ 18,00,000 cannot be reduced by the PGBP loss [Sec. 109(1)(a)]. Salary remains taxable at ₹ 18,00,000 less standard deduction. The ₹ 4,00,000 PGBP loss is not absorbed in the current year (no HP / CG / OS income). It is carried forward to TY 2027-28 under Sec. 112 (Table 13) – to be set off against future business profits within 8 years.

CAP – HOUSE PROPERTY LOSS ₹ 2,00,000

ANALYSIS & PLAIN LANGUAGE

The cap	House Property loss can be set off against other heads only to the extent of ₹ 2,00,000 in any tax year. Any HP loss beyond ₹ 2,00,000 must be CARRIED FORWARD under Sec. 110 – it cannot be absorbed inter-head in the current year.
Why the cap	Targets the 'self-occupied with hefty home loan' situation – where high interest creates a paper HP loss that could otherwise wipe out other income. The cap of ₹ 2 lakh aligns with the ₹ 2 lakh home-loan interest cap in Sec. 21 (continuation of old Sec. 24(b)).
Per assessee, per year	₹ 2,00,000 is annual aggregate – not per property, not per source within HP. All HP loss in a year is collectively capped.
Beyond ₹ 2 lakh – into Sec. 110	Excess HP loss is mandatorily carried forward and is set off ONLY against future HP income (Table 8). 8-year limit applies (Table 9).
Common scenario – self-occupied with home loan	Self-occupied property with annual interest ₹ 4,50,000 → HP loss = ₹ 4,50,000 (no annual value, only interest as deduction). Inter-head set-off = ₹ 2,00,000; Carried forward = ₹ 2,50,000.
Joint owners – each gets own cap	If property is jointly owned, each co-owner computes HP income / loss separately and gets a separate ₹ 2,00,000 cap. Useful family planning tool.

ILLUSTRATION

HP loss capped

Mrs. D's house property loss for TY 2026-27 = ₹ 3,80,000 (mainly home-loan interest on self-occupied flat). She has salary ₹ 22,00,000 and other-sources interest income ₹ 1,50,000.

Solution: Inter-head set-off [Sec. 109(1)(b)]: ₹ 2,00,000 of HP loss can be absorbed against other heads (her choice – best to absorb against salary at higher slab rate). Salary becomes ₹ 20,00,000 (taxed); OS interest ₹ 1,50,000 remains. Excess HP loss ₹ 1,80,000 (= ₹ 3,80,000 – ₹ 2,00,000) is carried forward under Sec. 110 – to be set off only against HP income in the next 8 years.

CAPITAL GAINS LOSS – ONE-WAY BAR

VERBATIM TEXT

For any tax year, the loss under the head "Capital gains" shall not be set off against income under any other head.

ANALYSIS & PLAIN LANGUAGE

The bar	Net loss under Capital Gains head CANNOT be set off against any other head.
Asymmetry – one-way street	Other-head losses CAN be absorbed by Capital Gains (per Sec. 109(1)). But Capital Gains losses cannot move OUT to other heads. Capital Gains is a 'closed' head for inter-head movement.
What happens to a CG loss	Carry-forward under Sec. 111 – set off against future Capital Gains only (with the STCL/LTCL distinction at carry-forward).
Why this rule	Capital gains have a special character (often concessional rates). The Act prevents capital losses from neutralising income taxed at higher slab rates.
Common consequence	An assessee with only Capital Loss in a year (no CG income to absorb it) has the loss locked away to wait for future CG – it does not reduce their salary / business / OS tax.

ILLUSTRATION

CG loss isolated
Ms. E in TY 2026-27 has STCL ₹ 5,00,000 (no CG income) and salary ₹ 20,00,000.
Solution: STCL ₹ 5,00,000 cannot reduce her salary [Sec. 109(2)]. Salary fully taxed. STCL carried forward under Sec. 111 – to be set off against future capital gains (any nature) within 8 years.

PART C

House Property Loss

Section 110

CARRY-FORWARD AGAINST FUTURE HP INCOME ONLY

VERBATIM TEXT

Where for any tax year, loss computed under the head "Income from house property" cannot be wholly set off against the income under any other head as per section 109, so much of the loss not so set off or the whole loss, as the case may be, shall be carried forward to the following tax year and—
(a) be set off only against the income from house property, if any, …

ANALYSIS & PLAIN LANGUAGE

Trigger	HP loss not wholly absorbed in the current year under Sec. 109 inter-head set-off (because of the ₹ 2,00,000 cap or absence of other income).
What is carried forward	The unabsorbed portion only. If part of the loss was absorbed in current year, only the balance carries forward.
Set-off in carry-forward year	ONLY against HP income of that year. Not against any other head – not even Capital Gains or Other Sources.
The asymmetry	Current-year HP loss can offset other heads (up to ₹ 2 lakh) [Sec. 109(1)(b)]. Once carried forward, that flexibility ends – the loss can offset only HP income in future years.
Why this asymmetry	Encourages assessees to take the maximum benefit in the current year (where most flexibility exists) and not defer planning.
Successive years	If the loss is not absorbed in next year either, it carries forward again, year after year, until 8 years are over (Table 9).

EIGHT-YEAR LIMIT

VERBATIM TEXT

No loss shall be carried forward under this section for more than eight tax years immediately succeeding the tax year for which the loss was first computed.

ANALYSIS & PLAIN LANGUAGE

The hard limit	8 tax years immediately succeeding the year in which the loss was first computed. After 8 years, the unabsorbed loss lapses.
Year-counting	Start counting from the year AFTER the loss was incurred. Loss for TY 2026-27 → can be set off in any of TY 2027-28 to TY 2034-35 (8 years). Year 9 = lapse.
Per-year tracking	Each year's loss runs its own 8-year clock independently. A 2025 loss has its 8-year window; a 2026 loss has its own.
Order of set-off when multiple years' losses outstanding	OLDEST loss is typically set off first (FIFO) to preserve later-year losses' utility.
Comparison with old Act	8-year limit was 8 years under old Sec. 71B as well – continuity preserved.

ILLUSTRATION

HP carry-forward
Mr. F's HP loss for TY 2026-27 = ₹ 5,00,000 (post-Sec. 109 absorption of ₹ 2,00,000 against salary, balance ₹ 3,00,000 carried forward). His TY 2027-28 to TY 2034-35 HP incomes are: ₹ 50,000; ₹ 70,000; ₹ 80,000; ₹ 60,000; ₹ 40,000; nil; nil; ₹ 20,000.
Solution: c/f opening = ₹ 3,00,000. 2027-28: – 50 → balance 2,50. 2028-29: – 70 → balance 1,80. 2029-30: – 80 → balance 1,00. 2030-31: – 60 → balance 40. 2031-32: – 40 → balance NIL. The loss has been fully absorbed by year 5 of the 8-year window. (Had ₹ 80,000 still remained in TY 2034-35, it would lapse from TY 2035-36.)

PART D

Capital Gains Loss

Section 111

STCL CARRY-FORWARD – SET OFF AGAINST ANY FUTURE CG

VERBATIM TEXT

—

(a) Where for any tax year, loss computed under the head "Capital gains" cannot be wholly set off against the income under the head "Capital gains" as per section 108, so much of the loss not so set off or the whole loss, as the case may be, shall be carried forward to the following tax year and shall be set off in the following manner——

(i) if such loss relates to a …

ANALYSIS & PLAIN LANGUAGE

Trigger	STCL not wholly set off in the current year under Sec. 108(2)(a) (against any capital gain) – because there was insufficient capital-gain income in the year.
Set-off in carry-forward year	Against income from ANY OTHER capital asset – whether short-term OR long-term. STCL retains its broader reach into the carry-forward years.
Sequence with current-year STCL	Current-year STCL is set off first against the year's capital gains. Any unused STCL carries forward.
Order with multiple-year c/f	FIFO – oldest c/f STCL absorbed first.
Why STCL retains flexibility	Symmetric treatment: STCL is full-rate income's mirror, so it gets to absorb both ST and LT gains.

LTCL CARRY-FORWARD – AGAINST FUTURE LTCG ONLY

VERBATIM TEXT

SEC 111(1)(a)(ii). if such loss relates to a long-term capital asset, it shall be set off only against the income under the head "Capital gains", if any, assessable for that tax year in respect of any other long-term capital asset;
(b) if the loss cannot be wholly so set off under clause (a), the amount of loss not so set off shall be carried forward to the following tax …

ANALYSIS & PLAIN LANGUAGE

Trigger	LTCL not wholly set off in the current year under Sec. 108(2)(b) – because the year's LTCG was less than the LTCL.
Set-off in carry-forward year	ONLY against LTCG (long-term capital gains). LTCL c/f cannot offset STCG even in carry-forward years.
Why LTCL is restricted	LTCG attracts concessional rates (12.5%). Allowing LTCL to neutralise STCG (taxed at higher rates) would create rate arbitrage.
Practical strategy	Where LTCL is c/f, prefer to realise LTCG (e.g., redeem long-held mutual funds with embedded LTCG) before the c/f window closes – to use up the loss.
LTCL on listed equity – special history	Pre-FA 2018, LTCG on listed equity was exempt and LTCL was NOT recognised. Post-FA 2018 (Sec. 197 / old Sec. 112A) made LTCG taxable, and LTCL became allowable. Under the 2025 Act, the same position continues.
Multi-year tracking	Maintain a year-wise schedule: TY of origin → loss amount → year-wise utilisation → balance. CBDT prescribes ITR schedules for this.

ILLUSTRATION

STCL and LTCL c/f
Mr. G has carried forward STCL ₹ 1,00,000 (TY 2024-25) and LTCL ₹ 2,00,000 (TY 2024-25). In TY 2026-27 he has STCG ₹ 80,000 and LTCG ₹ 1,50,000.
Solution: LTCL c/f ₹ 2,00,000 vs LTCG ₹ 1,50,000 → LTCG fully absorbed; LTCL c/f balance ₹ 50,000 (still cannot offset STCG). STCL c/f ₹ 1,00,000 vs remaining STCG ₹ 80,000 → STCG fully absorbed; STCL c/f balance ₹ 20,000. Current year net CG = NIL. C/f to TY 2027-28: STCL ₹ 20,000 (TY 2024-25 origin – 6 years left); LTCL ₹ 50,000 (same origin).

EIGHT-YEAR LIMIT

VERBATIM TEXT

No loss shall be carried forward under this section for more than eight tax years immediately succeeding the tax year for which the loss was first computed.

ANALYSIS & PLAIN LANGUAGE

The hard limit	8 tax years from the year of original computation. After 8 years – lapse.
Year-counting	Loss for TY 2026-27 → 8 carry-forward years are TY 2027-28 to TY 2034-35. From TY 2035-36, the loss is dead.
Both STCL and LTCL share this limit	The 8-year window applies uniformly. The distinction between STCL and LTCL is in WHAT they can absorb, not HOW LONG they live.
FIFO ordering at the time of set-off	Where multiple years' c/f exist, set off the OLDEST first to maximise utilisation before lapse.

PART E

Business Loss

Section 112

BUSINESS LOSS (NON-SPECULATION) C/F

VERBATIM TEXT

Where for any tax year, loss computed under the head "Profits and gains of business or profession" (not being a loss sustained in a speculation business) cannot be wholly set off against the income under any other head as per section 109, so much of the loss not so set off or the whole loss, as the case may be, shall be carried forward to the following tax year and—
(i) …

ANALYSIS & PLAIN LANGUAGE

Scope	Non-speculation business loss. Speculation losses are governed separately by Sec. 113. Specified-business losses by Sec. 114.
Trigger	Inter-head set-off under Sec. 109 has been applied in the current year (e.g., against HP income or OS income or CG income), and a balance loss remains.
Set-off in carry-forward year	Against the profits and gains of ANY business or profession – not necessarily the same business. The business does not have to continue from the year of loss to the year of set-off.
Continuity of business not required	Even if the original loss-making business was wound up, the loss can still be set off against other businesses' profits in future years – continuation of the old Sec. 72 position.
Same person required	Loss must be set off in the hands of the SAME assessee. Cannot be transferred to another person except through specific business-reorganisation routes (Sec. 116-118).
No against-Salaries set-off	Even in carry-forward years, business loss cannot offset Salaries. (The Sec. 109(1)(a) restriction implicitly continues – the carry-forward right is to PGBP profits only, not all heads.)

EIGHT-YEAR LIMIT

VERBATIM TEXT

No loss shall be carried forward under this section for more than eight tax years immediately succeeding the tax year for which the loss was first computed.

ANALYSIS & PLAIN LANGUAGE

The limit	8 tax years immediately succeeding the year of computation. Lapse on year 9.
Year-counting	Same as for HP / CG losses – TY 2026-27 loss has 8 windows (TY 2027-28 to TY 2034-35).
FIFO order	Multiple years' c/f → oldest absorbed first to maximise utilisation.
Audit trail required	Keep year-wise schedules of accumulated loss with origin year. ITR forms (ITR-3 / ITR-5) include a schedule for this.

PRIORITY OVER SEC. 33(11) / 45(7) ALLOWANCES

VERBATIM TEXT

Where any allowance of part thereof under section 33(11) or 45(7) is to be carried forward, effect shall first be given to the provision of this section.

ANALYSIS & PLAIN LANGUAGE

The rule	When a year has both (i) accumulated business loss AND (ii) unabsorbed depreciation under Sec. 33(11) / unabsorbed capital expenditure under Sec. 45(7) carried forward, the BUSINESS LOSS is set off FIRST.
Why this priority	Business loss has a finite 8-year life (lapses on year 9). Unabsorbed depreciation has INDEFINITE carry-forward (under Sec. 33(11) – continuation of old Sec. 32(2)). So allow the time-barred resource to be used first.
Sec. 33(11) – unabsorbed depreciation	If depreciation cannot be fully allowed in a year (because business income is insufficient), the unabsorbed portion is treated as depreciation of the next year and so on – indefinitely.
Sec. 45(7) – unabsorbed capital expenditure	Similar deeming for capital expenditure that exceeds permissible limits in a year.
Effect on net business income computation	Step 1 – compute the year's gross PGBP. Step 2 – set off c/f business loss u/s 112 (oldest first within 8 yr window). Step 3 – apply current-year depreciation. Step 4 – set off unabsorbed depreciation u/s 33(11). The order ensures Sec. 112 gets first call.

ILLUSTRATION

Priority order

Mr. H has c/f business loss ₹ 4,00,000 (TY 2024-25 origin) and c/f unabsorbed depreciation ₹ 6,00,000. TY 2026-27 PGBP profit (before any c/f set-off) = ₹ 7,00,000.

Solution: Step 1: Set off c/f business loss FIRST [Sec. 112(3)] → 7,00,000 − 4,00,000 = ₹ 3,00,000 remaining. Step 2: Set off c/f unabsorbed depreciation → 3,00,000 − 3,00,000 = NIL. C/f business loss = NIL (fully consumed). C/f unabsorbed depreciation = ₹ 6,00,000 − ₹ 3,00,000 = ₹ 3,00,000 (still alive – indefinite life).

PART F

Speculation Business

Section 113

SET-OFF ONLY AGAINST SPECULATION PROFITS

VERBATIM TEXT

Any loss, computed in respect of a speculation business carried on by the assessee shall be set off only against profits and gains of another speculation business.

ANALYSIS & PLAIN LANGUAGE

Speculation business – meaning	Defined under Sec. 2 of the 2025 Act (continuation of old Sec. 43(5)) – contracts for sale or purchase of commodities or shares periodically settled OTHERWISE THAN by actual delivery. The classic examples are intra-day stock trading and unsettled commodity futures.
What is excluded from speculation	Hedging contracts to guard against business risks; jobbing/arbitrage by a stock-broker member; trading in derivatives on a recognised exchange (under old Sec. 43(5)(d) carve-out, continued in 2025 Act).
Sec. 113(1) – the strict bar	Speculation loss can be absorbed ONLY by speculation profits. NOT by non-speculation business profits, NOT by Salary/HP/CG/OS.
Even within PGBP – isolated	An assessee may have non-speculation business profit ₹ 10 lakh and speculation business loss ₹ 3 lakh in the same year. The speculation loss STAYS isolated – cannot offset the non-speculation profit. The non-speculation profit is fully taxable; speculation loss is c/f.
Why this strict rule	Speculation activity is regarded as quasi-gambling. Its losses are not given the same set-off privileges as commercial business losses.

CARRY-FORWARD AND 4-YEAR LIMIT

VERBATIM TEXT

Where for any tax year, loss computed in respect of a speculation business cannot be wholly set off under sub-section (1), so much of the loss not so set off or the whole loss, as the case may be, shall be carried forward to the following tax year and—
(i) be set off against the profits and gains, if any, of any speculation business carried on by him for such tax year; …

ANALYSIS & PLAIN LANGUAGE

C/f rule	Unabsorbed speculation loss carries forward to the next year, where it is set off only against speculation profits. Same restrictive set-off as current year.
4-year limit	Half the time of normal business loss (8 years). Reflects the unfavoured nature of speculation activity.
Year-counting	TY 2026-27 speculation loss → 4 set-off windows (TY 2027-28 to TY 2030-31). From TY 2031-32, lapse.
Sec. 113(4) – priority	Same as Sec. 112(3) – speculation loss carried forward gets priority over c/f speculation depreciation (Sec. 33(11)/(45(7)) effect first given to speculation loss before unabsorbed dep.).

DEEMED SPECULATION – COMPANY DEALING IN SHARES

VERBATIM TEXT

In this section, where any part of the business of the assessee (being a company) consists of purchase and sale of shares of other companies, then the assessee shall be deemed to be carrying on a speculation business, to the extent to which its business consists of purchase and sale of such shares.

ANALYSIS & PLAIN LANGUAGE

Trigger	Assessee is a COMPANY. PART of its business consists of purchase and sale of shares of OTHER companies.
Effect	Such part of business is DEEMED to be a speculation business – even though there may be actual delivery and no 'speculative' character in the commercial sense.
Why this deeming fiction	Anti-abuse. Companies were rerouting speculative gains/losses through 'normal trading' books to escape Sec. 113. The deeming overcomes that.
Scope – "part of the business"	If the share-trading is a stand-alone business or one segment of the company's activities. The losses from this segment are isolated as speculation losses; the gains are speculation profits.
Treated only "to the extent"	Only the share-trading portion is deemed speculation; non-share-trading activities of the same company remain non-speculative.
Limited to companies	This deeming applies only to companies. For individuals, partners, LLPs, AOPs etc. – natural-meaning of speculation governs.

EXCEPTIONS TO DEEMED SPECULATION RULE

VERBATIM TEXT

The provisions of sub-section (5) shall not apply to an assessee, being a company, if—
(a) its gross total income consists mainly of income which is chargeable under the heads "Income from house property", "Capital gains" or "Income from other sources"; or
(b) its principal business is of trading in shares or banking or the granting of loans and advances.

ANALYSIS & PLAIN LANGUAGE

Exception (a) – Investment companies	If the company's gross total income MAINLY consists of HP / Capital Gains / Other Sources – it is essentially an investment vehicle, not a trader. The Sec. 113(5) deeming does not apply.
"Mainly"	Generally interpreted as 'more than 50%'. If 51%+ of GTI is HP/CG/OS, the carve-out applies.
Exception (b)(i) – Share-trading principal business	A company whose PRINCIPAL business is share-trading is allowed to claim such losses as ordinary business losses (8-year c/f, broader set-off).
Exception (b)(ii) – Banking	Banking companies – their share-dealing is part of treasury / SLR operations, not speculation. Excluded.
Exception (b)(iii) – Loans and advances	NBFCs principally in lending – their securities portfolio is treated as ordinary business inventory, not speculation.
Effect of exceptions	The share-trading losses of these excluded companies remain ordinary business losses – set-off without the speculation restrictions, c/f for 8 years u/s 112.

ILLUSTRATION

Deemed speculation
Two companies – ALPHA Investments Ltd has 70% of GTI from rental income (HP) + capital gains; remainder from share trading (loss ₹ 5,00,000). BETA Trading Ltd has 80% of GTI from share trading (loss ₹ 5,00,000); remainder from miscellaneous services.
Solution: ALPHA – exception (a) applies (GTI mainly HP/CG). Sec. 113(5) deeming does NOT apply. Share-trading loss treated as ordinary business loss → 8-year c/f, can offset other PGBP profits. BETA – principal business is share-trading – exception (b)(i) applies. Same favourable treatment as ALPHA. Sec. 113(5) does NOT apply.

PART G

Specified Business

Section 114

SET-OFF ONLY AGAINST ANOTHER SPECIFIED BUSINESS

VERBATIM TEXT

Any loss, computed in respect of a specified business, referred to in section 46, shall be set off only against profits and gains of another specified business.

ANALYSIS & PLAIN LANGUAGE

What is a "specified business"	A business referred to in Sec. 46 – broadly, capital-intensive infrastructure / public-utility businesses that are eligible for accelerated 100% capex deduction. Examples: cold-chain facility, hospital with ≥ 100 beds, two-star or higher hotel, fertiliser unit, port / airport / inland depot, oil pipeline, slum redevelopment housing project, semiconductor unit, etc.
The set-off bar	Loss from a specified business can be set off ONLY against profits of ANOTHER specified business. Cannot offset a regular (non-specified) business, even within the same assessee.
Also cannot offset other heads	By the natural reading, since Sec. 114 confines the set-off to specified-business profits, inter-head set-off under Sec. 109 is not available either.
Why this isolation	Specified businesses get a 100% upfront capex deduction (under Sec. 46). The Government does not want this 'accelerated' loss to wipe out tax on other normal businesses.
Multiple specified businesses ok	An assessee with two specified businesses (e.g., cold-chain unit + hospital) can set off loss of one against profit of the other – both are within the specified-business pool.

INDEFINITE CARRY-FORWARD – NO TIME LIMIT

VERBATIM TEXT

Where for any tax year, loss computed in respect of a specified business cannot be wholly set off under sub-section (1), so much of the loss not so set off or the whole loss, as the case may be, shall be carried forward to the following tax year and—
(i) be set off against the profits and gains, if any, of any specified business carried on by him for such tax year; and …

ANALYSIS & PLAIN LANGUAGE

Carry-forward – without time limit	CRITICAL – there is no sub-section in Sec. 114 corresponding to Sec. 110(2) / 111(2) / 112(2) etc. that imposes an 8-year limit. The specified-business loss can be carried forward INDEFINITELY.
Why indefinite	Specified businesses are typically capital-intensive with long gestation periods (years before profits are earned). An 8-year limit would make the upfront 100% capex deduction practically valueless. The indefinite c/f allows the eventual operational profits to absorb the loss whenever they materialise.
Set-off in c/f years	Same restriction – ONLY against specified-business profits. Year after year, until absorbed.
Tracking burden	Even though the time is unlimited, the YEAR OF ORIGIN must be tracked for ITR disclosure.
Comparison with old Act	Indefinite c/f is the continuation of old Sec. 73A position.

ILLUSTRATION

Specified business indefinite c/f
Mr. I established a hospital (specified business) in TY 2020-21. The hospital incurred losses of ₹ 50,00,000 in TY 2020-21 and ₹ 30,00,000 in TY 2021-22. From TY 2022-23 to TY 2025-26 the losses continued (smaller). Hospital first turned profitable in TY 2026-27 with profit ₹ 25,00,000.
Solution: All losses of TY 2020-21 onwards remain alive – no 8-year clock running out. In TY 2026-27, the ₹ 25,00,000 profit is set off against the oldest c/f losses (TY 2020-21 first). Balance ₹ 25,00,000 of TY 2020-21 loss remains, plus all subsequent years' losses, all carried forward to TY 2027-28 – until exhausted by future hospital profits.

PART H

Specified Activity (Race Horses)

Section 115

SET-OFF ONLY AGAINST SPECIFIED-ACTIVITY INCOME

VERBATIM TEXT

Any loss incurred by the assessee in specified activity in any tax year shall be set off only against income from specified activity.

ANALYSIS & PLAIN LANGUAGE

The bar	Loss from specified activity (= owning + maintaining race horses) can be set off ONLY against income from specified activity in the same year.
Cannot offset other heads	Cannot offset Salary, HP, regular business, CG, or OS in the same year.
Cannot offset other PGBP	Even another business of the same assessee cannot absorb the race-horse loss. Specified activity is treated as a 'separate sub-pool' within PGBP for set-off purposes.
Same year	Sec. 115(1) is the intra-year rule. Sec. 115(2)/(3) deal with c/f.
Income from specified activity	Includes (i) prize money / stake money on horses winning races (Sec. 115(4)(b)); (ii) gains from breeding / sale of race horses (treated as part of the specified activity).

CARRY-FORWARD AND 4-YEAR LIMIT

VERBATIM TEXT

Where for any tax year, loss computed in respect of a specified activity cannot be wholly set off under sub-section (1), so much of the loss not so set off or the whole loss, as the case may be, shall be carried forward to the following tax year and—
(i) be set off against the income, if any, of the specified activity carried on by him for such tax year; and
(ii) if the …

ANALYSIS & PLAIN LANGUAGE

C/f rule	Unabsorbed loss carries forward to next year, set off against specified-activity income only.
4-year limit	Like speculation business (Sec. 113(3)). Reflects the inherently risky / non-essential character of the activity. Lapses on year 5.
Year-counting	TY 2026-27 loss → set-off windows TY 2027-28 to TY 2030-31. From TY 2031-32 onwards, lapse.
Continuity of activity needed?	The Section talks about 'specified activity carried on by him' in the c/f year. So the assessee must still own and maintain race horses in the c/f year for set-off to apply. This is unlike normal business loss where continuity is not required.

"SPECIFIED ACTIVITY" – RACE HORSE MEANING

VERBATIM TEXT

For the purposes of this section—
(a) "horse race" means a horse race upon which wagering or betting may be lawfully made;
(b) "income by way of stake money" means the gross amount of prize money received on a race horse or race horses by the owner thereof on account of the horse or horses or any one or more of the horses winning a particular position in horse race;
(d) …

ANALYSIS & PLAIN LANGUAGE

Horse race – (a)	A horse race upon which wagering / betting MAY BE LAWFULLY made. The race must be on a recognised race-course where betting is legally permitted.
Stake money – (b)	GROSS prize money received on a race horse for winning a particular position (1st / 2nd / 3rd etc.). This is the income side of the specified activity.
Race horses – (d)	Horses OWNED and MAINTAINED by the assessee for the purpose of running in a horse race. Both ownership AND maintenance are required. A horse merely leased without ownership is NOT a race horse for this section.
Specified activity – (e)	The activity of owning AND maintaining race horses. Both elements – owning and maintaining – are needed. Pure ownership without maintenance (e.g., horse stabled and managed by another for a fee) may not qualify.
Cross-reference – Sec. 94(5)	Sec. 94(5) (in Chapter IV-F) carves out race-horse owners from the Sec. 94(4) bar on deductions for winnings. The two provisions work together – Sec. 94(5) allows the maintenance expenses; Sec. 115 governs the resulting loss.

"LOSS IN SPECIFIED ACTIVITY" – COMPUTATION

VERBATIM TEXT

SEC 115(4)(c). "loss incurred by the assessee in specified activity" means the amount by which the income by way of stake money, if any, falls short of the expenditure, not being capital expenditure, incurred wholly and exclusively for maintaining race horses;

ANALYSIS & PLAIN LANGUAGE

The formula	Loss = (Maintenance expenditure) − (Stake money income). Result is positive only if expenditure exceeds receipts.
Eligible expenditure – three tests	(i) NOT capital expenditure; (ii) Wholly AND exclusively for maintaining race horses; (iii) Actually incurred.
Examples – eligible	Feed, stabling, veterinary care, jockey fees, training, race entry fees, horse insurance, transport, stable staff salaries.
Examples – NOT eligible	Cost of acquisition of the horse (capital); cost of expanding the stables (capital); expenditure on non-race horses (not 'race horses'); expenses for personal benefit of the owner (not wholly and exclusively).
Stake money – gross basis	Stake money is taken at GROSS – before any TDS deductions or stable-cut commissions.
No 'loss' if stake money exceeds expenditure	If receipts > expenditure, the difference is INCOME (taxable under PGBP), not a loss. Sec. 115(4)(c) applies only to the loss situation.

ILLUSTRATION

Race-horse loss computation

Mr. J, a race-horse owner, in TY 2026-27: stake money received ₹ 12,00,000; feed and stabling ₹ 6,00,000; veterinary ₹ 1,50,000; jockey fees ₹ 4,00,000; training ₹ 3,00,000; depreciation on horses ₹ 2,00,000 (NOT eligible); transport ₹ 50,000.

Solution: Eligible (revenue) expenditure = 6,00,000 + 1,50,000 + 4,00,000 + 3,00,000 + 50,000 = ₹ 15,00,000. (Depreciation excluded – capital nature.) Loss u/s 115(4)(c) = 15,00,000 − 12,00,000 = ₹ 3,00,000. Set off only against future specified-activity income; 4-year c/f window. Depreciation ₹ 2,00,000 follows Sec. 33(11) indefinite c/f.

PART I

Amalgamation / Demerger

Section 116 + Rule 60 + Form 29

ELIGIBLE AMALGAMATIONS – THE FOUR CATEGORIES

VERBATIM TEXT

Where there has been an amalgamation of,—
(a) a company owning an industrial undertaking or a ship or a hotel with another company; or
(b) a banking company referred to in section 5(c) of the Banking Regulation Act, 1949 with a specified bank; or
(c) one or more public sector company with one or more other public sector company; or
(d) an erstwhile public sector company …

ANALYSIS & PLAIN LANGUAGE

Category (a) – Industrial undertaking / ship / hotel	Amalgamating company must own an INDUSTRIAL UNDERTAKING (defined in Sec. 116(13)(b) – manufacture, software, power, telecom, mining, ship/aircraft/rail construction) OR a SHIP OR a HOTEL. The amalgamated company can be any company.
Category (b) – Banking with specified bank	Banking company [Sec. 5(c) Banking Regulation Act] amalgamating with a 'specified bank' (SBI / nationalised banks – see Sec. 116(13)(d)).
Category (c) – PSU with PSU	One or more public sector companies amalgamating with another / others. Pure inter-PSU consolidation.
Category (d) – Erstwhile-PSU with private	Strategic disinvestment scenario: a former PSU (now private) amalgamates within 5 years of the share-purchase-agreement restriction ending.
Effect – the deeming fiction	Accumulated loss and unabsorbed depreciation of the amalgamating company are DEEMED to be those of the amalgamated company for the year of amalgamation. Subsequent set-off / c/f follows normal Sec. 110-115 rules in the amalgamated company's hands.
Override clause	'Irrespective of anything contained in any other provision of this Act' – Sec. 116 prevails over the general rules that would otherwise prevent loss transfer (e.g., Sec. 119(2) bar on succession).

PSU STRATEGIC DISINVESTMENT CEILING

VERBATIM TEXT

The accumulated loss and the unabsorbed depreciation of the amalgamating company, in case of an amalgamation referred to in sub-section (1)(d), which is deemed to be the loss or, as the case may be, the unabsorbed depreciation of the amalgamated company, shall not exceed the accumulated loss and unabsorbed depreciation of the public sector company as on the date on which …

ANALYSIS & PLAIN LANGUAGE

The ceiling – Sec. 116(2)	In the strategic-disinvestment scenario [(1)(d)], the loss / depreciation that can migrate is capped at what the company had AS ON THE DATE it ceased to be a PSU.
Why this ceiling	Prevents abuse – a former PSU should not generate fresh losses after privatisation and then merge with a buyer just to dump those losses. Only the pre-disinvestment legacy losses migrate.
"Erstwhile public sector company" – Sec. 116(3)(b)	A company that WAS a public-sector company in earlier tax years and ceased to be one due to strategic disinvestment by the Government.
"Strategic disinvestment" – Sec. 116(3)(c)(i)	Sale of shareholding by Central / State Government / PSU in a PSU or a company, resulting in (A) reduction of its shareholding to BELOW 51%; AND (B) transfer of CONTROL to the buyer.
Pre-condition for (A)	The reduction-to-below-51% test applies only where Government / PSU shareholding EXCEEDED 51% before the sale [Sec. 116(3)(c)(ii)]. So Government holding 40%, sold to 30% – not a strategic disinvestment for this section.
"Control" – Sec. 116(3)(a)	Same meaning as Sec. 2(27) of the Companies Act, 2013 – generally, the right to appoint majority of directors or to control management/policy.

CONDITIONS FOR AMALGAMATING COMPANY

VERBATIM TEXT

Irrespective of anything contained in sub-section (1), (2) and (3), the accumulated loss shall not be set off or carried forward and the unabsorbed depreciation shall not be allowed in the assessment of the amalgamated company unless,—
(a) the amalgamating company—
(i) has been engaged in the business, in which the accumulated loss occurred or depreciation remains …

ANALYSIS & PLAIN LANGUAGE

The 3-year engagement test – (i)	The amalgamating company must have been ENGAGED in the loss-making / depreciation-suffering BUSINESS for at least 3 years before the amalgamation.
Purpose	Prevents shell-like amalgamating companies (recently formed, no real business) from being used as 'loss vehicles' to inject losses into a profitable amalgamated company.
Continuity of business	The relevant business is the one in which the accumulated loss / unabsorbed depreciation arose – not just any business.
The 3/4 fixed-assets test – (ii)	The amalgamating company must have continuously held, AS ON THE DATE OF AMALGAMATION, at least 3/4 (i.e., 75%) of the book value of fixed assets that it held TWO YEARS preceding the amalgamation date.
Why this test	Anti-abuse – prevents 'asset-stripping' before merger to make the amalgamating company a loss-only shell. The 75% retention requirement ensures the company carried genuine operating assets right up to merger.
Book value	Means the WDV in the books – not gross block, not market value. Reflects the actual operating substance.

CONDITIONS FOR AMALGAMATED COMPANY

VERBATIM TEXT

SEC 116(4)(b). the amalgamated company—
(i) holds continuously for a minimum of five years from the date of amalgamation at least three-fourths of the book value of fixed assets of the amalgamating company acquired in a scheme of amalgamation;
(ii) continues the business of the amalgamating company for a minimum of five years from the date of amalgamation;
(iii) fulfils …

ANALYSIS & PLAIN LANGUAGE

The 75% asset-retention test – (i)	The amalgamated company must hold, CONTINUOUSLY for 5 years from the amalgamation date, at least 75% (book value) of the fixed assets received from the amalgamating company under the merger.
No discretionary disposal	Means: no sale, no gift, no lease for a long period, no scrapping (above the 25% tolerance) for the first 5 years.
The 5-year business-continuity test – (ii)	The amalgamated company must CONTINUE the business of the amalgamating company for 5 years. Cannot wind it up, sell it as a going concern, or fundamentally change it.
Why these tests	Anti-abuse – prevents the buyer from acquiring losses through a paper merger and then immediately disposing of the underlying business. The 5-year continuity ensures the merger has genuine economic substance.
Sec. 116(4)(b)(iii) – prescribed conditions	Open hook for CBDT to add further conditions. Currently filled by Rule 60 (Table 30).
Failure consequences – Sec. 116(5)	If any condition in Sec. 116(4) is breached, the set-off of loss / depreciation already allowed becomes the INCOME of the amalgamated company for the year of breach – chargeable to tax as a 'clawback'.

RULE 60 – 50% PRODUCTION-LEVEL TEST

VERBATIM TEXT

(1). The conditions referred to in section 116(4)(b)(iii) shall be the following:—
(a) the amalgamated company, owning an industrial undertaking of the amalgamating company by way of amalgamation, shall—
(i) achieve the level of production of at least fifty per cent of the installed capacity of the said undertaking before the end of four years from the date of …

ANALYSIS & PLAIN LANGUAGE

Two-step production target – Rule 60(1)(a)	(i) ACHIEVE ≥ 50% of installed capacity within 4 years of amalgamation; AND (ii) MAINTAIN that ≥ 50% level until the end of 5 years.
Installed capacity – Rule 60(3)	The capacity existing AS ON THE DATE of amalgamation. Frozen at that point – cannot be reduced post-merger to soften the test.
Form 29 certificate – Rule 60(1)(b)	The amalgamated company must furnish Form 29 ALONG WITH the return of income for: (a) the year in which 50% production is FIRST ACHIEVED; and (b) every subsequent year up to 5 years from the amalgamation date. Verified by an accountant per Sec. 515(3)(b).
Central Government relaxation – Rule 60(2)	On application by the amalgamated company, the Central Government may relax the LEVEL or the TIMELINE or BOTH – considering: (i) genuine efforts made; AND (ii) circumstances beyond the company's control. Discretionary relief route.
Limited to industrial undertakings	Rule 60 conditions apply only when the amalgamation involves an INDUSTRIAL UNDERTAKING (Sec. 116(13)(b) – manufacture / software / power / telecom / mining / ship-aircraft-rail construction). For ship-only or hotel-only amalgamations, this Rule does not directly apply.
Why production-level test	Targets the 'paper merger' problem – buyers acquired sick units (loss-rich, but production-dead) just for the losses. This Rule forces actual revival of the production.

FORM 29 – PRODUCTION CERTIFICATE – RULE 60(1)(b) [OFN. 62]

ANALYSIS & PLAIN LANGUAGE

What it is	A certificate from the amalgamated company, duly verified by an accountant [Sec. 515(3)(b)], showing particulars of production – installed capacity (as on amalgamation date) and actual production achieved.
Old equivalent	Old Form 62 under old Rule 9C.
Who files	The AMALGAMATED company that has acquired one or more industrial undertakings under amalgamation and seeks to claim carry-forward of accumulated losses / unabsorbed depreciation under Sec. 116(4)(b)(iii).
When to file	Along with the return of income for: (a) the tax year in which the prescribed production level (≥ 50% of installed capacity) is first achieved; AND (b) each subsequent year until the 5-year-from-amalgamation point. Multiple consecutive years' filings.
Frequency	Year-specific – filed annually from the year of first achievement through the 5-year horizon.
Contents (typical)	Name of amalgamating company; date of amalgamation; nature of industrial undertaking; installed capacity on amalgamation date (specify unit – tonnes / units / MW etc.); actual production for the year; percentage achieved; signatures – Principal Officer + accountant verification with UDIN.

DEMERGER – DIRECTLY RELATABLE / APPORTIONMENT

VERBATIM TEXT

Irrespective of anything contained in any other provisions of this Act, in the case of a demerger, the accumulated loss and the allowance for unabsorbed depreciation of the demerged company shall,—
(a) if directly relatable to the undertakings transferred to the resulting company, be allowed to be carried forward and set off in the hands of the resulting company;
(b) if …

ANALYSIS & PLAIN LANGUAGE

Demerger – meaning	As defined in Sec. 2 / Sec. 70 of the 2025 Act – essentially the transfer of one or more undertakings from a 'demerged' company to a 'resulting' company on a going-concern basis with the prescribed conditions (e.g., shareholder issuance, value preservation).
Clause (a) – directly relatable losses	Losses / unabsorbed depreciation that are clearly attributable to the SPECIFIC undertaking being transferred – migrate ENTIRELY to the resulting company.
Clause (b) – not directly relatable	Losses / unabsorbed depreciation of a general / corporate nature (not tied to one undertaking) – APPORTIONED between demerged co and resulting co IN THE PROPORTION OF ASSETS retained vs transferred.
Asset-retention proportion – the formula	Loss attributable to demerged co = (Assets retained / Total assets) × Loss. Loss attributable to resulting co = (Assets transferred / Total assets) × Loss. Asset values are typically book values.
Override	'Irrespective of anything contained in any other provisions' – Sec. 116(6) prevails over the general bar in Sec. 119(2) (succession otherwise than by inheritance).
No prescribed conditions for amalgamated-style continuity	Unlike Sec. 116(4) for amalgamations, demerger losses migrate without 5-year continuity / 75% asset-retention conditions. (Central Government has the power under Sec. 116(7) to prescribe conditions but no general conditions have so far been notified for genuine-

ILLUSTRATION

Demerger apportionment
M/s ABC Ltd (demerged company) transfers its 'Pharma Division' to M/s ABC-Pharma Ltd (resulting company). Total assets of ABC Ltd before demerger: ₹ 100 crore (book value); transferred to resulting co: ₹ 30 crore. Accumulated loss: ₹ 12 crore (of which ₹ 4 crore is directly attributable to the Pharma Division; ₹ 8 crore is general corporate – not directly relatable).
Solution: (a) Directly relatable ₹ 4 crore – migrates fully to ABC-Pharma Ltd. (b) Not directly relatable ₹ 8 crore – apportioned: ABC-Pharma Ltd gets 8 × (30/100) = ₹ 2.4 crore; ABC Ltd retains 8 × (70/100) = ₹ 5.6 crore. Final: ABC Ltd retains c/f loss ₹ 5.6 crore; ABC-Pharma Ltd gets c

FIRM-TO-COMPANY / PROPRIETARY-TO-COMPANY / COMPANY-TO-LLP – SEC. 116(8) TO (11)

VERBATIM TEXT

If there has been reorganisation of business where, a firm is succeeded by a company fulfilling the conditions laid down in section 70(1)(zd) or a proprietary concern is succeeded by a company fulfilling the conditions laid down in section 70(1)(zf), then, irrespective of anything contained in any other provision of this Act, the accumulated loss and the unabsorbed …

ANALYSIS & PLAIN LANGUAGE

Sec. 116(8) covered transitions	(a) FIRM succeeded by COMPANY [Sec. 70(1)(zd) conditions]; (b) PROPRIETARY CONCERN succeeded by COMPANY [Sec. 70(1)(zf) conditions].
Sec. 70(1)(zd) conditions – firm to company	(i) all assets and liabilities of the firm become those of the company; (ii) all partners become shareholders in proportion to their capital; (iii) partners do NOT receive consideration other than allotment of shares; (iv) partners' aggregate shareholding ≥ 50% of voting power for 5 years post-conversion.
Sec. 70(1)(zf) conditions – proprietary to company	(i) all assets and liabilities pass to the company; (ii) sole proprietor becomes shareholder ≥ 50% in voting power for 5 years; (iii) no consideration other than shares.
Effect of (8)	Predecessor's accumulated loss / unabsorbed depreciation MIGRATE to successor company – 'irrespective' of any other provision.
Sec. 116(10) – company to LLP conversion	Where a private company or unlisted public company converts to LLP, fulfilling Sec. 70(1)(ze) conditions – losses / depreciation MIGRATE to the successor LLP.
Sec. 70(1)(ze) conditions – company to LLP	(i) all assets and liabilities transfer; (ii) shareholders of company become partners of LLP in proportion to capital and profit-share at conversion; (iii) shareholders' partner-share remains ≥ 50% of profits for 5 years; (iv) total sales / turnover / gross receipts ≤ ₹ 60 lakh in any of 3 preceding years; (v) total value of assets ≤ ₹ 5 crore; (vi) no payment to partners (directly or indirectly) other than profit share, for 3 years; (vii) other prescribed conditions.

EIGHT-YEAR LIMIT FOR POST-01.04.2025 REORGANISATIONS

VERBATIM TEXT

For any amalgamation referred to in sub-section (1) or reorganisation of business referred to in sub-section (8) or (10) effected on or after the 1st April, 2025, any loss forming part of the accumulated loss of the predecessor entity, being—
(i) the amalgamating company; or
(ii) the firm or proprietary concern; or
(iii) the private company or unlisted public company, as …

ANALYSIS & PLAIN LANGUAGE

Big change from old Act	Under the old Act, a loss migrated through amalgamation got a 'fresh' 8-year clock starting in the amalgamated company's hands. The 2025 Act ends that – the 8-year window is counted from the ORIGINAL year of computation in the predecessor's hands.
Effective date	Applies to amalgamations / reorganisations effected ON OR AFTER 1 April 2025.
Original predecessor entity – Sec. 116(13)(c)	The predecessor in the FIRST amalgamation / reorganisation. Where there is a chain (predecessor 1 → predecessor 2 → successor), the clock runs from predecessor 1's year of computation – not predecessor 2's.
Why this change	Anti-abuse – under the old position, repeated mergers could refresh the 8-year clock perpetually. The 2025 Act stops this revolving-door practice.
Practical impact – older losses	If the amalgamating company computed the loss in TY 2018-19 and merges in TY 2026-27, the loss has only 1 year remaining (TY 2026-27 itself, then lapse). Under the old Act, the merged company would have got 8 fresh years.
Tracking obligation	The amalgamated / successor company must maintain records showing year of original loss computation in the predecessor's hands, so as to apply the 8-year clock correctly.

DEFINITIONS – ACCUMULATED LOSS / INDUSTRIAL UNDERTAKING

VERBATIM TEXT

For the purposes of this section,—
(a) "accumulated loss" means so much of the loss of the predecessor firm or the proprietary concern or the private company or unlisted public company before conversion into limited liability partnership or the amalgamating company or the demerged company, under the head "Profits and gains of business or profession" (excluding loss in a …

ANALYSIS & PLAIN LANGUAGE

"Accumulated loss" – (a)	Only the BUSINESS loss (under PGBP head) of the predecessor entity, EXCLUDING speculation loss. House Property losses, Capital Gains losses, Other Sources losses do NOT migrate via Sec. 116.
Eligible for c/f under Sec. 112	The predecessor's loss must have been eligible for c/f under Sec. 112 had the merger not occurred. So the 3-year-engagement and 75%-asset-retention tests must have been satisfiable in the predecessor's hands at the relevant date.
Speculation loss – excluded	Speculation business loss (Sec. 113) is explicitly excluded from migration. It dies with the amalgamating / demerged / predecessor entity.
"Industrial undertaking" – (b)	Six-category list: (i) manufacture/processing of goods; (ii) computer software manufacture; (iii) power generation/distribution; (iv) telecom services; (v) mining; (vi) ship/aircraft/rail construction. Used in Sec. 116(1)(a).
What is NOT an 'industrial undertaking'	Pure trading; pure services (consultancy, legal, accounting); banking (covered separately under (1)(b)); hospitality (covered as 'hotel' under (1)(a) without needing IU status). Real estate development is debated – not in the list.
"Specified bank" – (d)	SBI (under SBI Act 1955) or any 'corresponding new bank' (Banking Companies (Acquisition) Acts 1970 / 1980 – the 14 nationalised banks).

PART J

Banking / Insurance Merger

Section 117

ELIGIBLE AMALGAMATIONS UNDER SEC. 117

VERBATIM TEXT

Irrespective of anything contained in section 2(6)(a) to (c) or section 116, where there has been an amalgamation of,—
(a) one or more banking company with—
(i) any other banking institution under a scheme sanctioned and brought into force by the Central Government under section 45(7) of the Banking Regulation Act, 1949; or
(ii) any other banking institution or a …

ANALYSIS & PLAIN LANGUAGE

Override of Sec. 116	'Irrespective of anything contained in section 2(6)(a) to (c) or section 116' – Sec. 117 prevails. The Sec. 116(4) conditions (3-year engagement, 75% assets, etc.) do NOT apply.
Override of Sec. 2(6)(a)/(b)/(c)	Even if the merger does not technically meet the strict Sec. 2(6) definition of 'amalgamation' (e.g., as to shareholder consideration), Sec. 117 deems the migration to apply for these regulator-driven schemes.
Category (a)(i) – BR Act Sec. 45 schemes	Banking company with another banking institution under a scheme SANCTIONED and brought into force by the Central Government under Sec. 45(7) of the Banking Regulation Act, 1949 (RBI/Government rescue mergers).
Category (a)(ii) – Strategic disinvestment	Banking company merger with another banking institution / company within 5 years from the end of the TY of strategic disinvestment.
Category (b) – Inter-nationalised banks	Corresponding new banks (the 14 nationalised banks) merging under Sec. 9 of the 1970 / 1980 Banking Companies (Acquisition) Acts. Recent example – the SBI consolidation; PSB consolidation rounds of 2017-2020.
Category (c) – General insurance Government companies	Government insurance companies (under Sec. 4 / 5 / 16 of the General Insurance Business (Nationalisation) Act, 1972 – New India, National, United India, Oriental) merging under Sec. 16 of that Act.

EIGHT-YEAR LIMIT FOR POST-01.04.2025 SCHEMES

VERBATIM TEXT

Where any scheme of amalgamation as referred to in sub-section (1) is brought into force on or after the 1st April, 2025, any loss forming part of the accumulated loss of the predecessor entity ... which is deemed to be the loss of the successor entity ... shall be carried forward in the hands of the successor entity for not more than eight tax years immediately …

ANALYSIS & PLAIN LANGUAGE

Same logic as Sec. 116(12)	The 2025 Act has imposed an 8-year c/f cap from the ORIGINAL predecessor's year of loss computation – preventing perpetual refreshing through chained mergers.
Effective date	Schemes brought into force on or after 1 April 2025.
Original predecessor entity – Sec. 117(3)(g)	Predecessor in the FIRST amalgamation. Same anti-chaining policy as Sec. 116(13)(c).
Documentation	Year of original loss must be tracked through the chain – important for very large mergers in banking sector where multiple historical losses exist.

DEFINITIONS FOR SEC. 117

VERBATIM TEXT

For the purposes of this section,—
(a) "accumulated loss" means so much of the loss of the amalgamating banking company or companies or amalgamating corresponding new bank or banks or amalgamating Government company or companies under the head "Profits and gains of business or profession" (excluding losses of a speculation business) which such predecessor entity would …

ANALYSIS & PLAIN LANGUAGE

Accumulated loss – (a)	Same as Sec. 116(13)(a) – PGBP business loss only, excluding speculation loss, eligible for c/f u/s 112.
Banking company – (b)	Sec. 5(c) of the Banking Regulation Act 1949 – any company that transacts the business of banking in India.
Banking institution – (c)	Sec. 45(15) of BR Act – includes a banking company AND any other institution doing banking business under RBI's regulatory umbrella for amalgamation purposes.
Corresponding new bank – (d)	The 14 nationalised banks under the 1970 Act + 6 banks under the 1980 Act = the post-1969 / post-1980 nationalised banking entities.
General insurance Government company – (f)	GIC and its 4 subsidiaries (New India, National, United India, Oriental). Established under Sec. 4 / 5 / 16 of the GIBN Act 1972.
Strategic disinvestment – (h)	Same definition as Sec. 116(3)(c)(i) – sale of Government / PSU shareholding resulting in below 51% + transfer of control.

PART K

Co-operative Bank Reorg.

Section 118

CO-OP BANK AMALGAMATION / DEMERGER

VERBATIM TEXT

The assessee, being a successor co-operative bank, shall, in a case where the amalgamation has taken place during the previous year, be allowed to set off the accumulated loss and the unabsorbed depreciation, if any, of the predecessor co-operative bank as if the amalgamation had not taken place, and all the other provisions of this Act relating to set off and carry …

ANALYSIS & PLAIN LANGUAGE

Sec. 118(1) – Amalgamation	Successor co-op bank can set off accumulated loss / unabsorbed depreciation of predecessor co-op bank AS IF the amalgamation had not occurred. Generous provision recognising the regulatory drive to consolidate weak co-op banks.
Sec. 118(2) – Demerger	Same directly-relatable / not-directly-relatable apportionment as Sec. 116(6) for ordinary companies. Resulting co-op bank inherits the directly-attributable losses; general losses split in asset proportion.
Definitions – Sec. 65	Co-operative bank, business reorganisation, amalgamating / amalgamated / demerged / resulting co-op bank, predecessor / successor co-op bank – all defined in Sec. 65 of the 2025 Act.
Why a separate provision	Co-operative banks are governed under State Co-operative Societies Acts and / or the Multi-State Co-operative Societies Act – plus the Banking Regulation Act. Their reorganisations are driven by RBI / NABARD / State Cooperative Departments, often as recovery mergers.

CONDITIONS FOR PREDECESSOR AND SUCCESSOR

VERBATIM TEXT

The provisions of this section shall apply, if—
(a) the predecessor co-operative bank—
(i) has been engaged in the business of banking for three or more years; and
(ii) has held at least three-fourths of the book value of fixed assets as on the date of the business reorganisation, continuously for two years before the date of business reorganisation;
(b) the successor …

ANALYSIS & PLAIN LANGUAGE

Predecessor conditions – Sec. 118(3)(a)	(i) Engaged in banking for ≥ 3 years before reorganisation; (ii) held ≥ 75% of book value of fixed assets continuously for 2 years before the reorganisation date.
Successor conditions – Sec. 118(3)(b)	(i) Holds ≥ 75% of acquired fixed assets continuously for 5 years post-reorganisation; (ii) Continues the predecessor's business for at least 5 years; (iii) Fulfils such other prescribed conditions to ensure genuine business purpose.
Sec. 118(4) – Central Government's powers	Central Government may notify additional conditions for verifying genuine business purpose – beyond the third limb in (3)(b)(iii).
Sec. 118(5) – Clawback	If any condition in (3) or (4) is breached, the set-off / depreciation already allowed becomes the year's income (chargeable to tax) – same clawback mechanic as Sec. 116(5) and 116(9)/(11).
Comparison with Sec. 116	Largely parallel structure. Co-op banks get a slightly easier regime – no Rule 60-style 50% production target (which is alien to banking).

TWO-DEEMED-TAX-YEAR SPLIT

VERBATIM TEXT

The period commencing from the beginning of the tax year and ending on the date immediately preceding the date of business reorganisation, and the period commencing from the date of such business reorganisation and ending with the tax year, shall be deemed to be two different tax years for the purposes of set off and carry forward of loss and allowance for depreciation.

ANALYSIS & PLAIN LANGUAGE

The split	The TY in which the reorganisation occurs is split into TWO deemed tax years for set-off and carry-forward purposes.
Period 1 – Pre-reorganisation	From the START of the tax year UP TO the day immediately PRECEDING the reorganisation date – treated as one tax year.
Period 2 – Post-reorganisation	From the reorganisation date TO the END of the tax year – treated as another tax year.
Why the split	Allows precise computation of pre-merger losses (in the predecessor's hands) and post-merger results (in the successor's hands). Avoids muddying the c/f position by treating part-year results as a single year.
Practical implication	The 5-year continuity clock for fixed-asset retention runs from the reorganisation date – not the end of the tax year. The 8-year c/f clock is calculated separately for pre-merger losses (counted in the predecessor's year) and post-merger losses (counted in the successor's year).
Cross-reference	This split is unique to co-operative banks under Sec. 118 – not extended to ordinary corporate amalgamations under Sec. 116. Reflects the specific regulatory architecture of co-op banking reorganisations.

PART L

Loss Restrictions

Section 119

CHANGE IN FIRM CONSTITUTION – PROPORTIONATE RESTRICTION

VERBATIM TEXT

In case of change in constitution of a firm during a tax year, nothing in this Chapter shall entitle the firm to have carried forward and set off so much of the loss proportionate to the share of a retired or deceased partner as exceeds his share of profits, if any, in the firm in respect of the tax year.

ANALYSIS & PLAIN LANGUAGE

Trigger	CHANGE in the constitution of a firm during a tax year. Examples: a partner retires; a partner dies; a new partner is admitted; profit-sharing ratios change.
The restriction	The firm cannot carry forward the LOSS PROPORTIONATE TO THE SHARE OF A RETIRED OR DECEASED PARTNER, to the extent that loss exceeds his share of the year's profits.
Why this rule	The retired / deceased partner's share of accumulated loss should leave with him – the continuing firm should not benefit from that share by setting it off against future profits attributable to the new partners.
Computation	Step 1 – determine the retiring / deceased partner's profit-sharing ratio. Step 2 – apply that ratio to the year's loss to get the partner's proportionate loss share. Step 3 – reduce the firm's c/f loss by this proportionate share, EXCEPT to the extent it has been absorbed by his share of the year's profits.
Admission of new partner	Sec. 119(1) does not directly address admission of a new partner – there is no question of the new partner taking ANY share of pre-admission losses. He simply joins prospectively.
Change in profit-sharing ratio	If existing partners' ratios change, no bar – only retirement / death triggers the proportionate cut.

SUCCESSION OTHERWISE THAN BY INHERITANCE

VERBATIM TEXT

If any person carrying on any business or profession has been succeeded in such capacity by another person, otherwise than by inheritance, nothing in this Chapter shall entitle any person other than the person incurring the loss to have it carried forward and set off against his income.

ANALYSIS & PLAIN LANGUAGE

The general principle	Loss is personal to the person who incurred it. It cannot be inherited by a successor unless succession is by INHERITANCE.
Inheritance carve-out	If a person dies and the business passes by inheritance to legal heirs (intestate or under a will), the heir can continue to carry forward and set off the deceased's losses. Sec. 119(2)'s bar does not apply.
Sale / transfer / gift / settlement	If A sells his business to B, or gifts it, or settles it on a trust – B / the trust cannot inherit A's losses. The losses die with A.
Override by Sec. 116-118	Where a business reorganisation falls within Sec. 116 (amalgamation / demerger / firm-to-company / company-to-LLP), Sec. 117 (banking) or Sec. 118 (co-op bank), the loss MIGRATES despite Sec. 119(2). The override is via the 'irrespective' clauses in Sec. 116-118.
Legal heirs as 'successors' in other senses	Even if the heir runs a different business with the inherited assets, the predecessor's loss can attach to the heir's continuation of the original business – not a new line.
Practical question	When a sole proprietorship is sold as a going concern, the buyer often expects to 'inherit' the seller's losses. Sec. 119(2) bars this. The only saving grace is structuring the deal as a Sec. 116(8) succession from proprietary concern to company – with the seller becoming a 50% shareholder of the buyer-company per Sec. 70(1)(zf) conditions.

CLOSELY-HELD COMPANY – 51% SHAREHOLDING TEST

VERBATIM TEXT

Irrespective of anything contained in this Chapter, in case of a change in shareholding during the tax year of a company (not being a company in which the public are substantially interested),—
(a) no loss incurred in any year prior to the tax year shall be carried forward and set off against the income of the tax year unless on the last day of the tax year, the shares …

ANALYSIS & PLAIN LANGUAGE

Scope	Applies ONLY to closely-held companies (not 'companies in which the public are substantially interested' – broadly, listed companies or those with prescribed Government / public ownership).
The 51% beneficial-ownership test	Shares carrying ≥ 51% of voting power must be beneficially held on the LAST DAY OF THE TAX YEAR by the SAME PERSON(S) who beneficially held ≥ 51% on the LAST DAY OF THE YEAR(S) in which the loss was incurred.
Year-by-year tracking	Each year's loss has its own benchmark date (last day of that year). For a c/f set-off in TY 2026-27, every relevant historical year's last-day shareholders must collectively hold ≥ 51% on 31.03.2027.
Override	'Irrespective of anything contained in this Chapter' – Sec. 119(3) prevails over Sec. 110-115 (the c/f provisions).
Beneficial ownership	Looks at the real owner – not just the registered holder. Shares held in nominee name are attributed to the beneficial owner.
Why this rule	Anti-trade-in-losses. Closely-held loss-rich companies are otherwise prime targets for acquisition by profitable buyers seeking to import the losses into their books. The 51% retention rule denies this.

ILLUSTRATION

Shareholding change
M/s XYZ Pvt Ltd (closely-held) had accumulated business loss of ₹ 5 crore as on 31.03.2024. Shareholders on that date: A 60%, B 40%. On 15.10.2025, A sold his entire 60% to a new buyer C. As on 31.03.2027 (tax year end), shareholding is C 60%, B 40%. The company has a profit of ₹ 2 crore in TY 2026-27.
Solution: 31.03.2024 – 51% holders included A (60%) and B (40%). 31.03.2027 – B still has 40%; C is new with 60%. Common between the two dates: only B's 40%. 40% < 51% test fails. Sec. 119(3) bars c/f set-off of the entire ₹ 5 crore against the ₹ 2 crore profit. Profit fully taxable; the loss lapses (pre-shareholding-change loss is dead in this company's h

ELIGIBLE START-UP CARVE-OUT

VERBATIM TEXT

SEC 119(3)(b). regardless of the change in percentage of shareholding, where the company is an eligible start up referred to in section 140, the loss incurred in any year prior to the tax year shall be allowed to be carried forward and set off against the income of the tax year, if—
(i) all the shareholders of such company who held shares carrying voting power on the …

ANALYSIS & PLAIN LANGUAGE

The carve-out	For an eligible start-up u/s 140, the 51% test of Sec. 119(3)(a) is replaced with a much-more-protective 100% same-shareholder test.
Test (i) – ALL shareholders of loss year still hold their shares	Every shareholder who held voting-power shares on the loss-year-end date must STILL hold those shares on the c/f-year-end date. Not just 51% – ALL of them.
Test (ii) – Loss within 10 years of incorporation	The loss must have been incurred during the 10-year window starting from the year of incorporation.
Effect	Allows funding rounds (where new investors are added without existing shareholders exiting) without losing the c/f benefit. New shares are issued, but old shareholders retain their old shares – test (i) is met.
What this saves	A typical start-up takes multiple funding rounds (Seed → Series A → B → C). Each round dilutes the founders' percentage. Under Sec. 119(3)(a) – they would lose the loss c/f. Under (b) – as long as founders don't sell, they retain it.
Risk in (b)(i)	If even ONE original shareholder exits (sells / dies / dilutes to zero), the test fails. Founders' minor exits can be costly. Practical advice – structure exits to retain at least minimum holding.

EXCEPTIONS TO 51% RULE – SEC. 119(4) AND (5)

VERBATIM TEXT

The provisions of sub-section (3) shall not apply—
(a) where a change in the voting power and shareholding takes place in the tax year referred to in that sub-section due to death of shareholder or transfer of shares by way of gift to any relative of the shareholder; or
(b) where change in shareholding of Indian company, being a subsidiary of foreign company, takes place …

ANALYSIS & PLAIN LANGUAGE

(a) Death / gift to relative	Change due to death of a shareholder OR transfer by way of gift to a relative – does not trigger the 51% bar.
(b) Foreign-parent amalgamation / demerger	Where the change is at the foreign-parent level (amalgamation / demerger of a foreign holding company), and ≥ 51% of the foreign predecessor's shareholders are shareholders of the foreign successor – Indian subsidiary's losses survive.
(c) IBC resolution plan	Where shareholding change is consequent to a resolution plan approved under the Insolvency and Bankruptcy Code, 2016, and the jurisdictional PCIT / CIT was given a reasonable opportunity of being heard – Sec. 119(3) does not apply.
(d) NCLT-mandated restructuring	Where Board of Directors were suspended by NCLT on Central Government application under Sec. 241 Companies Act 2013, and new Board was appointed under Sec. 242, AND the shareholding change is pursuant to a Sec. 242 resolution plan – exception applies. Extends to subsidiaries and sub-subsidiaries.
(e) Sec. 70(2) Table 5.C relocation	Change due to IFSC fund relocation under the listed Sec. 70 transactions – exception applies.
(f) Erstwhile PSU with ultimate-holding-company-control	Where the ultimate holding company of an erstwhile PSU continues to hold (directly or through subsidiary chain) at least 51% of voting power post-strategic disinvestment – exception applies.

PART M

Search / Survey Bar

Section 120

SEARCH / REQUISITION / SURVEY – BAR ON SET-OFF

VERBATIM TEXT

Irrespective of anything contained in any other provision of this Act, any loss, whether brought forward or otherwise or unabsorbed depreciation, shall not be allowed to be set off against any undisclosed income which is included in the total income of any tax year, consequent to a search conducted under section 247 or a requisition under section 248 or a survey conducted …

ANALYSIS & PLAIN LANGUAGE

The bar	ANY loss (current year, brought forward, or unabsorbed depreciation) CANNOT be set off against undisclosed income.
Trigger	Income is treated as 'undisclosed' when it surfaces consequent to a search [Sec. 247], a requisition [Sec. 248], or a survey [Sec. 253] – EXCEPT a survey under Sec. 253(4).
Why exception for Sec. 253(4)	Sec. 253(4) survey is the routine 'verification of TDS / cash deposits' kind – does not have the punitive character of a search-driven discovery. So losses can be set off against income found in such routine surveys.
Override	'Irrespective of anything contained in any other provision of this Act' – Sec. 120 prevails over Sec. 110-118.
Undisclosed income – Sec. 301	Continuation of the old Sec. 271AAB / 271AAC framework – income not previously disclosed in returns or books, surfaced by enforcement action.
Effect	Undisclosed income discovered in search / requisition / non-routine survey is taxed at full rate WITHOUT any loss / depreciation set-off – often at penal rates under Sec. 188 / 189 (continuation of old Sec. 115BBE).

ILLUSTRATION

Search-found undisclosed income

Mr. K's premises were searched in TY 2026-27. Undisclosed cash / jewellery valued at ₹ 50,00,000 was found and added to his income. He has c/f business loss of ₹ 30,00,000 from earlier years.

Solution: Sec. 120 bars set-off of the ₹ 30,00,000 c/f loss against the ₹ 50,00,000 undisclosed income. The undisclosed ₹ 50,00,000 is taxed at the special rate u/s 188 (60% + surcharge + cess, no slab). The ₹ 30,00,000 loss continues to be c/f for set-off against future REGULAR business profits (within the 8-year window).

PART N

Return Filing Requirement

Section 121

RETURN MUST BE FILED WITHIN SEC. 263(1) DUE DATE

VERBATIM TEXT

Irrespective of anything contained in this Chapter, no loss which has not been determined in pursuance of a return filed under section 263(1), shall be carried forward and set off under section 111(1) or 112(1) or 113(2) or 114(2) or 115(2).

ANALYSIS & PLAIN LANGUAGE

The condition	A loss is carried forward ONLY if it has been determined in pursuance of a return filed under Sec. 263(1) – i.e., the return filed within the ORIGINAL DUE DATE (not a belated return).
Sec. 263(1) – meaning	Continuation of old Sec. 139(1) – the original due date for filing the return of income (typically 31 July for non-audit, 31 October for audit, 30 November for transfer-pricing cases).
Losses covered by Sec. 121 bar	Capital Gains loss [Sec. 111(1)]; Business loss [Sec. 112(1)]; Speculation loss [Sec. 113(2)]; Specified business loss [Sec. 114(2)]; Specified activity loss [Sec. 115(2)].
Losses NOT covered – HP loss and unabsorbed depreciation	Sec. 121 does NOT mention Sec. 110(1) (House Property loss) or unabsorbed depreciation under Sec. 33(11). So: (a) HP loss CAN be carried forward even if return is belated; (b) Unabsorbed depreciation can be c/f even with belated return (continuation of CIT vs Govind Nagar Sugar Ltd, Geo. M. Mathew etc. principles).
Override	'Irrespective of anything contained in this Chapter' – Sec. 121 prevails over the c/f provisions in Sec. 111-115. The normal c/f rights are conditional on timely filing.
Practical importance	Late filers lose the right to c/f Capital Gains, Business, Speculation, Specified-business, and Specified-activity losses for that year. The loss of c/f benefit can be enormous – often more than the late-filing fee under Sec. 263 / penalties.

ILLUSTRATION

Late filing kills c/f

Mr. L had a TY 2026-27 business loss of ₹ 12,00,000 and STCL of ₹ 4,00,000. Original due date was 31.10.2027 (audit case). Return was actually filed on 15.01.2028 (belated return u/s 263(4)). Solution: Return filed beyond Sec. 263(1) due date. Sec. 121 bars c/f of business loss [Sec. 112(1)] and STCL [Sec. 111(1)]. Both losses LAPSE. Cannot be set off in TY 2027-28 onwards. (Had the loss included a HP loss, that portion would still survive c/f under Sec. 110, since Sec. 121 does not list Sec. 110.) Late-filing fee u/s 263 plus interest u/s 281 also apply.

Set-Off & Carry-Forward at a Glance

Loss Type	Inter-Head?	C/F Window	C/F Set-Off Against	Sec. 121 Gate?
House Property	Yes (cap ₹ 2L)	**8 years**	House Property only	**No**
Non-Speculation Business	Yes (not vs Salary)	**8 years**	Any business / profession	**Yes**
Speculation Business	**No**	**4 years**	Speculation profits only	**Yes**
Specified Business (Sec. 46)	**No**	**Indefinite**	Specified-business profits only	**Yes**
Short-Term Capital Loss	**No**	**8 years**	STCG or LTCG	**Yes**
Long-Term Capital Loss	**No**	**8 years**	LTCG only	**Yes**
Race Horses (Spec. Activity)	**No**	**4 years**	Specified-activity income only	**Yes**
Unabsorbed Depreciation	Yes (broad)	**Indefinite**	Any income (most heads)	**No**

Practitioner Takeaways

01

Climb the waterfall in order

Sec. 108 → Sec. 109 → C/F. Skipping a stage produces wrong totals and wrong c/f balances on file.

02

Mind the ₹ 2L House Property cap

In the year of origin, cap inter-head HP set-off at ₹ 2,00,000. Carry the excess forward — don't let it lapse silently.

03

Capital losses: STCL flexible, LTCL locked

STCL absorbs both STCG and LTCG. LTCL is locked to LTCG only — segregate them in the working sheet from day one.

04

Speculation is doubly isolated

Speculation loss cannot offset any other PGBP profit, and the c/f window is just 4 years. Treat it as a parallel ledger.

05

File Sec. 263(1) returns on time

Late filing forfeits c/f for CG / Business / Speculation / Specified-Business / Specified-Activity losses. HP and depreciation alone are exempt.

06

Document amalgamation conditions

For Sec. 116 inheritance, maintain detailed evidence of asset/liability continuity, going-concern compliance, and 5-year holding tests.

END OF PART TWO

Thank You

Set Off or Carry Forward of Losses — Sections 108 to 121

Income Tax Manual 2025 • Tax Year 2026 – 2027

PUBLISHED BY

GURUKRIPA PUBLICATIONS

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