

Capital Loss: Set-Off and Carry Forward Rules (Tax Year 2026-27)

Description

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Quick summary

- A short-term capital loss can be set off against any capital gain of the year, short-term or long-term; a long-term capital loss only against long-term gains (section 108(2)).
- A capital loss cannot be set off against income under any other head, such as salary or house property (section 109(2)).
- The unabsorbed loss carries forward for eight tax years, against capital gains of the matching kind, but only if the loss was determined in a return filed by the due date (sections 111 and 121).
- A loss that you could not use because you filed late is lost.

Selling an asset at a loss gives you a capital loss. It reduces tax only if you use it correctly: against the right kind of gain, in the right year, and in a return filed on time. The rules are in sections 108 to 111 and 121 of the Income-tax Act, 2025.

Set-off in the same year (section 108(2))

The net result of each capital asset is computed under sections 72 to 90. Then:

Loss	Can be set off against
Short-term capital loss	The income computed on **any other capital asset**, short-term or long-term
Long-term capital loss	Only the income on **other long-term capital assets**

A short-term loss is usually best set off first against short-term gains, which are taxed at higher rates (20% or slab rates), and then against long-term gains.

No set-off against other heads (section 109(2))

For any tax year, the loss under the head Capital gains **cannot be set off against income under any other head**: not salary, house property, business or other sources. The reverse is allowed: a loss under another head can be set off against capital gains (section 109(1)).

Carry forward (section 111)

If a capital loss cannot be wholly set off in the year, it is carried forward to the **following tax years**:

- a **short-term** loss is set off against the income under the head Capital gains of the next year in respect of **any other capital asset**;
- a **long-term** loss is set off **only against long-term** capital gains of the next year; and
- the balance moves on, and no loss is carried forward for more than **eight tax years immediately following** the year in which it was first computed (section 111(2)).

You must file on time (section 121)

Irrespective of anything else, **no loss that has not been determined in pursuance of a return filed under section 263(1)** can be carried forward and set off. In practice, you must file the return **by the due date** and report the loss in it, even if you owe no tax. A belated return (filed after the due date) cannot be used to carry the loss forward; the loss of that year is lost, though it can still be set off against gains of the same year if the return is filed.

Examples

1. Same year. In tax year 2026-27 you have:

- short-term gain on shares: ?60,000
- short-term loss on other shares: ?1,00,000
- long-term gain on listed shares: ?3,00,000

Set off the short-term loss first against the short-term gain (?60,000), leaving ?40,000 of the loss. That is set off against the long-term gain, giving net long-term gain ?2,60,000. The ?1,25,000 exemption is applied, so ?1,35,000 is taxed at 12.5% = ?16,875.

2. Long-term loss. Long-term loss ?2,00,000 on unlisted shares; short-term gains ?1,50,000 on listed shares. The long-term loss **cannot** be set off against the short-term gains. It is carried forward for up to eight years against long-term gains, provided you filed on time.

3. Carry forward. You have a short-term loss of ?80,000 in 2026-27 and no gains. You file on time. In 2027-28 you have a long-term gain of ?3,00,000 from the sale of a flat and a short-term gain of ?20,000. The carried forward short-term loss is set off against both: first the short-term gain (?20,000) and ?60,000 against the long-term gain.

4. Salary and capital loss. Salary income ?12,00,000 and long-term capital loss ?1,50,000. The loss cannot reduce salary. It is carried forward against future long-term gains.

Practical points

- **Report the loss in the return** in the capital gains and carry forward schedules, with the year it arose, and file by the due date.
- Where the loss is on **shares you hold as business stock** (a trader), it is a business loss, not a capital loss, and different rules apply (section 112).

Checklist

1. List all sales of the year with gain or loss, short-term or long-term.
2. Set off within the year as the table shows.
3. Carry forward the balance with the year of origin.
4. File by the due date.

Frequently asked questions

Can I set off a capital loss against salary?

No. Under section 109(2), a loss under the head Capital gains cannot be set off against income under any other head.

How is a short-term loss set off?

Against any capital gain of the same year, whether short-term or long-term (section 108(2)(a)).

How is a long-term loss set off?

Only against long-term capital gains of the same year (section 108(2)(b)).

For how long can I carry forward a loss?

For eight tax years immediately after the year in which it first arose. A short-term loss carried forward can be set off against any capital gain; a long-term loss only against long-term gains (section 111).

Do I have to file my return on time to carry forward a loss?

Yes. A loss not determined in a return filed under section 263(1), that is by the due date, cannot be carried forward (section 121).

Does a capital loss reduce the ?1,25,000 exempt amount?

The long-term gain on listed equity is computed after set-off of losses, and the ?1,25,000 is then deducted from the net gain (section 198(2)). A loss set off against a long-term gain reduces the net gain on which the exemption works.

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 108, 109, 111, 121, 198)

Related reading

- Deferred Tax Asset and Deferred Tax Liability
- Which ITR Form to File: ITR-1 to ITR-7 and ITR-UN Under Rule 164 (Tax Year 2026-27)
- Capital Gains Tax in India: Short-Term, Long-Term, Rates and Computation (Tax Year 2026-27)

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