

Set-Off and Carry Forward of Losses: Business, House Property, Capital Gains and Depreciation (Tax Year 2026-27)

Description

Last updated: 20 September 2026 · Written and reviewed by CA Meet Dhrangadhariya, CSM & Co LLP

Quick summary

- A loss is set off first within the same head, then against income under other heads, then carried forward (sections 108 to 115 of the Income-tax Act, 2025).
- House property loss: ?2 lakh against other heads, balance for 8 years against house property income. Business loss: against any head except salary, then for 8 years against business profits. Speculation loss: 4 years, only against speculation profit. Capital loss: not against other heads; 8 years against capital gains.
- Unabsorbed depreciation carries forward without any time limit (section 33(11)).
- Business, capital gains and speculation losses can be carried forward only if the return of the loss year was filed by the due date (section 121); a company with a change of 51% or more in voting power loses its brought forward losses (section 119).

A loss reduces tax only if it can be set off or carried forward. The Income-tax Act, 2025 deals with this in Chapter VII (sections 108 to 121). The sections replace sections 70 to 80 of the 1961 Act.

Step 1: set off within the same head (section 108)

If the result from one source under a head (other than capital gains) is a loss, it is set off against **income from any other source under the same head** in the same tax year. For capital gains (section 108(2)):

- a **short-term** capital loss is set off against any capital gain, short-term or long-term;
- a **long-term** capital loss is set off only against long-term capital gains.

Step 2: set off against other heads (section 109)

If a head (other than capital gains) shows a loss after step 1, it is set off against income under any **other head**, including capital gains, with two limits:

- a **business or profession loss** cannot be set off against **salary** (section 109(1)(a));
- a **house property loss** can be set off against other heads only up to **?2,00,000** (section 109(1)(b)).

A **capital loss** cannot be set off against any other head (section 109(2)).

Step 3: carry forward

Loss	Carry forward	Set off against	Section
House property	**8** tax years	House property income only	110
Capital gains	**8** tax years	Capital gains, short-term loss against any gain, long-term loss against long-term gains	111
Business or profession (not speculation)	**8** tax years	Profits of any business or profession	112
Speculation business	**4** tax years	Profits of speculation business only	113
Specified business under section 46	Not limited in the text	Profits of another specified business only	114
Specified activity (owning and maintaining race horses)	**4** tax years	Income from that activity only	115
Unabsorbed depreciation	**No time limit**	Added to the depreciation of the next year, effect first being given to the business loss under section 112(3)	33(11)

Order of set off: brought forward business loss is given effect first; any unabsorbed depreciation is then added to the next year's depreciation (section 112(3)).

The eight years are counted from the year **after** the year in which the loss was first computed ("eight tax years immediately succeeding").

Conditions

File the return on time (section 121)

Irrespective of anything contained in the Chapter, a **loss that has not been determined in a return filed under section 263(1)** cannot be carried forward and set off under sections 111(1), 112(1), 113(2), 114(2) or 115(2). That is, to carry forward a capital gains, business, speculation, specified business or specified activity loss, the return of the loss year must be **filed by the due date**, and the loss must be shown in it.

House property loss (section 110) and unabsorbed depreciation (section 33(11)) are not in the list of section

121.

Changes in constitution (section 119)

- **Partner leaves or dies:** the firm cannot carry forward the portion of the loss proportionate to a retired or deceased partner's share that exceeds his share of profits in the year (section 119(1)).
- **Succession of business:** where a business or profession is taken over by another person other than by inheritance, only the person who incurred the loss can carry it forward (section 119(2)).
- **Change in shareholding of a company** (a company in which the public are not substantially interested): the loss of an earlier year can be set off only if, on the **last day of the tax year**, shares carrying at least **51%** of the voting power are beneficially held by the **same persons** who held at least 51% on the last day of the year in which the loss was incurred (section 119(3)(a)).
  - **Eligible start-ups** (section 140) can carry forward losses incurred in the first ten years from incorporation if all the shareholders on the last day of the loss year continue to hold their shares at the end of the current year (section 119(3)(b)).
  - The rule does not apply when the change is due to the death of a shareholder, a gift to a relative, certain amalgamations or demergers of a foreign parent, and the other cases in section 119(4).

Reorganisations

On **amalgamation or demerger** of specified companies, the accumulated losses and unabsorbed depreciation pass to the successor if the conditions of sections 116 to 118 are met (an industrial undertaking or a ship or hotel company amalgamated with another company, public sector company amalgamations, a firm or proprietorship succeeded by a company, and others).

New regimes and loss set-off

A person who is taxed under the new regime (section 202), or under the concessional rates for companies and co-operative societies (sections 200, 201, 203, 204), computes income without certain deductions and **without set off of losses or depreciation attributable to them**; those losses are deemed to have been given effect to and lapse. House property loss cannot be set off against other heads in the new regime (section 202(2)(b)(ii)). See our posts on the regime option and on corporate tax.

Examples

1. Order of set off. Tax year 2026-27, old regime. Salary ?10,00,000, house property loss ?2,50,000, business loss ?3,00,000, no other income.

- House property loss: only ?2,00,000 can be set off against other heads, here against salary, leaving taxable salary of ?8,00,000. The other ?50,000 is carried forward for 8 years against house property income.
- Business loss: cannot be set off against salary. The whole ?3,00,000 is carried forward for 8 years against business profits, provided the return is filed by the due date.

2. Unabsorbed depreciation. Profit before depreciation ?3,00,000, depreciation ?5,00,000: ?3,00,000 is allowed, ?2,00,000 is carried forward with no time limit.

3. Late return. Business loss of ?4,00,000 in tax year 2026-27, return filed on 15/12/2027 (belated). Under section 121, the loss cannot be carried forward, because the return was not under section 263(1). It could still have been set off in 2026-27 against other income (not salary).

Practical points

- **Always file the return on time** in a loss year, even if no tax is due.
- Show the loss in the **loss schedules** of the return, by year of origin.
- **Track expiry:** the 8 year clock runs from the year the loss was computed.
- A **company** should watch the 51% shareholding test at each change in ownership.

Frequently asked questions

In what order are losses set off?

First against other income under the same head in the same year (section 108), then against income under other heads, subject to the limits (section 109), and the balance is carried forward (sections 110 to 115).

Can a business loss be set off against salary?

No. A loss under Profits and gains of business or profession cannot be set off against salary income (section 109(1)(a)). It can be set off against other heads, such as house property, capital gains or other sources.

For how long can a business loss be carried forward?

For eight tax years immediately after the year in which it was first computed, against profits of any business or profession (section 112). A speculation loss can be carried forward for four years, only against speculation profits (section 113).

Does unabsorbed depreciation lapse?

No. It is added to the depreciation allowable in the next year and so on, without a time limit (section 33(11)).

Do I need to file the return on time to carry forward a loss?

For losses under sections 111, 112, 113, 114 and 115 (capital gains, business, speculation, specified business and specified activity), yes: a loss not determined in a return filed under section 263(1) by the due date cannot be carried forward and set off (section 121).

What happens to a company’s losses if the shareholding changes?

For a company in which the public are not substantially interested, a loss of an earlier year cannot be set

off against the income of a year in which the shareholders holding 51% of the voting power on the last day of the loss year no longer hold that 51% on the last day of the current year. Eligible start-ups have an exception (section 119(3)).

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 33, 108 to 116, 119, 121)

Related reading

- Corporate Tax Rates for Tax Year 2026-27: 25%, 22%, 15% Regimes, MAT at 14% and AMT
- Presumptive Taxation Under Section 58: Businesses, Goods Transporters and Professionals (Tax Year 2026-27)
- Deferred Tax Asset and Deferred Tax Liability

Disclaimer

This article is for general informational purposes only and should not be considered professional advice. Please consult a qualified expert for advice tailored to your specific situation. The author and website owner are not liable for any errors or actions based on this content.

Date
21/11/2026
Date Created
10/07/2026
Author
meetsoni