# Get ready to claim capital losses

**BINDISHA SARANG**

With the Sensex shedding over 25 per cent since the beginning of the calendar year due to the COVID-19 crisis, most equity and mutual fund (MF) investors are staring at significant losses. Many investors, who have booked these losses, will be looking to claim it while filing returns.

Archit Gupta, founder and chief executive officer (CEO), Cleartax, says: "Investors selling shares or redeeming MFs at below their cost price (investment) will incur capital losses. A capital loss is incurred at the time of sale of an asset, including shares, MFs, gold, and so on."

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Such capital loss can be reduced against taxable capital gains in the same year. However, if unable to set-off due to insufficient capital gains in the first year, carry it forward up to eight successive years. And all individuals, Hindu Undivided Family, Association of Persons and companies qualify.

## HOW DOES IT WORK

You can adjust long-term loss against long-term gain across assets. But long-term capital loss can't be adjusted against short-term capital gain

| Particulars | Number of shares and price | Amount (₹) | Taxable net capital gain/loss (₹) |
|---|---|---|---|
| **SHORT-TERM** | | | |
| Sales consideration on on Dec. 3, 2019 | 500*1,579 | 789,500 | |
| Less: Cost | 500*1,226 | 613,000 | |
| Net gain/loss | | | 176,500 |
| **LONG-TERM** | | | |
| Sales consideration on March 19, 2020 | 500*918 | 459,000 | |
| Less: Cost | 500*1,226 | 613,000 | |
| Net gain/loss | | | (1,54,000) |
| Adjust against long-term capital gain on sale of property | | 100,000 | |
| Balance long-term capital loss carried forward | | 54,000 | |

term capital gain on sale of property of ₹1 lakh.

1,226 per share on March 1, 2019. Investor also has long-

Source: NA Shah Associates LLP

So how does it work? Suresh Surana, founder, RSM India, says: "First, it is imperative to determine whether the capital loss is a long-term capital loss or a short-term capital one."

For example, losses arising on sale of listed shares or equity-oriented MF units held for up to 12 months are considered to be short-term capital loss. If the holding period is over 12 months, it qualifies as long-term capital losses. In case of debt MFs, short-term is defined as less than 36 months, and above that, long term.

### Claim process

Under the Income Tax (I-T) Act, taxpayers are allowed to claim set-off of short-term capital loss against both long-term capital gains and short-term capital gains from other assets, including gains from immoveable property.

Gopal Bohra, partner, NA Shah Associates LLP, says: "However, a long-term capital loss can be set off only against long-term capital gain from any other assets. However, remember it is mandatory to file I-T returns by the due date to carry forward losses to the following years.

Kapil Rana, chairman and founder, HostBooks, says: "After the amendments in the Finance Act, 2018, if you have incurred a long-term capital loss after March 31, 2018, you can set them off against any long-term capital gains, as they are now taxable in excess of ₹1 lakh." Another thing to remember, one cannot offset notional losses.

### Tax strategy

Tarun Birani, founder and CEO, TBNG Capital Advisors, says: "Under these circumstances, there is a strong case for tax harvesting, but you need to be aware of the exit load risk and market risk," adds Birani.

Explaining 'tax harvesting', Harsh Roongta, certified financial planner says: "Short-term loss can be set off against any capital gains. However, the sold assets can then be bought back again from an unconnected party, so that the investment continues, but at a lower cost now."