

Your losing stocks can cut your tax bill. The deadline is 31 March

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Maxim: Harvest your losses before 31 March. — Nithin Kamath

A loss you have not booked is just a bad memory. A loss you book in time can pay part of your tax. Here is how the rules work under India's new tax law.

Every investor with gains to pay tax on and losers they still hold is leaving money on the table until they put the two together.

On 18 March 2020, as Indian markets were collapsing, Zerodha's founder Nithin Kamath published a short note to his customers. Selling loss-making stocks or funds, he explained, lets you book the losses, "effectively reducing the realised gains and hence also reducing the tax payable" ([Zerodha Z-Connect](#)). The catch was the calendar: the sale had to happen before the financial year ended on 31 March. In his worked example, an investor with both short- and long-term gains could save over ₹98,000 in tax by harvesting losses already sitting in the portfolio.

The tax rates in that note are now out of date, and India has since moved to a new income-tax law. But the idea has become more valuable, not less, because capital gains are taxed more heavily than they were then. The deadline is still 31 March, and like most tax deadlines, it is mostly missed through inattention.

The rules as they stand

For listed shares and equity mutual funds, gains on holdings of twelve months or less are short-term and taxed at 20%. Gains on holdings of more than twelve months are long-term and taxed at 12.5%, with the first ₹1.25 lakh of long-term gains each year exempt. These rates have applied to sales since 23 July 2024, and Budget 2026 did not change them, according to guides by [Finnovate](#) and [Bigul](#). Surcharge and cess come on top.

The set-off rules are what make harvesting work. A short-term capital loss can be set off against both short-term and long-term gains. A long-term loss can be set off only against long-term gains. Neither can be set off against salary. The Income-tax Act, 2025, which took effect on 1 April 2026, kept these rules unchanged in its new Section 111, according to a section-by-section mapping by [Patron Accounting](#).

Losses you cannot use this year can be carried forward for up to eight years, but only if you file your return by the due date. A late return forfeits that right. One wrinkle is worth knowing: a draft version of the new law proposed a one-time relief letting old long-term losses be set off against short-term gains. That relaxation was dropped from the final Act, Patron Accounting notes, so do not plan around it.

Because a short-term loss is the more flexible kind, the order in which you book things matters. A short-term loss can wipe out gains taxed at 20%, the higher rate.

The other harvest, and the traps

Harvesting works in the other direction too. Because the first ₹1.25 lakh of long-term gains each year is tax-free, an investor sitting on large, long-held gains can sell enough units to realise up to that amount, pay no tax, and buy back. The holding is the same, but its purchase price is now higher, so less of the future gain will be taxable. Done every year, it quietly shrinks the tax bill you would otherwise face when you finally sell. The exemption cannot be carried forward: an unused year is gone.

Neither kind of harvesting is free of traps.

The first is buying back too quickly. Kamath's note suggested waiting until the sale had settled before repurchasing, or buying a similar company in the same sector in the meantime. Selling and rebuying the same share on the same day can be treated as an intraday trade rather than a real sale.

The second is the clock. Buying back resets the holding period, so a fresh purchase needs another twelve months to become long-term again. For mutual funds, check exit loads before you sell.

The third is scrutiny. India has no explicit "wash sale" rule of the kind America uses to disallow losses on shares repurchased within 30 days. But Kamath warned that the tax department may question a sell-and-rebuy of the same stock, and advised consulting a chartered accountant. The safest harvesting is the kind you would be happy to explain: selling a holding you have genuinely lost faith in, or one you can replace with a similar but different investment.

The fourth is the last day. Trades take time to settle, and leaving a sale to the final session of March invites arguments about which year it belongs to. Do it a few sessions early.

The March checklist

1. **What gains have I already booked this year?** Download your broker's and fund houses' capital gains statements and separate short-term from long-term.
2. **Which holdings show a loss, and is it short- or long-term?** Short-term losses are the most useful because they can offset gains taxed at the higher rate.
3. **Would I still buy this today?** If not, booking the loss is doubly useful: it cleans up the portfolio and lowers the tax. If yes, plan how and when you will buy back, or what similar holding will replace it.
4. **Have I used this year's ₹1.25 lakh long-term exemption?** If not, consider booking long-term gains up to that limit and reinvesting.
5. **Will I file on time?** Any loss you cannot use this year is only worth something if your return is filed by the due date.

The decision rule is simple. Put a reminder in your calendar for early March every year, run these five questions, and finish any sales a few sessions before 31 March. Never sell a good long-term holding only to save a small amount of tax, and when the amounts are large or the situation is unusual, check with a chartered accountant first.

Making losses useful

Nobody enjoys looking at their losing positions, and that reluctance can be expensive. The losses are already there; the only question is whether you let them do any work.

Kamath's advice is not a trick. It is the tax law working as written, rewarding the investor who pays attention once a year. Before 31 March, your losers can pay part of your tax. After it, they are just losers again.

Sources

- [Zerodha Z-Connect: Nithin Kamath, Tax loss harvesting opportunity, FY 19/20 \(18 March 2020\)](#)
- [Finnovate: Capital gains tax in India explained \(December 2025\)](#)
- [Bigul: Capital gains tax guide for FY 2026-27 \(July 2026\)](#)
- [Patron Accounting: Set-off of losses, Income-tax Act 2025 section mapping \(April 2026\)](#)
- [Patron Accounting: Carrying forward losses from the 1961 Act to the 2025 Act \(April 2026\)](#)

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