

INTERPRETATION OF TAXATION STATUTES

“Taxation system is a fiscal armory to the Government”

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ABSTRACT

The paper talks about how the different organs namely Legislature, Executive, and Judiciary work to maintain law and order enacted by the Government. What are the ways by which the Judiciary interprets the laws and the statutes mainly the taxation acts? Article 265 plays an important role in the imposition of tax and thereby a collection of it from the people. Focus is made on the strict rule and literal rule of interpretation governing the rules of taxation and the exemption respectively.

The panel highlights the characteristics of the stated rules of interpretation. The intention of the legislation is focused to interpret the correct meaning and way of the taxation statute. The paper lays down the reasons behind favoring of the tax-payers when the confusion strikes during construing the statute. The article mentions the doctrine of substantial compliance that emphasizes the essence, reasonableness, and intention of the taxation statute enacted by the Government. This doctrine strengthens the substantial approach to the conditional clauses that are important to avail the service as per the tax statute.

The conclusive panel of this research paper deals with how different cases lead to different ways to interpret the rule under the taxation law keeping in mind the beneficial criteria of the assesses.

Keywords: Interpretation of Statutes, Taxation Statutes, Strict Rule of Interpretation, Doctrine of Substantial Compliance, Literal Rule of Interpretation.

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INTRODUCTION

The Indian Government was influenced by the characteristics of the English people before Independence of taking chunks of agricultural produces or the revenue from those cultivations as a clause for maintaining their land or the profession. The Indian Legal system is very much inspired by the English Law that guides towards concepts and percepts of justice, equity, and a good conscience which are *per se* the symbol of **Common Law**. The Indian Organ of maintaining law and order in the form of justness, reasonableness, and equality is enshrined to the three arms namely *the Legislature, the Executives, and the Judiciary*.

1. The Legislature or the Indian Legislative body is a bicameral legislative body whose main objective or function is to form policies and make laws that are for the benefit of the citizens.
2. The Executives are the body that focuses on enforcement of the laws and regulations made by the Legislature.
3. The Judiciary is the keeper of law i.e. they interpret the laws made and accordingly apply them to specific cases to maintain the rights of the individuals.

Article 265 of the Indian Constitution enshrines power to the Legislature for imposing the tax. The said Article states that “*No tax can be levied or collected unless it has the authority of law*”. This ensures that apart from the Legislature no organ has the authority to impose taxes on the individuals, giving them the absolute right, though should be like fairness and equity on the people.

The taxation system of our country is no less than a fiscal armory to the Government. The legislation that has been passed is a bit complex. It is complicated and elaborated due to the intricate provisions and the prepositions that it has to be expressed and applied. Interpretation of statutes acts as a rescue to such a mixture of complications. Such interpretation makes it easier for the Judiciary to understand what the Legislature wants to convey through such an act and accordingly they can apply it to the cases without any further intricacies.

TAXATION STATUE AND STRICT INTERPRETATION

Rules of Interpretation are an aid to the complex nature of the statutes. The words mentioned in the statutes must be interpreted in their natural or ordinary meaning. The interpretation should be such that comes under the purview of the common parlance of the people. According to **Salmond**, “*the process by which the court seeks to ascertain the meaning of the legislature through the authoritative forms in which it is expressed.*” With the evolvement of time and the nature of human beings, the statutes have also evolved which makes the process of interpretation a much better and involved form of construing to the meaning of the legislatures. While understanding a provision, courts have to interpret it. The essence of their laid down function is to determine the very objective or the intention of the Legislature while construing the act or the provision.²

Interpretation of the Statutes varies from case to case and so, the facts are important to interpret or construe the act. The monetary or fiscal Acts are much dependent on the **Strict Rule of Interpretation**. The main bases for the interpretation in terms of taxation or the fiscal statutes are:

- a. The doctrine of equity is vanished from the taxation statute, making it a strict rule to apply.
- b. The reasonable interpretation that favor assesses must be applied.

Taxation is the fiscal burden on the taxpayer in which non-payment leads to penalty by the authorities. Strict Rule of Interpretation is one of the most practicable and useful principles for construing the acts of fiscal law. The direct meaning is given to the provisions of the taxation statute. Though in cases where the Judiciary is spiraled into two rules, then it should interpret in the sense that the taxpayer should get the benefit. In the case of **Shri Lunawat Jayant Maniklal v. Dy. C.I.T**³ the maxim “*A Verbis Legis Non-Est Resedium*” was taken into account as from the word of the law, there must be no departure that has to be kept in mind. This very maxim guided to the general principle of strict interpretation to the Taxation statutes. It is the strict rule that governs the fiscal or the taxation act to be understood in an ordinary, natural, and grammatical sense.⁴**Lord**

²Bhatia International v. Bulk Trading, (2002) 4 SCC 105.

³ (2008) 112 ITD 268.

⁴Manilla North Tallways Corporation v. Commissioner of Internal Revenue.

Hasbury stated in one of his ideologies that “*The subject is not to be taxed without clear words for that purpose and also that the act passed by the legislature must be understood and interpreted as per its natural construction*”. Taxation Statutes imposes an obligation in terms of taxes to pay which ensures that there should not be any equity in such provision and must be construed in the form of the ordinary meaning or the strict representation of the words.⁵

Since Taxation law is complicated so it should be interpreted in a manner that is easy for the common people to understand. Various instances have been proved that if the statutes or the provision has not been interpreted correctly or the construction is filled with ambiguity and confusion, it is the common person who mostly suffers. The unavailability of pure and reason interpretation depending on the common parlance has played a vital role in the violation of the provisions of statutes related to tax. People usually tend to find loopholes in the provisions and work accordingly, causing degradation of the real essence of the provision as stated by the Government. The Judiciary needs to construe the provisions strictly so that there can't be such violations based on loopholes or lack of understanding of the statutes.

The exemptions in the Taxation Statute are the exceptions to the applicability of the Strict Rule of Interpretation. In case of any exemption laid down in the tax act, the ***Literal Rule of Interpretation*** is given preference above other principles of construing the statutes. The exemptions and the conditions governing them must be interpreted and understood in a manner that should be specified to ensure that there should not be any misjudgment by the assesses at the time of availing the exemption. Assumptions are not to be considered while interpreting the exemption in any case. If the person/assesses have fulfilled all the conditions that are enshrined in the act under the head exemptions, then that particular person is entitled to it. No law or authority can deny such exemption on the mere basis of assumptions. The words should be understood literally or should be understood in the ordinary meaning of the conditions mentioned under exemptions rather than assuming it. The exemptions or the notified conditions must be construed in the essence of the words employed by it rather than choosing any underway of understanding or the basis of it.⁶ Interpreting the monetary or the taxation statute doesn't mean to open any room for

⁵H.H. Lakshmi Bai v. Commissioner of Income Tax, (1994) 206 ITR 688.

⁶Hansraj Gordhandas v. H. H. Dave, 1970 AIR 755.

intendment or rationality. The interpretation must have to clear the word in the ordinary meaning and such matter should be governed by the language prescribed by the statute and the Legislature. One of the most eminent case and the pillar of interpretation revealed the essence construing, *“It has to be recapitulated that the main objective of the Interpretation of the Statute is to identify and contrive the intention of the Legislative body or the Parliament as per the expressions in the act.”*⁷

Whether it is the main statute or the exemption placed in the act, the very intention of the Legislation should not be deserted from the meaning while interpreting it. When constructing the essence of the statute for any given case intention plays an important role in deciding the correct rule to interpret. Any exemption clause prescribed in the statute by the Legislature must be interpreted liberally and should guide in the favor of the tax-payer or assesses as far as practicable neither should violate the essence of the words nor the intention of the Parliament.⁸

DOCTRINE OF SUBSTANTIAL COMPLIANCE

It is a very well-known fact that people tend to comply with the major aspects of the rule to fulfill the condition without any such violation. Perhaps in the act of doing so, they overlook some minor and least or small procedures that may not hamper it but the authorities cease to compare it as an incomplete condition. For such an act or problem, *the doctrine of substantial compliance* came into existence. Such Doctrine was the creation by the Judiciary benefiting all the taxpayers to avoid or dodge the hardships that arrive related to the conditional aspect in the cases. The tax-payer tends to follow all the reasonable conditions and procedures to avail the facility or exemptions under the taxation statute, but sometimes without any comprehending knowledge, they fail to complete or the minor aspects of the conditions. So as per this doctrine, if the person has without any intention overlooked or faulted in complying with the minor procedures then also they would be entitled to be benefitted with the clauses of exemptions. The main criterion for the working of this very doctrine is that the minor overlooked procedures should not be the main or the essence of the substantive requirement. This is the equity principle used for claiming the exemptions of the taxed system if the substantial or the

⁷Doypack Systems Pvt. Ltd. v. Union of India, 1998 (2) SCC 229.

⁸ Commissioner of Income Tax (CIT) v. Dungalmal Tainwala, (1991) 191 ITR 445.

reasonable conditions are met even if the minor requirement is not fulfilled which causes no harm to the essence of the law or the provision that was made. Just or mere attempt for complying with the conditions is not a sufficient ground rather the actual completion of the conditions that are useful, substantial, and has an essence to the manner of the created provision.⁹

Taxation laws and statutes tend to capture the need to interpret strictly with the regulations and the conditional requirements that plays an important role when the exemption clause comes into consideration. This doctrine mainly focuses on the substantial aspects of the clauses or the statutes where the mandatory or the directory conditions are clubbed together then, it can be viewed as a whole act that is necessary to be followed. The need to strictly comply with the need or conditions framed as an important aspect to solicit an exemption as per the taxation act and to overlook the non-compliance procedure because that leads to no variation in the essence of the Legislative language. The criterion for the doctrine of substantial compliance most importantly revolves around the facts of the stated case and the circumstances that need to be fulfilled or achieved. The protection in the form of statutory compliance, in any case, cannot be availed if the statutory requirement is not met by the taxpayer. Statutory requirement acts as a base for mandatory fulfillment of the conditions for the sake of taking the advantage of the doctrine in the exemption clauses.

Any ambiguity in the taxation statute should favor the tax-payer or the person called the assessee. Such granting favor to the taxpayer has caused the implementation of statutory compliance. No tax can be levied if there is any ambiguity in the statute.¹⁰ Similarly when the main conditions are fulfilled leading to no violation of the conditions mentioned in the provision, then the tax-payer should be benefitted by letting him/her avail of the facility of exemption or any procedural taxation clauses. The doctrine runs on actual compliance of the conditions as per the substance to every reasonable aspect of the statute. *Essence, intention, and reasonableness* are the basic features of the doctrine that should be considered in the first instance. It is the duty of the Judiciary or the Court to determine the essence of the provision regarding the substantial and reasonable conditions that should be fulfilled keeping in mind the actual intent and reasonableness of the Legislature along

⁹ Commissioner of Central Excise, New Delhi v. Hari Chand Shri Gopal, 2010 TMI 78472.

¹⁰Govind Saran Ganga Saran v. Commissioner of Sales Tax, 1985 Supp. (SCC) 205.

with the purpose for which the taxation statute or that particular provision was passed or came into existence.

CONCLUSION

Interpretation of Statutes is the most important function or the duty of the Judiciary to understand the real intention of the Legislature and work accordingly for guiding towards providing justice. Different laws are enshrined with very different meanings and the intention for such enactments. Similarly, taxation Statutes have been passed to benefit the person or the tax-payer so that there is no sense or feeling of a burden for paying. The fiscal and monetary terminologies governing the taxation provisions and statute are to be interpreted strictly as per the strict rule of interpretation. Strict Rule of Interpretation guides the Court in construing the matter of the fact with the provision based on reasonableness and fair evaluation that should focus on the implementation of the objective of the statute.

The exemptions in the taxation statutes are not to be interpreted in the strict sense but should be favorable towards the Literal rule highlighting the literal and original meaning of the statute that is easily understood and is perfect as per the common parlance for the people. Exemptions should not involve any assumption when the court interprets the case related to such exemption in the statute. Interpretation on exemptions under the purview of taxation statute varies from case to case and should not be guided by mere assuming the fact and clause, rather should be given meaning in the ordinary term making it easier for the people to understand and avoid loopholes in availing such exemptions.

The doctrine of Substantial Compliance acts as a savior for the taxpayer availing of any facility that is covered by the procedures and rules. Doctrine provides a benefit in taking the advantage of the exemption or any conditional taxation clause if the unreasonable or not-so-important clause is left behind. Interpretation of Taxation Statute should be held strictly choosing the best way if the Judiciary has to examine more than one principle or rule of construing and that rule must benefit the tax-payer.