

INTERPRETATION OF TAXATION STATUTES

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ABSTRACT

Interpretation is a specialized branch of legal studies, where provisions under statutes are given a meaning which is free from ambiguities. Taxation Statute is a fiscal statute imposing a pecuniary burden on the mass population and thus the interpretation of the statutes must be made properly without any scope of negligence becomes essential. Initially, Income Tax and Land Revenues were the two main taxes which was paid to the State, but now taxes are imposed and paid for every activity carried by the population, from holding of property to its selling, profits, and gains earned from properties, and carrying down of businesses, etc. With the diversifying activities covered under the ambit of taxation laws, the rules of interpretation are gradually gaining practical importance in the taxing enactments.

This article aims to answer the question: Which non-statutory principle of interpretation is applicable for interpreting the Tax Statutes? And what are the other aids which Courts can take into account while interpreting the Tax Statutes? This study is qualitative. This study has been made using secondary data, which have been collected from different blogs, articles, and books discussing the same.

Keywords: Interpretation of Statutes, Tax Statutes, Non- Statutory Sources of Interpretation, Strict Construction, Literal Interpretation, Mischief Rule.

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INTRODUCTION

Interpretation is a specialized branch of legal studies, where provisions under statutes are given a meaning which is free from ambiguities. With the diversifying activities covered under the ambit of taxation laws, the rules of interpretation are gradually gaining practical importance in the taxing enactments. Initially, Income Tax and Land Revenues were the two main taxes which was paid to the State, but now taxes are imposed and paid for every activity carried by the population, from holding of property to its selling, profits, and gains earned from properties, and carrying down of businesses, etc. In the case of “*deemed income*”, it is taxed not in the hands of the recipient but the hands of spouse, parent, or guardian, like this, there are other such instances where legal fictions were introduced in taxation laws. The questions which arose along with these legal fictions, the rules regulating interpretation of statutes became necessary to eradicate such confusions and ambiguities.

Broadly, there are two sources of interpretations: Legislative Sources and Non-Legislative sources which contain many protocols and precedents for interpretation of provisions. However, the statutory sources play a limited role in the process of interpretation of taxing statutes.

The three principal wellsprings of law in the overall set of laws are legislation, precedent, and customs. Among this legislation is the most potent. New legislations are brought from statutes which are laws established through the votes in legislative assemblies concerning political demands and later inscribed in a formal manner. Common laws are unwritten laws dictated by the Judges while giving judgment for a dispute. Thus, statutes have textual rigidity and common law has none. In this manner, it can be deduced that statutes have a position to override customary laws, while common or customary laws cannot override statute laws. However, statutes must be obeyed to be enforcing, and for this, the Courts often have to give judgment or order along with the meaning of such legislation, when approached with disputes. This is where; non-statutory law of interpretation is born.

THE PROCESS OF ELUCIDATION

During expounding a statute, any court of law considers that statute, but that is not necessarily upheld. With the facts of the issues raised before the Court, it considers the words of the statutes and their meaning. Then, it follows the precedents for its interpretation, and if it has not been judicially construed, looks into decisions on similar statutes. Keeping in mind equity

and fairness, the Court announces what the legislature (1) intended this or that meaning; and (2) must have intended this or that meaning. When the decision is pronounced by the Higher Court, it becomes a precedent for similar cases and will be followed in the future, by the doctrine of *Stare Decisis*. It is in this manner uncodified rules of interpretation are born.

The law of statutory interpretation is a body of general rules, as the concrete situations exhibiting judicial approach to a particular statute are used as a basis for constructing an abstract rule supposed to be applied to statutes generally. These rules are the consequence of the enforcement of the particular statute. This is the strength as well as the weakness of uncodified rules of interpretation, as they are evolved in particular statutory situations and are not inexorable commands.

INTERPRETATION OF TAXATION STATUTES

Taxation Statute is a fiscal statute imposing a pecuniary burden on the mass population and thus, the interpretation of the statute must be made with proper care and without any scope of negligence. The field of statutory interpretation is wide and a convenient way of studying it would be to understand the general rules for determining legislative intent and to deal with the different internal and external aids, to find the most convenient way of interpretation.

In the case of **CIT, Karnataka v. Shambulal Nathalal and Company**, bar told if any legal arrangement of expense is equipped for two developments and prompts tax avoidance, should be evaded.

A. RULES OF INTERPRETATION OF STATUTES TO DETERMINE LEGISLATIVE INTENT

1. Rule of Literal Interpretation and Strict Construction:

If letters or words of the statute are clear and free from all ambiguities, the Court must give effect to its literal interpretation. During the judgement of **Black Clawson v. Papier Werke** in the year 1975², Lord Reid said, “We often say that we are looking for the intention of Parliament, but that is not quite accurate. We are seeking the meaning of the words which Parliament has used, not what Parliament meant, but the true meaning of what they said”.

Lord Diplock said, “It is not for the Judge to invent fancied ambiguities”, **Duport Steels Ltd.**

² Black Clawson v. Papier Werke

v. Sire.³ Thus, while following this rule, the words should have a natural and common understanding,

without any Judge trying to make sense of the statute, unless it is shown that the words have been used in a special sense different from their natural meaning.

At the point when the speech of the rule is comprehensible and free from ambiguities, the literal rule of interpretation is applied and no other considerations or fancied ambiguities are to be made by the Court, which would change its meaning. However, if the language of the statute is confusing and unclear, the rule of Strict Interpretation will be applied.

The principle of *Strict Construction* is applied when the language of the statutory provisions is ambiguous. In this rule, the ambiguous language is given a technical meaning with no other equitable considerations.

Taxing enactments are strictly construed as there is no room for intendment, equity, and presumption in tax. In cases of disputes, the Court has to follow the given rule, to check if the obligation or expense guaranteed is what the Legislature has established. However, if it has more than one rule of interpretation available in burdening rules, one which benefits the evaluation must be acknowledged.

In this standard of translation, a rule ought to be perused in its conventional, regular, and linguistic significance.

The doctrine of Substantial Compliance is applied when a party has complied with all the requirements and directions of the statute but failed in some inconsequent aspect that cannot be described as the “essence” of the requirements. It is the judicial invention that is equitable and designed to avoid hardship for such a party. However, this doctrine cannot be pleaded. This rule suggests considering four things before applying the Mischief Rule, which is: previous rule; the deformity in the previous rule; the present rule; and how the present rule interfaces with the imperfection in the previous law.

While interpreting taxing statutes, there is no scope for equitable considerations, presumptions, or assumptions. The statutes must be interpreted in light of what is clearly expressed. Be that as it may, exacting understanding doesn't mean full impact ought not to be

given to exception notifications. Broadly speaking, this rule means that where a statute, notification, or provision has been passed as a remedy for the loopholes and the weaknesses in the law, the interpretation which corrects such weakness is to be adopted. To understand the real meaning of the provisions, however, one has to understand the aim, scope, and object of the taxing statutes.

The notifications must be read as a whole along with the provisions and ought to be perceived in a similar way they are perceived in the conventional speech of the region where the rule has the power or by individuals managing it. A piece of issued information has statutory force and validity, and thus, such notifications are to be considered as if they were contained in the acts themselves.

In **K.P.Sons v. Sales Tax Officer and Anr.**,⁴ it was told that “Though the taxing statute has to be construed strictly, yet, none the less, it must be borne in mind that the construction does not suffer from any vices of the rigid rule of interpretation.”

B. INTERNAL AIDS TO CONSTRUCTION

Internal aids in resolving ambiguities in construction consist of the following:

2. Long Title.
3. Preamble.
4. The context in which the words appear.
5. The doctrine of *ejusdem generis*, where a statute uses specific words followed by general words, which will be interpreted as confined to the objects or concepts of the same kind as the specific words.

C. EXTERNAL AIDS TO CONSTRUCTION

On the subject of external aids to statutory constructions, the following are considered:

- a. Committee Reports.
- b. Debates in Parliament.

⁴ 1987 67 STC 38 MP

- c. International Conventions or Treaties.
- d. Statement of Objects and Reasons.

CONCLUSION

The interpretation of tax laws is strictly interpreted and thus, the legislature must ensure that the words and texts used in the statute are clear, have clarity, and is broad enough to cover all the aspects related to the procedure of tax collection. The words must be used with proper care and sophistication to avoid vagueness.



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