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APPLICATION OF RULE OF STRICT INTERPRETATION TO TAX STATUTES

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Abstract

Rule of strict interpretation is a principle that is used for the interpretation of penal and taxation statutes. This principle states that the words that are used by the people in the general speech to which the aforesaid statutes can be applied should be given simple, clear and exact meaning. There should not be any kind of presumption by the courts regarding the exact sense of what it states. Tax statutes are monetary statutes that are enacted to impose taxes and fiscal burdens. These statutes are strictly interpreted. The reason for applicability of this strict rule of interpretation is that the taxes levied on the public is also considered as a penalty imposition that is applied only when there is ambiguity in the language of the statutes. Tax cannot be levied on the public until the statute clearly imposed its obligation on them. With regards to the statutes of taxation, it is required to consider what exactly is stated in the statute. There should not be any kind of presumption with respect to the tax statutes imposing tax on the public. Neither anything should be assumed nor implied with respect to tax statutes. The tax statutes are required to be interpreted in a way that would keep up an equilibrium of interests between the taxpayer and the department of revenue.

Keywords: Interpretation, Strict rule of interpretation, Taxation statutes, Ambiguity, Clear Meaning, No Presumptions

Introduction

Generally, the drafting of the statutes are done by the experts of law, who expertise in a specific area of the law in relation to the statute drafted. However, although it is drafted with a lot care and caution, the statute might have a possibility of having some kind of ambiguity. In such case,

it is the responsibility of the Courts to resolve such ambiguity by interpretation of the statute. The laws of taxation in India are very compound, elaborate and difficult to understand by the general public on whom the tax is levied upon. The language used in the statutes are are not easy and straightforward. It contains several sections which further contains several sub-sections, some clauses and also sub-clauses. The tax statutes also consists of certain deemed to be provisions. Some of the words or expressions in the statute are elongated by mode of Explanations and is reduced by means of proviso, at times several provisos and explanations that do not mean the same. The applicability of the laws in practical is very much distinct from it being drafted and its enforcement. The interpretation of the laws enacted by the legislature is the duty of the judiciary and also the application of the law based on various cases.

The interpretation of the statutes needs to change with respect to the changes in the socio economic and political situations of the community¹. The legislative body is not capable of keeping up with the changes takes place in society or foresee the circumstances that may arise in a case. Therefore, the responsibility of interpreting the statutes with respect to the requirements of today's society and based on the circumstances of various cases befalls on the Courts. When the courts interpret the taxation statutes, it applies some principles of interpretation. The rule of strict interpretation is one of these principle that is applicable while interpreting tax statutes. As per this rule, the words which are ambiguous is given their plain and exact meaning and there isn't any kind of presumptions or assumptions made by the Courts.

Rule of Strict Interpretation of Statutes

The rule of the strict interpretation is a principle of interpretation that is applicable while interpreting taxation and penal statutes. This principle states that the words that are used by the people in the general speech to which the aforesaid statutes can be applied should be given simple, clear and exact meaning. There should not be any kind of presumption by the courts² regarding the exact sense of what it states. The Courts can neither presume that a specific meaning is the intendment of the legislation nor under the impression of a possibility of

¹ Diganth Raj Sehgal, *Interpretation of Taxation Statute*, iPleaders: Intelligent Legal Solutions, (2020) <https://blog.iplayers.in/interpretation-taxation-statute/>

² Prof. T. Bhattacharyya, *The Interpretation of Statutes*, 150 (11th ed., 2020).

intendment of legislation, interpret a statute which is ambiguous and the circumstantial explanation could not be recognized.

The principle of strict interpretation of statutes is against the expansion of the law based on suggestions, hints, insinuation or equitable considerations and limits its working to the litigation of cases that completely clearly falls under the words of the statutes along with not going against and maintaining the intendment of the legislation. This principle aims to clear and remove all the reasonable doubts that may arise during the application of the statutes in a specific case.

The term 'strict interpretation' interpretation is an ambiguous expression as the term mean either literal or narrow. If the provision of a statute is ambiguous and has more than one meaning then one of them is of a wider aspect as compared to the other one and the one having the strict or narrow aspect may not compulsorily be the strict or literal aspect. Expect for when it is given otherwise, the identical words or expressions should be interpreted all over the statute in the identical aspect and with regards to the former statutes there must be consideration to the present day meaning considering there were not any changes with the time passed.

Reasons for Applicability of the Strict Rule of Interpretation of Tax Statutes

Taxation is a practice of forcefully extracting money from a taxpayer without having any kind of guaranteed profit by the sovereign authority of a nation. Tax is a fiscal burden levied upon the public due to which it is somewhat regarded as a penalty³ that is paid by the assessee and exploited by the legal authority. Therefore, until and unless the tax levied on the people is completely approved and supported by the law, none of the taxpayers would be pay their taxes.

The tax laws are a monetary statute whose enactment is based either on the method of trail and error or the method of experimenting. The drafting approach of the Income-Tax Act gives rise to a high possibility of litigation. In India, there are many and various cases of tax evasion and tax avoidance. It is not feasible for the legislative body to foresee all the circumstances that could possibly arise in various cases thereafter enacting a law. There is a high possibility of taking advantage of any kind of flaw or deficiency in the statute as an escape clause and not be liable to

³ Prof. T. Bhattacharyya, The Interpretation of Statutes, 150 (11th ed., 2020).

pay the taxes. Due to the fact that the practice of taxation is a financial burden on the taxpayers, they get the advantage of benefit of doubt whenever there is any kind of discrepancy.

The rule of strict interpretation is applied to taxing statutes without digging into the outcome of a case in order for the Courts to interpret the statutes in simple and clear language. There should not be any kind of presumption in taxation. It is not the true intention of the legislative body to levy any taxes on the people until and unless it is clearly and particularly stated. Therefore, it is the responsibility of the legislative body or sub-ordinate authorities to make amendments and explanations to deal with the escape clauses.

Therefore, the tax statutes are interpreted into the exact meaning of the words or expressions and as well as in certain cases when it results in two or more interpretations then the interpretation which is in advantageous to the taxpayer is taken into account. Except for clear and direct interpretation of words being used in the tax statute imposing liability on the assessee, it is not possible to levy the burden of paying the taxes as well as paying it within the definite time and in a proper manner.

Limitations To the Rule of Strict Interpretation of Tax Statutes

Nevertheless, the rule of strict interpretation of tax statutes do not apply to those cases in which the subject matter of the litigation clearly comes under the words of a provision of a statute. In such cases the Courts cannot steer clear of the tax by applying a limited interpretation on grounds such as that the tax levied is too much and/ or is oppressive in nature. This principle do not contradict the application of the proper-settled principle that a person claiming exemptions under a statute is required to prove that he is entitled to claim it⁴. This is also applicable to exemptions in tax statutes. The court that deals with the cases related to tax statutes should not have any presumption in benevolence to any exceptional benefit for tax exemptions.

The rule of strict interpretation of tax statutes is applicable to the charging section of the tax statutes and is not applicable to its machinery sections which are the sections that mention the procedures of collection and methods of calculation of the taxes levied on the taxpayers by the

⁴ NikhilP_ilnu, *Interpretation of taxing statute as strict construction and exemption*, Legal Service India <http://www.legalservicesindia.com/article/1451/Interpretation-of-taxing-statute-as-strict-construction-and-exemption.html>

government⁵. These sections are interpreted according to the other principles of interpretation. However, while interpreting these section, it should be strictly noted that its interpretation should help put into force the liability that has been inflicted by the charging section of the statute as well contribute to the working of the machinery of the statute.

Cases Related to Application of the Rule of Strict Interpretation of Tax Statutes

In the case of *Bharti Telecom Ltd. v. The Commissioner of Customs*⁶, the apex court held that the provision stated in the notification which was dated 10.01.1997 and was proceeded under the Central Exercise and Salt Act, 1944 in order to deposit the interest within a particular date is required to be strictly interpreted only as per the way dated on the notification and not based on anything else. The principle clearly states that the taxation statutes has no place for intendment as well as consideration is to be given to the exact meaning of the terms mentioned in the statute.

In the case of *Commissioner of Customs (Import), Mumbai v. M/s. Dilip Kumar and Company and others*⁷ the SC at the time of interpretation of section 2 and 3 of the Custom Tariff Act, 1975 held that the rule of strict interpretation is applicable to the ambiguity in exemption notification. The taxpayer has the burden of proof to establish that he is entitled to claim the exemption. When there is any ambiguity in the provision of tax then the advantage should be given to the taxpayer. However, when there is any ambiguity in the exemption provision, the advantage is strictly interpreted in favour of the revenue department.

Conclusion

Considering the strict interpretation of the tax statutes, the legislative body need to make sure that the language used in the statute is simple, understandable and having a broader aspect that would include all the subject matters upon which the tax is to be levied. The terms and explanations in a statute should be enacted with due caution and with respect to worldly knowledge and experience and culture in order to steer clear of any kind of ambiguity. At the

⁵ Hemant More, *Strict Construction of Taxing Statutes*, The Fact Factor, (December 11, 2020) <https://thefactfactor.com/interpretation-of-statutes/strict-construction-of-taxing-statutes/15660/>

⁶ *Bharti Telecom Ltd. v. The Commissioner of Customs*, AIR 2002 SC 74 (India)

⁷ *Commissioner of Customs (Import), Mumbai v. M/s. Dilip Kumar and Company and others*, AIR 2018 SC 3606 (India)

time of drafting of the statutes the suggestion and help of the legal experts who act or handle regularly cases related to these laws should be taken into consideration as it can be assumed that these people would have a better knowledge and understanding of the difficulties and complexities that may arise and help in the drafting of the statute that would resolve the issues arising with to these difficulties. The suggestion and experience of chartered accountants, lawyers and officers dealing with taxation and the tax department who have proper experience and knowledge must be taken into consideration at the time of drafting a statute. When there are escape clauses in an enacted tax statutes , the intendment of enacting the statute fails and it leads to collapsing of the entire statute.

It can be concluded that the tax levied on the assessee is a fiscal burden on them due to which it is necessary for the tax statutes to be strictly interpreted as well as there should be any kind of interpretation based on any presumptions or assumptions in relation to the intendment of the legislation. There should not be allowance of any kind of adding or subtracting to the charging sections in order to neither fulfill the spirit of the statute nor to achieve the intendment of the legislation. The tax statutes are required to be interpreted in a way that would keep up an equilibrium of interests between the taxpayer and the department of revenue.

It is not the responsibility of the Courts to just blindly and strictly apply the tax statutes. However, it its duty to consider whether the transactional activities of the the taxpayer results in tax evasion, tax avoidance or it was simply tax planning. In cases where the taxpayer knowingly carries out the complicated and composite transactions for paying the taxes with the intention to escape the liability to pay taxes and cheat the taxation system, the Courts in order to interpret in a fair, just and reasonable nature needs to interpret in support of the revenue and become precedents for Indian legal system of interpretation of tax statutes.

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