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Strict Construction in Flux: The Evolving Judicial Interpretation of Fiscal Statutes in India's GST and Digital Era

Mukunda MG^a

^aStudent, CS Professional (ICSI), India

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Interpretation of statutes is among the most dynamic and complex areas of legal study, often requiring courts to draw upon multiple legal disciplines and allied fields of knowledge. Even seemingly simple questions of law may involve intricate interpretative challenges. This complexity is particularly evident in fiscal statutes, which are widely acknowledged to be technical, detailed, and frequently amended. The interpretative task becomes even more demanding when statutory ambiguity intersects with the evolving nature of taxation laws shaped by changing economic policies and market realities. Given that disputes arising from fiscal statutes invariably involve the State as a principal party, judicial interpretation assumes heightened significance, positioning the judiciary as a critical arbiter between revenue interests and principles of fairness and legality. Interpretation in this context is not merely a technical exercise but an essential instrument of justice. This paper undertakes a doctrinal and analytical examination of statutory interpretation in fiscal legislation, with particular focus on prevailing judicial trends. Special attention is accorded to interpretative developments under the Goods and Services Tax (GST) regime and the emerging challenges associated with the taxation of the digital economy. Relying primarily on secondary sources such as statutes, judicial decisions, scholarly writings, and digital resources, the paper seeks to bring conceptual clarity to judicial approaches adopted in construing fiscal statutes and to assess their implications for legal certainty and tax administration.

Keywords: *statutory interpretation, fiscal statutes, strict construction, judicial interpretation.*

INTRODUCTION

Fiscal statutes occupy a distinctive position within the legal framework due to their direct impact on the revenue of the State. Consequently, their interpretation carries significant implications not only for taxpayers but also for public finance and governance. A recurring concern in this domain is the lack of precision in legislative drafting, which often necessitates judicial intervention to resolve ambiguities. Owing to the varied nature of provisions contained within fiscal statutes, courts are frequently required to apply different rules of interpretation depending upon the character and purpose of the provision under consideration.

Traditionally, courts have applied a strict rule of interpretation while construing charging provisions and a more liberal approach when interpreting exemption clauses. However, recent judicial trends indicate a departure from this approach, with courts increasingly adopting a strict interpretation even in cases involving exemptions. This shift is often justified because a liberal construction of exemptions may adversely affect state revenue and, by extension, public welfare. Such developments reflect an emerging pro-revenue interpretative stance, frequently defended in the name of social and economic advancement.

Fiscal statutes comprise a range of provisions, including charging sections, procedural mechanisms, exemption clauses, and penal or deterrent provisions, each serving distinct objectives. As such, they cannot be interpreted using a single, uniform methodology. While fiscal statutes are generally construed strictly due to their penal character, certain provisions, particularly those conferring benefits, are drafted using expansive language, potentially leading to unintended inclusion of persons or transactions within their scope. In such situations, strict interpretation may produce outcomes that appear inequitable, yet courts are constrained from adopting equitable considerations in the absence of clear legislative intent.¹

¹ Debatree Banerjee, 'INTERPRETATION OF TAXATION STATUTES' (2021) 1(2) Jus Corpus Law Journal 106 <<https://www.juscorpus.com/wp-content/uploads/2021/02/14.-Debatree-Banerjee.pdf>> accessed 20 November 2025

Against this backdrop, this paper examines the broader principles governing the interpretation of fiscal statutes, the interpretative challenges posed by amendments, and the impact of differing categories of provisions on judicial reasoning. Through a doctrinal and analytical study of statutory frameworks and judicial decisions, the research seeks to enhance clarity in understanding how fiscal statutes ought to be interpreted, particularly in the contemporary context shaped by GST and the digital economy.

LITERATURE REVIEW

Debatree Banerjee observes that while Income Tax and Land Revenues were once the principal taxes paid to the government, today taxes are imposed on and collected from almost every activity carried out by the population, including property ownership, property sales, profits and gains from properties, and business operations. Consequently, it can be inferred that statutes have the authority to override customary laws, whereas common or customary laws cannot override statutes. Tax laws are interpreted strictly, which necessitates that the legislature ensure that the language of the statute is clear, precise, and comprehensive enough to cover all aspects of tax administration.

Rishi Raj Singh argues that, given the nature of the interpretation of tax laws, the legislature must ensure that the language employed in fiscal statutes is unambiguous and sufficiently comprehensive to cover all activities intended to be taxed. He observes that when tax statutes are drafted with loopholes, the very objective of the legislation is defeated, thereby weakening the efficacy of the law as a whole. Further, he emphasises that the role of the courts is not to apply tax provisions in a purely mechanical or rigid manner, but to examine whether the transactions undertaken by an assessee amount to tax evasion, tax avoidance, or legitimate tax planning. According to him, the broader purpose of general principles of interpretation, including those applicable to tax laws, is to protect citizens from the excesses of the Executive and the Administration, errors arising from human fallibility, corrupt authorities, and arbitrary legislative action.

Nikhil emphasises that a central theme underlying the principles of statutory interpretation in fiscal law is that the imposition of tax is analogous to the imposition of a penalty and can be enforced only when the statutory language expressly authorises it. Upon examining the author's

standpoint, he concurs with the validity of the hypothesis advanced, namely that notifications granting tax exemptions must be construed strictly. Where an exemption is made available subject to the fulfilment of specific conditions, such conditions must be strictly complied with. If the prescribed conditions for availing tax relief are not satisfied, the exemption cannot be claimed, and tax relief will be granted only upon fulfilment of the essential statutory requirements.

APPLICATION OF GENERAL RULES OF INTERPRETATION IN FISCAL STATUTES

Just as in the case of any other statute, here too the intention of the legislature is to be taken into account, and whenever multiple interpretations are possible, the one that most resembles the intention of the legislature should be adopted. Intention can be gathered or understood in two aspects, one being the usage of words and the other being 'purpose and object'. While the judiciary has no power to make amends to any provision in a taxing statute, they can and should take up the constructive task of eliminating any irregularities that may be present by construing the provision harmoniously with the other provisions of that Act. It is interesting to note that even though it is the legislature that holds the power to impose taxes, more often than not, it is the judiciary that ends up being the holder of the key to the government's revenue.²

The general scenario is that if, by applying literal interpretation, it results in difficulty in application, etc., then the courts must not adopt such an interpretation. However, in the case of fiscal statutes, it has been settled that even if a literal interpretation results in unnecessary hardship, there is no place for logic, morality or common sense. In such statutes, the courts are bound to apply literal interpretation, and their degree of flexibility is reduced drastically. As far as the mischief rule is concerned, it would still apply only if the words used in the fiscal statute and even the General Clauses Act have failed to shed light on the matter. The rule that forms by an extension of the mischief rule and literal interpretation is the Golden rule. The application of this rule in taxing statutes is seen to be very limited because equity and taxation are not well known to each other. It supports the view that whenever multiple interpretations are possible, the one that is most likely to favour the assessee is to be adopted. In any case, a construction which defeats the object of a statute should be avoided.

² *Ibid*

A rule of interpretation that is found most commonly applied in interpreting criminal statutes is the rule of strict interpretation, which states that there must be a clear direction by the legislature to hold a person liable for any offence. If there is any ambiguity in the meaning of the words used, a person cannot be made a victim based on doubt. Similarly, the situation in fiscal statutes demands a higher degree of certainty. Words used must be given their natural meaning; no tax can be levied using analogy or even by trying to guise into the shoes of the legislature.

The rule of *Eiusdem generis* is of great importance in matters of taxation, as the legislature cannot lay down an exhaustive list as to whom a particular provision applies to. The provision lays down a few classes of persons to whom it shall apply, and the persons/ activities that are in tune or related to the classes mentioned can also be construed to be the subject matter of the provision. However, the following rule is to be applied with caution and should not be pushed too far. Example: Rule 6D(2) of Income Tax Rules 1962, makes use of the phrase “any other person” which is used after the word “employee”. This means “any other person” means a person who belongs to a class similar to that of an employee. Since a trustee is not akin to the class of an employee, it can be understood that the trustees are not subject to this provision.³

The advent of the Goods and Services Tax (GST) has tested these traditional rules, particularly in disputes involving classification and exemption notifications, where courts have sometimes adopted a more purposive approach to achieve uniformity and prevent evasion.⁴

UNDERSTANDING THE ROLE OF SUBSIDIARY RULES

It is a well-known and universally accepted principle that special laws override general laws whenever there is a conflict between the two. Since taxing statutes fall under the ambit of special laws, they oust the jurisdiction of Courts in many circumstances, they define their own procedure and scope of terms while overriding the General Clauses Act. However, the moment a special law does not apply to an area of taxation, general law fills the gap.

A rule that is unique to fiscal statutes is the use of multiple rules of interpretation on a single provision. This happens because various sections are of a dual nature, the benefits of following a scheme and consequence of non-adherence are both listed under the same Section. So, it is

³ Indhulekha, ‘The Literal Rule of Interpretation of Statute’ (*Legal Service India*)
<https://www.legalserviceindia.com/legal/article-1730-the-literal-rule-of-interpretation-of-statute.html>)
 accessed 20 November 2025

⁴ *Union of India v M/S Mohit Minerals Pvt Ltd* (2022) SCC OnLine SC 657

understood that based on the object, a single provision can be construed using the application of multiple rules of interpretation. One of the early cases on the matter held that a provision carrying an exemption should be construed liberally, even if it meant giving the assessee multiple advantages.

All Acts passed are said to have prospective application unless the legislature explicitly requires its application to be retrospective. Procedural laws are generally meant to be retrospectively applicable. While retrospective Acts are valid, an Act that takes away legally vested rights and which makes a legal act illegal should be avoided. In fiscal statutes, the mere application of taxes retrospectively does not make them invalid. However, considering only the length of time being covered by such retrospective action is not sufficient; a more comprehensive analysis of the surrounding facts and circumstances is required to be made.

The base of many fiscal laws in our country lies in the Income Tax Act 1948; necessary changes are being made by way of Finance Acts. This calls for the need of creative interpretation, for example, the Information Technology Act wasn't dreamed of at the time of passing the Income Tax Act, but today, the judges cannot possibly deny the existence of such an Act and the possible implications it may have on the Income Tax Act today.⁵

SOME REFERENCES TO AIDS OF INTERPRETATION IN FISCAL STATUTES

It was seen in one of the cases dealing with Section 44F of the Income Tax Act that even though marginal notes are not considered to be a substantive part of an Act. Here, in this case, it shed light on the intention of the legislature, which in turn allowed the court to fine the miscreants who were converting their revenue expenditure into capital expenditure.

In the matter of judicially defined words and words which have been assigned meaning by the department and have been followed through for a significant period of time, should not be departed from without adequate reasoning. Due to the abundant use of provisos in fiscal statutes, acting as exceptions

Problems in Interpretation of Fiscal Statutes: Issues involving the interpretation of fiscal statutes can be understood using the following analogy: The difference between the

⁵ 'Interpretation of Taxing Statutes' (*Bombay Chartered Accountants' Society*)

<https://bcasonline.org/Referencer2016-17/Taxation/Income%20Tax/interpretation_of_taxing_statutes.html>
accessed 20 November 2025

interpretation of contracts and fiscal statutes is that, in contracts, for every duty a reciprocal right is legally assumed. In statutes such as these, there has to be an express direction granting relief. While it is understandable that for any modern society to function, the collection of revenue from residents/ citizens is an absolute necessity. It must not be in such a manner that the subjects are not given a fair chance to understand the nature of taxation they are subjected to.

In matters related to taxation, the difference between Tax planning, Tax avoidance and Tax evasion is to be carefully understood to appreciate their interpretative aspect. The word “evasion” can be understood in two senses: it could mean evading a certain type of transaction to escape the scope of an Act altogether, or secondly, it could mean evasion of an obligation that is required to be fulfilled in a given scenario. While the latter case is a punishable offence, the former is simply an economic choice taken by an assessee.

Fiscal statutes are something that people have always tried to avoid, and the courts are put to the task of ensuring such a situation is curtailed. In order to carry out this very function, the courts are applying a principle which is now commonly known as the Ramsay principle. There has been a never-ending struggle between taxpayers and the legislature as new methods are being devised in order to evade taxes, even as of this moment. However, the problem that has cropped up in the backdrop of this situation is that the courts have taken a destructive approach where, even if certain tax devices are not strictly illegal, they are held to be so. It must be understood that Tax planning under the structure provided by law is a right which is not to be taken away with such ease. The line between legal tax planning and illegal evasion is getting thinner by the day, and it is left to the courts to come up with sound interpretative guidelines in the matter.⁶

The GST regime has introduced new layers of complexity, including disputes over what constitutes a ‘supply,’ the characterisation of transactions as ‘composite’ or ‘mixed,’ and the interpretation of ‘place of supply’ rules in cross-border digital services.⁷ Similarly, the taxation of virtual digital assets under the Income Tax Act, 1961, has raised fundamental questions about the applicability of general interpretative principles to entirely novel asset classes.⁷

⁶ Banerjee (n 1)

⁷ Finance Act 2022

Recent Trends and Case Law: The Supreme Court's decision in *Govt. of Kerala v Mother Superior Adoration Convent* (2021) clarified that exemptions must be interpreted based on their nature: beneficial exemptions liberally, and general exemptions strictly.⁸ This precedent has been influential in subsequent GST-related disputes.

In *Union of India v VKC Footsteps India Pvt. Ltd.* (2021), the Supreme Court addressed the refund of input tax credit under GST, applying a purposive interpretation to uphold the assessee's claim, signalling a nuanced approach to beneficial provisions even within a consumption-based tax.⁹

The 2022 Finance Act introduced taxation on virtual digital assets, leading to immediate interpretative challenges regarding the scope of 'transfer' and the valuation of such assets, issues yet to be fully settled by the courts.¹⁰

Recent adjudications by the GST Appellate Authority for Advance Ruling (AAAR) and the National Anti-Profiteering Authority highlight the ongoing struggle to apply traditional interpretative rules to a multi-staged, destination-based tax system.

CONCLUSION

The landscape of fiscal interpretation is no longer confined to the Income Tax Act alone. The introduction of GST and the rapid digitisation of the economy have necessitated a more agile and context-sensitive judicial approach. While the core principles of strict construction for charging sections and a discerning approach to exemptions remain, courts are increasingly tasked with blending these rules to address novel transactions and legislative frameworks. To maintain coherence and fairness, future efforts must focus on drafting clearer provisions, promoting consistency in lower court rulings, and developing interpretative guidelines that can accommodate both traditional tax structures and the demands of a digital, GST-driven economy.

⁸ *Government of Kerala v Mother Superior Adoration Convent* AIR 2021 SC 1217

⁹ *Union of India v VKC Footsteps India Pvt Ltd* AIR 2021 SC 4407

¹⁰ Finance Act 2022