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Benefit of Ambiguity in Tax Exemption will be in Favour of State: Supreme Court

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- Overruling its 21-year-old verdict, the Supreme Court held that when there is ambiguity in tax exemption notification, the benefit of such uncertainty must be interpreted in favour of the State.
- However, in the event of ambiguity in a taxation liability (charging of tax) statute, the benefit should go to the subject/assessee.
- It also held that the onus should be on the assessee to show that his/her case comes within the parameters of the exemption clause or exemption notification.
- The verdict effectively overrules the 1997 decision of a three-judge bench of the apex court in Sun Export House vs Collector of Customs, wherein It held that in case of an ambiguity in a tax exemption provision or notification, it must be interpreted in favour of the assessee claiming the benefit of such exemption.

Significance of Judgement

- The ruling is likely to give more authority to tax department to ensure that tax exemptions are granted only in those case where the eligibility is clearly established.
- It also shows that exemption is an exception to the general rule and therefore should be strictly given as the burden of tax is then shifted to others.
- It is also to be seen whether the judgment, which is relating to an exemption from customs duty, is also applicable for exemptions in other levies including income tax.