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DELHI ITAT'S RULING IN MAHARISHI EDUCATION CORPORATION (P.) LTD. VS ITO AND ITS WIDER IMPLICATIONS:

1. Introduction and Context

The recent decision of the Delhi Bench (SMC) of the Income Tax Appellate Tribunal (ITAT) in Maharishi Education Corporation (P.) Ltd. vs ITO has generated significant concern among tax professionals, corporates, and policymakers. Though it appears to be a narrow interpretive ruling on Section 115BAA of the Income Tax Act, 1961, its implications could profoundly affect India's corporate tax framework.

At its core, the controversy revolves around the Tribunal's interpretation of the opening words of Section 115BAA—"Notwithstanding anything contained in this Act, but subject to the provisions of this Chapter."

By disregarding the qualifying phrase "subject to the provisions of this Chapter," the Tribunal effectively treated Section 115BAA as an all-encompassing, overriding provision, capable of supplanting even the other sections within Chapter XII.

This interpretation, if upheld, risks unsettling the balance between concessional corporate tax regimes and the special-rate provisions that Parliament deliberately retained.

2. Background: Section 115BAA and Its Legislative Intent

Section 115BAA was introduced in September 2019 as part of the government's tax reform to make India's corporate tax regime globally competitive. It allows domestic companies to opt for a concessional tax rate of 22% (plus surcharge and cess) in exchange for foregoing specified exemptions and deductions.

The section begins with a non-obstante clause—"Notwithstanding anything contained in this Act"—which grants it overriding authority over other provisions of the Income-tax Act. However, it simultaneously includes a qualifying phrase—"subject to the provisions of this Chapter."

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This qualification is crucial because Section 115BAA resides in Chapter XII, titled "Determination of tax in certain special cases." Chapter XII houses numerous sections that prescribe specific tax rates for particular income streams, including:

- Section 115BB: Lottery, crossword puzzle, and race winnings (30%),
- Section 115BBE: Unexplained income (60%),
- Section 115BBH: Income from virtual digital assets (30%),
- Section 112: Long-term capital gains (20% or 12.5% under recent amendments).

Thus, the legislative design ensures that while the concessional rate of 22% applies to the company's regular business income, special categories of income continue to be taxed at their respective rates. The phrase "subject to the provisions of this Chapter" maintains this internal hierarchy.

3. The Tribunal's Ruling

In Maharishi Education Corporation (P.) Ltd., the taxpayer—a company that had opted for taxation under Section 115BAA—earned long-term capital gains from the sale of land.

It argued that such gains should be taxed under Section 112 at the concessional rate of 20%, as the capital gains provision is a distinct charging section within Chapter XII.

The Tribunal, however, disagreed. It held that once a company elects for the concessional regime under Section 115BAA, that section governs the entire computation of total income and the applicable tax rate.

Consequently, it applied the 22% rate under Section 115BAA even to the long-term capital gains, rejecting the applicability of Section 112.

In doing so, the ITAT reasoned that Section 115BAA, being introduced with a non-obstante clause, overrides all other provisions of the Act—including those within the same Chapter. Effectively, this made Section 115BAA a blanket override, nullifying the operation of the "subject to" clause.

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4. Why the Tribunal's Reasoning Is Flawed

The ITAT's interpretation is legally and logically unsound for several reasons:

- Erasure of Statutory Language: By ignoring the phrase "subject to the provisions of this Chapter," the Tribunal rendered those words meaningless. Established principles of statutory interpretation require that every word in a statute be given effect. The legislature's deliberate inclusion of the "subject to" limitation was to preserve the precedence of other special-rate sections within the same Chapter.

- 2. Misapplication of "Notwithstanding" and "Subject to" Clauses: The non-obstante clause ("notwithstanding") ensures Section 115BAA overrides the general provisions of the Act, but the "subject to" clause limits this power within Chapter XII. Courts consistently hold that when both clauses coexist, the "subject to" clause qualifies the overriding effect. The Tribunal failed to harmonize these clauses, thereby misinterpreting the legislative hierarchy.

- Disruption of the Legislative Scheme: Chapter XII functions as a collection of self-contained charging provisions. Each section—like 115BB, 115BBE, or 112—prescribes specific rates for distinct incomes. Allowing Section 115BAA to override these would collapse the Chapter's internal structure and produce absurd results, such as taxing lottery winnings, unexplained income, or crypto gains at just 22%, contrary to Parliament's explicit intent.

5. Implications of the Ruling

The ITAT's interpretation has far-reaching consequences:

- Revenue Loss and Administrative Chaos: If Section 115BAA is interpreted as overriding special-rate provisions, companies could claim the 22% rate even for income streams meant to be taxed at higher rates, leading to substantial revenue losses and widespread disputes.

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- Precedent for Individuals under Section 115BAC: Section 115BAC—the concessional regime for individuals and Hindu Undivided Families—uses nearly identical language. If the Tribunal's reasoning were extended, individuals could also argue that their special-rate incomes (e.g., lotteries or crypto profits) should be taxed at the lower slab rates, creating interpretive confusion.

- Uncertainty for Investment and Treasury Operations: Companies with investment portfolios or real estate holdings—such as holding companies, family offices, or treasury divisions—may face higher effective tax rates if Section 112's concessional rates are denied. The uncertainty could deter corporate structuring and investment decisions.

- Administrative and Litigation Risks: Assessing officers and taxpayers might adopt conflicting interpretations, potentially triggering rectifications, reassessments, and appeals, thereby burdening the tax administration and the judiciary.

6. Conclusion

The Delhi ITAT's decision in Maharishi Education Corporation (P.) Ltd. vs ITO stems from a misreading of Section 115BAA and its interplay with the rest of Chapter XII. By ignoring the "subject to" clause, the Tribunal has effectively restructured the concessional tax regime in a manner that Parliament never intended.

If left unaddressed, this ruling could destabilize India's special-rate taxation framework, reopen completed assessments, and create widespread uncertainty. The CBDT's prompt intervention through a clarificatory circular—or legislative amendment, if necessary—is essential to safeguard the coherence and predictability of India's tax law framework.