

HC DISMISSES TATA STEEL'S TAX DEMAND OF Rs.257 CRORE AND GRANTS A 'CLEAN SLATE' ON THE ACQUISITION OF BHUSHAN STEEL.

Nov 02, 2023

Tata Steel Limited [TS-648-HC-2023(DEL)]



Facts of the case

In a significant legal development, the Delhi High Court has delivered a verdict quashing a tax demand of Rs. 257 crores against Tata Steel Limited, while upholding the principle of a "clean slate" approach in the context of its acquisition of Bhushan Steel.

The case revolved around the tax demand for assessment years 2001-02, 2009-10, 2010-11, and 2013-14. This ruling is of particular importance as it addresses the legal implications of the Corporate Insolvency Resolution Process (CIRP) and the Resolution Plan (RP) under the Insolvency and Bankruptcy Code (IBC).

Assessee's contention

Tata Steel, the Assessee in this case, argued that the Revenue had exceeded its jurisdiction by enforcing a tax demand for periods preceding the approval of the Resolution Plan by the National Company Law Tribunal (NCLT).

The Assessee maintained that once the RP was approved, all stakeholders, including secured and unsecured creditors, shareholders, and even the Revenue, were legally bound by the terms contained within the RP.

Tata Steel relied on the provisions of Section 31 of the IBC, which explicitly states that claims not lodged with the Resolution Professional stand extinguished.

Revenue's contention

On the other hand, the Revenue contended that the tax dues for the specified assessment years were not outstanding when the NCLT approved the RP for Bhushan Steel. Additionally, they argued that they had no information regarding the initiation of the CIRP.

The Revenue's claims submitted before the Insolvency Resolution Professional (IRP) were limited to the principal demand and interest, and the penalty imposed was not part of these claims. For one of the assessment years, AY 2001-02, the Revenue had not lodged any claim with the IRP before the RP was approved.

The demand and penalty for this year were communicated as an additional claim only after the RP's approval.

Held

The Delhi High Court, in its ruling, sided with Tata Steel, upholding the principle of a "clean slate" approach for a successful Resolution Applicant after the RP is approved. The court stated that dues payable for periods preceding the RP's approval could only be paid as per the terms contained within the RP.

It emphasized the significance of Section 31 of the IBC, which extinguishes claims not lodged with the Resolution Professional. Furthermore, the court pointed out that once the RP is approved, it becomes legally binding even on the Revenue.

The court also underlined the superiority of the IBC over other laws when it comes to matters covered by the Code. It referred to Section 238 of the IBC, which clearly states that the provisions of the 2016 Code shall have effect, notwithstanding anything inconsistent contained in any other law. This underscores the priority given to the IBC when conflicts arise with other statutes.

The ruling clarifies that the legal standing of a Resolution Applicant is not undermined by being required to liquidate dues of creditors, including statutory creditors, that were not included in the RP.

The court upheld the Assessee's contentions and dismissed the Revenue's claims, particularly the argument that they could continue with the assessment/reassessment process for the years in question.

AMRG Take

This case carries substantial legal implications for businesses involved in the acquisition of companies undergoing insolvency proceedings and the subsequent resolution under the IBC. The court's emphasis on the binding nature of the Resolution Plan once approved by the NCLT provides a level of clarity and certainty for Resolution Applicants. This ruling reaffirms the protection afforded to successful Resolution Applicants, preventing them from being burdened with additional tax liabilities from the pre-acquisition period. Furthermore, the court's stance on the IBC's supremacy in cases of inconsistency with other laws underlines the government's commitment to simplifying and streamlining insolvency and resolution processes. By removing potential hurdles and ensuring a "clean slate" for successful Resolution Applicants, this ruling supports the overall objectives of the IBC. It provides an encouraging environment for companies looking to invest in distressed assets while promoting the efficient resolution of insolvency cases in India. In conclusion, the Delhi High Court's verdict in favor of Tata Steel is a notable development in the realm of insolvency and taxation laws. It highlights the importance of adhering to the terms of a Resolution Plan and strengthens the legal position of Resolution Applicants. This case sets a precedent for future insolvency and resolution cases and reaffirms the principles of the IBC in the Indian legal landscape.