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GAAR – BALANCING TAX AVOIDANCE AND TAXPAYER RIGHTS

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I. INTRODUCTION

Tax is one of the important sources of income for the government.[582] The government spends this on education and health care, on constructing roads and on undertaking other development programmes. All individuals and companies are liable to pay taxes as per the regulations. But numerous tax payers attempt to minimize the amount of tax they pay. Some avoid taxes through legal means; others avoid taxes in an unfair way. For this reason, a proper legislation should be put in place by the government to prevent the misuse of the tax law.

Tax planning, tax avoidance and tax evasion are different from each other.[583]

- The definition of tax planning is a method of minimizing tax within legal limits by taking advantage of benefits provided by the law, like deductions, exemptions and other reliefs.
- Tax avoidance is the act of making arrangements to minimize tax, possibly through the exploitation of loopholes in tax legislation.
- The concept of tax evasion is illegal and it refers to concealing income, providing incorrect information or failing to provide any information about actual earnings to the taxman to escape payment of tax.

Tax planning is allowed by law, but arrangements made only to misuse tax benefits can create serious problems for the government. To prevent such practices, the Indian government introduced the General Anti-Avoidance Rules (GAAR) through the Finance Act, 2012.[584] These rules have been established to prevent individuals from transacting primarily to obtain tax advantages in an improper manner. The tax authorities are allowed to review the actual nature and purpose of a transaction under GAAR. The authorities may take action as provided in the law when an arrangement is determined to be an impermissible tax avoidance arrangement. GAAR came into force on 1 April 2017. The significance of GAAR lies in the fact that it can result in the loss of revenue to the Government if there is a failure to arrange the tax properly, and may enable certain taxpayers to obtain unfair advantages over others.[585] However, the use of GAAR also needs to be careful and reasonable. Taxpayers are entitled to make

[582] Richard A. Musgrave & Peggy B. Musgrave, Public Finance in Theory and Practice (5th ed. 1989).
[583] Anil Kumar Jain, Tax Avoidance and Tax Evasion: The Indian Case, 43(4) Modern Asian Studies (2009).
[584] Finance Act, 2012, No. 23 of 2012, § 41 (India) (inserting Chapter X-A, containing the General Anti-Avoidance Rule, into the Income-tax Act, 1961).
[585] Government of India, Ministry of Finance, Explanatory Memorandum to the Finance Bill, 2012, ¶ H, "General Anti-Avoidance Rule" (2012) (explaining that aggressive tax planning and the use of sophisticated structures and opaque low-tax jurisdictions necessitated GAAR to protect the correct tax base and address tax avoidance).

legitimate business choices and save money on their taxes legally. Unclear tax powers also could lead to fear, confusion, legal issues and challenges for businesses and investors.

The primary objective of this study is to gain insight into the working of the GAAR in India and its effectiveness in combating tax avoidance. The study also explains the difference between legal tax planning and improper tax avoidance, and examines how courts have dealt with such matters. It also examines the extent to which taxpayers are safeguarded against unfair use of GAAR by tax authorities. Finally, the research aims to suggest improvements to the existing rules so that tax avoidance can be controlled without causing unnecessary problems for honest taxpayers.

II. Evolution and Legal Framework of GAAR in India

GAAR was introduced in India to prevent people from misusing tax laws for their own benefit. Some taxpayers make special arrangements to minimize the amount of tax they have to pay.[586] There is no restriction on the use of tax saving techniques as long as they are used legally, but some are used only for the purpose of claiming tax benefits and have no real business purpose. To put an end to such practices, the government introduced GAAR, under which the tax authorities are empowered to look into the actual intention behind a transaction.[587] The idea of GAAR was first mentioned in the Direct Taxes Code Bill, 2010.[588] Later, the government introduced GAAR through the Finance Act, 2012, by adding Chapter X-A to the Income-tax Act, 1961.[589] The rules allowed for the authorities to review transactions that had been entered, primarily for tax considerations. But many taxpayers and investors feared that the rules would be applied too broadly, and could lead to confusion over what was permitted.

To address these issues, the government has established a committee under Dr. Parthasarathi Shome in July 2012. The committee presented its report on 30 September 2012, recommending some improvements to the GAAR to make it fairer and more transparent.[590] It recommended delaying the implementation of GAAR, applying it mainly where getting a tax benefit was the main purpose, keeping a minimum tax benefit limit of ₹3 crore and forming an independent Approving Panel headed by a retired High Court judge. Many of these recommendations were accepted by the government in the Finance Act, 2013.[591] The implementation of GAAR was delayed till 1 April 2017 and it was effective from Assessment Year 2018–19. In the Income-tax Act, 1961, the term GAAR was mentioned under Chapter X-A of the Income-tax Act, 1961, with Sections 95-102. These sections outlined when GAAR might be applicable, what arrangements might constitute improper tax avoidance and what measures could be adopted to counter these arrangements. Section 95 outlined the circumstances in which GAAR could be applied.[592] An impermissible avoidance arrangement was outlined in Section 96.[593] Section 97 dealt with arrangements that had no real business purpose[594], while Section 98 explained the tax consequences of such arrangements.[595] Section 99 contained provisions relating to connected persons

[586] Anil Talreja, Changing Tax Reforms in India—What Next?, 24(2) Nat'l L. Sch. India Rev. 75, 75–88 (2013).
[587] *Id.* at 77.
[588] Direct Taxes Code Bill, 2010, No. 110 of 2010, cl. 123 (India) (proposing the General Anti-Avoidance Rule under the provisions relating to avoidance of tax).
[589] *supra* note 3.
[590] Dr. Parthasarathi Shome, Chairman, Expert Committee on GAAR, Final Report of the Expert Committee on General Anti-Avoidance Rules (GAAR) in the Income-tax Act, 1961 (Sept. 30, 2012).
[591] Finance Act, 2013, No. 17 of 2013, §§ 48–50 (India).
[592] Income-tax Act, 1961, § 95 (India) (as amended by the Finance Act, 2012, No. 23 of 2012, § 41).
[593] *Id.* at § 96.
[594] *Id.* at § 97.
[595] *Id.*at § 98.

and accommodating parties[596], while the provisions of Section 100 related to the application of GAAR.[597] Section 144BA explained the procedure for applying these rules.[598]

The concept of an Impermissible Avoidance Arrangement (IAA) is an important aspect of GAAR. This is a financial arrangement which is primarily designed to provide a tax advantage and which satisfies at least one of the criteria outlined in the legislation. These conditions are:

- There are unusual rights or responsibilities created by the arrangement which are not usually present in ordinary business transactions between independent parties.
- Taxpayer applies the law in a manner that is contrary to the intent of the tax provision.
- No economic value or business purpose -The arrangement serves no real economic value or business purpose, but is primarily designed to avoid tax.
- The transaction is conducted in a manner that would not ordinarily occur in normal business transactions.

The conditions are designed to assist tax authorities in determining the intent of a transaction. They don't need to consider only the documents or the manner in which a transaction is done. They can also examine its real purpose. Tax authorities can disregard some of the steps, merge transactions, alter income and expenses, consider related parties as a single entity or venture beyond the company structure to determine the actual tax liability based on a transaction that is improper under GAAR. The Income-tax Act, 2025, effective from 1st April 2026, has also amended the provisions relating to GAAR. GAAR is now included in the new Act under Chapter XI (Sections 178-184).[599] The section 178 covers the instances in which GAAR may be applied. The impermissible avoidance arrangements are described in Section 179. Section 180 covers arrangements for which there is no genuine business purpose and Section 181 outlines the implications of such arrangements. Connected persons, accommodating parties and application of these provisions are discussed in sections 182 and 183. Section 184 contains the definitions related to GAAR. The law also provides some relief to taxpayers to avoid unnecessary action. GAAR does not apply to any tax benefit under the arrangement if the aggregate tax benefit from the arrangement for all the parties for the tax year is up to ₹3 crore, as per Rule 128 of the Income-tax Rules, 2026.[600] There are also exceptions for certain foreign institutional investments, investments by non-residents in foreign institutions and investments made prior to 1 April 2017. The notice process, time limits and procedure before the Approving Panel are outlined in Rules 129 to 131.[601] The rules provide taxpayers an opportunity to state their case and to raise objections prior to any final decision.

From my perspective, the government has taken a positive step with the introduction of GAAR as a measure to ensure that individuals do not evade taxes in an unfair manner. It helps to safeguard government revenue and encourage fair tax practices. Certain concepts, including genuine business purpose and commercial substance, however, can cause confusion as they may have different meanings in various situations. Where the tax authorities exercise their powers in an unwise manner, it can also cause issues for legitimate business transactions. Thus, GAAR should be applied fairly and only

[596] *Id.* at § 99.
[597] *Id.* at § 100.
[598] *Id.* at § 144 BA.
[599] Income-tax Act, 2025, No. 30 of 2025, ch. XI, §§ 178–84 (India) (retaining the General Anti-Avoidance Rules under the new legislation, effective April 1, 2026).
[600] Income-tax Rules, 2026, r. 128(1)(a), G.S.R. 198(E) (Mar. 20, 2026) (India).
[601] *Id.* at r. 129-131.

after careful consideration of the facts. Tax authorities should provide clear reasons for their decisions and follow the prescribed procedure. The primary goal should be to prevent improper use of tax provisions and to ensure that those engaging in legitimate business activities and complying with the law are not targeted.

III. Tax Avoidance versus Taxpayer Rights

Taxes are collected by the government from individuals and businesses to finance the country and to provide various services. The government also needs to ensure that everyone is paying their taxes in accordance with the law. At the same time, taxpayers should be free to manage their money and use legal ways to save tax. This leads to the need for balancing the government's power and the rights of taxpayers. General Anti-Avoidance Rules (GAAR) were introduced to help the government stop people from using unfair methods to avoid taxes. According to these rules, the tax authorities will be able to examine the reason for the transaction and whether the transaction was primarily to save tax.

A. Difference Between Legal Tax Planning and Aggressive Tax Avoidance - Tax planning and tax avoidance are related to saving tax, but the way they are used can be different.

- **Legal Tax Planning:** Tax planning that involves utilization of benefits provided by the law (e.g., deductions and exemptions). This is a legal right of taxpayers.[602]
- **Aggressive Tax Avoidance:** It involves the establishment of arrangements primarily to minimise the tax to be paid, without any substantial business motive.[603]
- **Tax Evasion:** Avoiding the lawful payment of taxes. This can involve concealing income, providing false or incomplete financial data.[604]

A person should not be considered wrong only because they are trying to save tax. The reason behind the transaction and the way it is carried out should also be considered.

B. Government's Responsibility to Protect Tax Revenue - Government requires revenue in the form of taxes to pay for facilities like education, hospitals, roads, etc. and other public services.[605] When people evade taxes by means that are not legal, the government may lose a substantial revenue.[606] This could also be unfair to those who pay their taxes honestly. GAAR assists the government to regulate such practices. It enables tax officials to review the true intent of a transaction, rather than the transaction's face value. The government, however, should exercise caution in the use of those powers. Genuine business activities should not be disturbed without a proper reason.

C. Rights of Taxpayers to Save Tax Legally - Every taxpayer is entitled to deal with his/ her money and business in such a manner that it enables him or her to save tax provided such action is in compliance with the law. Businesses can choose different ways of investing, operating and carrying out transactions according to their needs. Some important rights of taxpayers are:

- **Right to save tax legally -** A taxpayer can avail deductions, exemptions and other benefits as provided in the law.[607]

[602] McDowell & Co. Ltd. v. Commercial Tax Officer, (1985) 3 S.C.C. 230, 254 (India).
[603] Income-tax Act, No. 30 of 2025, §§ 178–180 (India).
[604] Income-tax Act, No. 30 of 2025, §§ 478, 482–483 (India).
[605] INDIA CONST. arts. 266(1), 112(2).
[606] *Id.*
[607] Commissioner of Income Tax v. A. Raman & Co., (1968) 67 I.T.R. 11, 12 (S.C.) (India).

- **Right to fair treatment:** Tax authorities should be fair, and should take decision on the basis of appropriate reasons.[608]
- **Right to Explain:** Taxpayers should be given an opportunity to explain transactions before action is taken against them.[609]
- **Right to Clear Rules:** Tax laws should be easily understood and taxpayers should be able to make decisions without undue fear and confusion.[610]

These rights are significant because GAAR should not be employed to create an unfair tax advantage, but to prevent unfair tax arrangements.

D. Clear Tax Laws and Protection from Unfair Decisions - Tax legislation should be clear, to allow people to know their obligations and how their business dealings can be handled.[611] Taxpayers may encounter problems due to confusing and/or varying rules among the officers. Tax authorities should not take action against anyone without properly checking the facts. They should examine the purpose of the transaction; its actual value and the documents related to it.[612] They should also include why they think a specific arrangement is incorrect. The implementation of clear rules and fair procedures may help to minimise disagreements and prevent unnecessary action being taken on behalf of the tax-payer.

E. Effect of GAAR on Businesses and Foreign Investment - GAAR will impact Indian businesses, as well as foreign investors.[613] Individuals who invest money generally require specific tax laws and a stable business climate. They must be aware of how their investments and transactions will be handled in accordance with the law. There are several issues that can arise from the application of GAAR in the absence of sufficient clarity[614] -

- Investors may be reluctant to invest funds if they are not confident of tax rules.
- Businesses may incur additional legal, tax and paperwork costs.
- Transactions may be unnecessarily delayed or questioned in the case of genuine business activities.
- There can be lengthy legal disputes as disagreements between taxpayers and tax authorities can lead to more court cases.

Hence, GAAR must be applied with caution. It should not cause any difficulties for real businesses and investors, while eliminating unfair tax arrangements.

F. Maintaining a Balance Between the Government and Taxpayers - GAAR should act as a safeguard for tax law users and a tool for ensuring that abuse does not occur by the user of that law. Both are crucial to a fair tax system. I think a transaction shouldn't be regarded as incorrect just because it helps someone save taxes. The tax authorities have to exercise proper vigilance on the facts that the transaction has a genuine purpose and it was executed for a genuine business purpose. They should mainly focus on arrangements that are created to misuse tax benefits instead of questioning every

[608] Income-tax Act, No. 30 of 2025, § 240 (India).
[609] Tin Box Co. v. Commissioner of Income Tax, (2001) 9 S.C.C. 725 (India).
[610] Org. for Econ. Co-operation & Dev., Taxpayers' Rights and Obligations: Practice Note 4 (2003).
[611] Vodafone International Holdings B.V. v. Union of India, (2012) 6 S.C.C. 613 (India).
[612] *Id.*
[613] Chandra Thapa, Biwesh Neupane, Chaman Shrestha & Narayan Prasad Bhattarai, Policy Information Uncertainty and Foreign Institutional Investors Trading Behavior: Evidence from India, 67 Rev. Quantitative Fin. & Acct. 45 (2026).
[614] *Id.*

transaction that reduces tax. While the government can seek to prevent tax avoidance, it also has the right to ensure fairness in the treatment of taxpayers. GAAR should be used with proper care, clear rules and reasonable safeguards. This will enable the government to collect tax in an equitable manner and at the same time enable honest taxpayers to conduct their business, make investments and avail of any legal tax benefits without undue hassles.

IV. Judicial Approach and Important Case Laws

Indian courts have helped explain how tax avoidance should be dealt with under the law. In various cases the judiciary has clarified that individuals can save tax in legal ways. But it is not permissible for them to use false or artificial arrangements merely in order to evade taxes. Courts have further clarified when the tax authorities can act, and how taxes can be safeguarded for taxpayers. A number of important cases illustrate the approach of the courts to tax avoidance and the application of the General Anti-Avoidance Rules (GAAR).

A. McDowell & Co. Ltd. v. Commercial Tax Officer (1985)[615]

This case was related to McDowell & Company, which was engaged in the liquor business. The issue in dispute was whether sales tax should be charged on liquor. The primary question was who would pay the excise tax, directly by the purchaser or through the sales tax mechanism, and whether the excise tax should be added to the sale price. The matter was brought before the Supreme Court. The Court explained that the taxpayers have the freedom to structure their financial affairs in a legal manner to save taxes. But they are not allowed to use artificial means simply to evade taxes. The Court emphasized that the tax-saving schemes must not be artificial or designed merely to avoid tax. This case was pivotal for the tax law in India as it introduced issues of artificial tax saving arrangements. It showed that a transaction should not be accepted only because it looks legal on paper. The real function should also be taken into account. However, legal methods of saving tax are still allowed.

B. Union of India v. Azadi Bachao Andolan (2003)[616]

This case was related to the tax agreement between India and Mauritius. Some foreign investors used companies registered in Mauritius to invest in India and claim tax benefits under the agreement. The government questioned these arrangements and argued that they were being used to avoid taxes. The Supreme Court supported the validity of CBDT Circular No. 789, which accepted Tax Residency Certificates issued by Mauritius. The Court ruled that investors who were eligible under the agreement had the right to enjoy the benefits of the contract. It also understood that individuals may be able to invest in a manner that would be beneficial for them to save on taxes, consistent with the law. The Court explained that a legal arrangement that saves tax does not necessarily mean that the arrangement is wrong. This judgment constituted a milestone in protecting the rights of taxpayers and nurturing the use of legal tax benefits. It also revealed that tax authorities should not consider all tax saving schemes to be illegal.

[615] (1985) 3 S.C.C. 230, 254–55 (India).
[616] (2004) 10 S.C.C. 1 (India).

C. Vodafone International Holdings B.V. v. Union of India (2012)[617]

This case involved Vodafone, a company based in the Netherlands, which purchased shares of another company registered in the Cayman Islands. Through this deal, Vodafone indirectly acquired an interest in a telecom business in India. The tax authorities of India asserted that tax should be remunerated in India due to the transaction being linked to Indian assets. The Supreme Court decided in favour of Vodafone. It held that the share transfer made outside India was not taxable in India under the law that existed at that time. The Court also explained that the entire transaction should be viewed as a whole rather than on an individual basis. It acknowledged that companies can establish their business structure for legitimate business purposes. The significance of this case is that it demonstrated that the tax department cannot object to a company structure just because it might save tax. If a structure is a true structure and legal, it should be respected. But if a transaction is artificial and is not actually for a business reason, it could be looked at by anti-avoidance provisions.

D. Authority for Advance Rulings v. Tiger Global International II Holdings (2026)[618]

This case involved investment companies registered in Mauritius that held shares in a company connected with Flipkart. In 2018, these shares were transferred to a company in Luxembourg during the Walmart acquisition of Flipkart. The companies claimed that they did not have to pay capital gains tax in India because of the tax agreement between India and Mauritius. However, the tax authorities questioned whether these companies were genuine investors or whether the structure was mainly created to get tax benefits. The Supreme Court ruled in favour of the tax authorities and ruled that the arrangement was an improper tax saving.

The Court looked at the 'true intent' behind the investment structure. It concluded that the possession of a Tax Residency Certificate is not sufficient to exclude a person from application of GAAR. The tax authorities will be able to determine whether the arrangement is actually genuine and is for a real business purpose. This case is significant because it demonstrates that the tax advantages can be offered only by presenting legal documents. The actual transaction's purpose is also important. However, if an arrangement is primarily designed to avoid tax and serves no actual commercial purpose, it could be subjected to GAAR arguments.

V. Challenges in Implementation and Suggestions for Reform

The introduction of General Anti-Avoidance Rules (GAAR) has helped the government control tax avoidance. These rules enable the tax authorities to scrutinize transactions which are carried out primarily for the purpose of achieving tax advantages by means of an unfair or artificial arrangement. But the application of GAAR in case scenarios is not always straightforward. The government should prevent misuse of the tax laws, but it should also ensure the rights of taxpayers are respected. The use of GAAR can create issues even for legitimate business transactions, if implemented in an incorrect manner.[619] Therefore, it is important to understand the challenges of GAAR and find ways to improve its working.

[617] (2012) 6 S.C.C. 613 (India).
[618] 2026 INSC 60 (India).
[619] *supra* note 32 at 47.

A. Failing to recognize improper tax arrangements - One of the main problems with GAAR is deciding whether a transaction is improper or not.[620] The law uses terms such as lack of commercial substance, misuse of tax provisions and absence of a genuine business purpose. Taxpayers and tax officers may have different understandings of these terms. What may appear as an unusual business transaction to a tax officer may be a perfectly standard business transaction to a taxpayer. As a result, firms could find themselves uncertain whether their deals will be legally permitted.

B. Excessive Powers of Tax Authorities - GAAR gives tax authorities the power to examine different transactions and question arrangements made by taxpayers. These powers must be there to prevent tax avoidance, but they must not be exercised in an unfair way. Genuine transactions may also be called in question if the tax officers only look at the avoided taxes and not the business purpose of the transaction.[621] This can make taxpayers feel that they are not being treated fairly. Hence the use of GAAR to challenge any transaction because it is beneficial to minimize tax should be avoided.

C. Difficulty in Differentiating Tax Planning and Tax Avoidance - Not all tax planning by taxpayers is legal, nor is it always easy to determine when it's either legal or illegal.[622] Taxpayers are free to select business strategies and investment decisions that will be beneficial for them to save tax legally. There are a number of reasons why companies choose to engage in a specific business structure or investment approach, including tax savings. The problem arises when tax authorities have to decide whether the arrangement has a real business purpose or was mainly created to get tax benefits. When the law is wrongly interpreted, taxpayers may be deterred from taking advantage of legal tax benefits.

D. Increase in Expenses and Legal Disputes - GAAR can also be a burdensome tax provision for businesses as they will have to maintain more documents and records to establish the authenticity of the transactions.[623] They also may require the assistance of legal, accounting and tax professionals, leading to higher costs. This may be more challenging for smaller businesses with restricted resources at their disposal. Additionally, disputes between the taxpayers and tax authorities can result in court proceedings. These cases can take a long time and involve extra expenses. They can also cause delays in business activities and decisions. Therefore, the application of GAAR should be simple and clear so that unnecessary disputes can be avoided.

E. Uncertainty for Indian and Foreign Investors - Investors are typically looking for a tax system that is transparent and predictable. Taxpayers may hesitate to invest if they are not confident about how GAAR will be applied.[624] Foreign investors may be at a disadvantage as their investment is typically in companies in other countries and complex business structures. Although the rules are not all clear or may differ in various situations, investors can lose faith. This can also impact India's foreign investment potential. Hence, GAAR must be applied in a manner which does not allow tax avoidance, but avoids unnecessary investor fear.

F. Suggestions for Reform - The following are some of the suggested reforms for the practical application of GAAR:

[620] *supra* note 32 at 49.
[621] *Id.*
[622] *supra* note 32 at 50.
[623] supra note 32 at 50.
[624] *Id.*

- **Clearer Guidelines -** Government should provide detailed guidance to clarify the meaning of impermissible avoidance arrangements, lack of commercial substance and misuse of tax provisions.
- **Proper Examination of Transactions -** Tax authorities should take into account all commercial circumstances, business purpose and surrounding facts before application of GAAR. Savings on taxes should not be considered as enough justification.
- **Independent Review -** Make approval process more robust to ensure independent, impartial review of cases. There should also be a reasonable time period until the review process is completed.
- **Transparency of decisions -** Authorities should give clear and detailed decision-making justifications when using GAAR. This would enable the taxpayers to have an understanding of the basis of the decision and challenge it, as required.
- **Uniform Practice -** Regular training and uniform administrative guidance should be given to tax officers to guarantee uniformity of practice in processing similar transactions.
- **Protection of Genuine Transactions -** Genuine tax planning and genuine commercial arrangements should be given appropriate protection. The granting of a licence should not be discouraged because of the tax savings that the business will make as a result of those transactions.
- **Greater clarity on Treaty Benefits -** The government should allow more clarity as regards the relationship between GAAR and DTAs, specifically on cross-border investment arrangements.

VI. Conclusion

Upon studying GAAR, I have come to know that GAAR is an important aspect of the Indian tax system. Its primary function is to prevent individuals and corporations from cheating on their taxes. The government provides facilities like schools, hospitals, roads and other public services with tax money. Therefore, it becomes imperative on the part of everyone to pay taxes as per the legal provisions. But taking advantage of tax deductions is legal and should not be considered a bad practice. All taxpayers have the right to make financial and business decisions which help them to legally lower their tax burden. GAAR should not lead to any problems for individuals who have followed the law, and should only be used to prevent unfair tax arrangements. Based on the analysis of various laws and court cases, I have come to understand that GAAR aims to strike a balance between combating tax avoidance and safeguarding taxpayers. It empowers the tax authorities to review transactions that are primarily made for tax advantages, but not for a legitimate business purpose. Important cases such as McDowell & Co. Ltd. vs. Commercial Tax Officer, Union of India vs. Azadi Bachao Andolan, and Vodafone International Holdings B.V. vs. Union of India, explain the distinction between a real business operation and a business operation for mere tax avoidance. These cases also illustrate that it is wrong to treat a citizen as the wrong one because he took a legal route for tax saving. But there are some issues with GAAR including lack of clarity of the rules, broad tax authority powers, soaring cost and confusion for investors. Thus, it is crucial to apply GAAR in an appropriate and equitable manner.

There should be some measures taken by the government to enhance the implementation of GAAR. The Rules shall be written in clear and simple language to make it easy for taxpayers to understand. The approval process should be impartial and every decision should be taken on good grounds. Prior to implementation of GAAR, tax authorities must closely examine the purpose of the transaction and all of the facts. The government also needs to clarify the rules which govern the interaction between GAAR

and Double Taxation Avoidance Agreements. There should be protection for genuine business activities and legal tax planning to allow individuals to conduct their business without undue concern of legal issues.

Finally, I think that GAAR is needed to prevent abusive tax avoidance and ensure fairness in the tax system in India. It should not be used, however, to challenge every transaction which benefits a person or company in saving tax. Its primary role should be to prevent arrangements that are based on the misuse of the law. Meanwhile, the rights of honest tax-payers must be safeguarded. The effectiveness of GAAR depends on tax authorities applying it fairly, clearly and carefully. There should be a balance between the collection of government revenue and the protection of taxpayers' rights.