

**F.No. 357/26/2002-TRU**  
Government of India  
Ministry of Finance and Company Affairs  
Department of Revenue  
Tax Research Unit

**Subject: Excise duty on woven textile fabrics manufactured by a composite mill or a manufacturer engaged in processing of fabrics along with weaving of fabrics in the same factory- Clarification- regarding.**

I am directed to state that clarifications have been sought from the field formation on whether woven textile fabrics manufactured by a composite mill or a manufacturer engaged in the processing of fabrics along with weaving of fabrics within the same factory would attract an aggregate excise duty of 12% ad valorem in accordance with notification No. 14/2002-CE, dated 1-3-2002 or not. Clarification has also been sought on whether the aforesaid units would be required to pay excise duty on grey/unprocessed fabrics which emerge at the intermediate stage of production and are consumed captively in the manufacture of processed textile fabrics or not.

2. Reference has also been invited to Board's Circular No. 667/58/2002-CX, dated 26-9-2002 (F.No. 6/5/2002-CX.1), in which it has been clarified that whenever an exemption is subject to the condition that appropriate duty of excise has been paid on the inputs, the exemption will not be available if the inputs are exempted from excise duty or are subject to nil rate of excise duty. Since textile yarns, which emerge at the intermediate stage of production, are exempt from excise duty under the captive consumption notification No. 22/96-CE, dated 23-7-1996, it has, therefore, been argued that processed woven textile fabrics manufactured by the aforesaid units in a continuous process would not attract the concessional rate of excise duty of 12% ad valorem, and the fabrics would have to pay duty at the tariff rate. The matter has been examined and the clarification is as given below.

3. In this regard, attention is invited to E-mail/Telex issued from F.No. 357/11/2002-TRU, dated 8-7-2002 (copy enclosed), wherein it was stated that notification No. 14/2002-CE, dated 1-3-2002 has been amended by 37/2002-CE, dated 3-7-2002, so as to clarify that textile fabrics manufactured by a composite mill or a manufacturer engaged in the processing of fabrics along with weaving or knitting or crocheting of fabrics within the same factory, from textile fibres or yarns respectively on which the appropriate duty has been paid, would attract an aggregate excise duty of 12% ad valorem.

4. As per Explanation II (as amended by Explanation VII, inserted vide notification No. 37/2002-CE), textile fibres, yarns and fabrics bought from the market have been deemed to have been duty paid. Thus, a composite mill, i.e., a manufacturer engaged in the processing of fabrics along with spinning of yarn from fibres and weaving of fabrics within the same factory, manufacturing processed textile fabrics in a continuous process from textile fibres, bought from the market, would attract an aggregate excise duty of 12% ad valorem thereon. Further, unprocessed woven textile fabrics manufactured within the said composite mill and used therein in manufacture of processed textile fabrics is exempt from excise duty subject to fulfillment of the condition that appropriate duty is paid on processed textile fabrics, in accordance with notification No. 22/96-CE. Similarly, a manufacturer engaged in the processing of fabrics along with weaving of fabrics within the same factory in a continuous process from textile yarns, bought from the market, would attract an aggregate excise duty of 12% ad valorem.

5. It is further clarified that the principal raw material in the case of a composite mill would be textile fibres while in the case of a manufacturer engaged in processing of fabrics along with weaving of fabrics within the same factory, the principal raw material would be textile yarns. In both the situations, the raw materials, bought from the market, have been deemed to be duty paid by a specific Explanation. Thus, the above referred Board's Circular would not be applicable to these situations.

6. Trade and field formations may please be informed suitably.

7. Receipt of the same may be acknowledged.

8. Hindi version will follow.