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Chinese go-global

Decoding EU's new carbon border and  
VAT regulations | 2026

Against the backdrop of deepening global economic integration, a growing number of market entities in China have begun to expand globally. Boasting a large consumer market and a sophisticated institutional framework, the European Union (EU) has become a core overseas destination for Chinese enterprises. A wide range of Chinese manufacturers and traders aim to export goods to EU member states to broaden international reach, strengthen brand influence and drive sustained business expansion.

However, when entering the EU market, Chinese companies must navigate stark disparities between China and EU in taxation legislation, regulatory frameworks and trade compliance requirements. In particular, the EU's advancing green trade policies and tax compliance rules have posed new compliance challenges and operational pressures for Chinese exporters.

As the cornerstone of the EU's green trade agenda, the **Carbon Border Adjustment Mechanism (CBAM)** officially entered its definitive phase in 2026, directly reshaping the cost structure and compliance logic for non-EU goods entering the EU market. Meanwhile, the EU's unified **value-added tax (VAT) system** differs substantially from China's VAT administration rules. Together, EU VAT and CBAM have become the two core compliance issues that Chinese enterprises must address when exporting to EU.

To help Chinese exporters fully, systematically and thoroughly understand EU tax compliance obligations, clarify compliance costs for market entry, and identify key contractual terms and risk points in commercial negotiations with EU clients, this special publication on cross-border trade tax compliance focuses on two critical areas: practical EU VAT compliance operations, and applicable rules as well as compliance requirements of the CBAM.

Delivered by our professionals with extensive cross-border tax service experience, this publication aims to provide referential practical guidelines, helping enterprises mitigate EU trade compliance risks and steadily scale up cross-border operations.



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## Analysis of EU VAT compliance for Chinese exporters

### Recognition criteria for EU VAT-taxable transactions

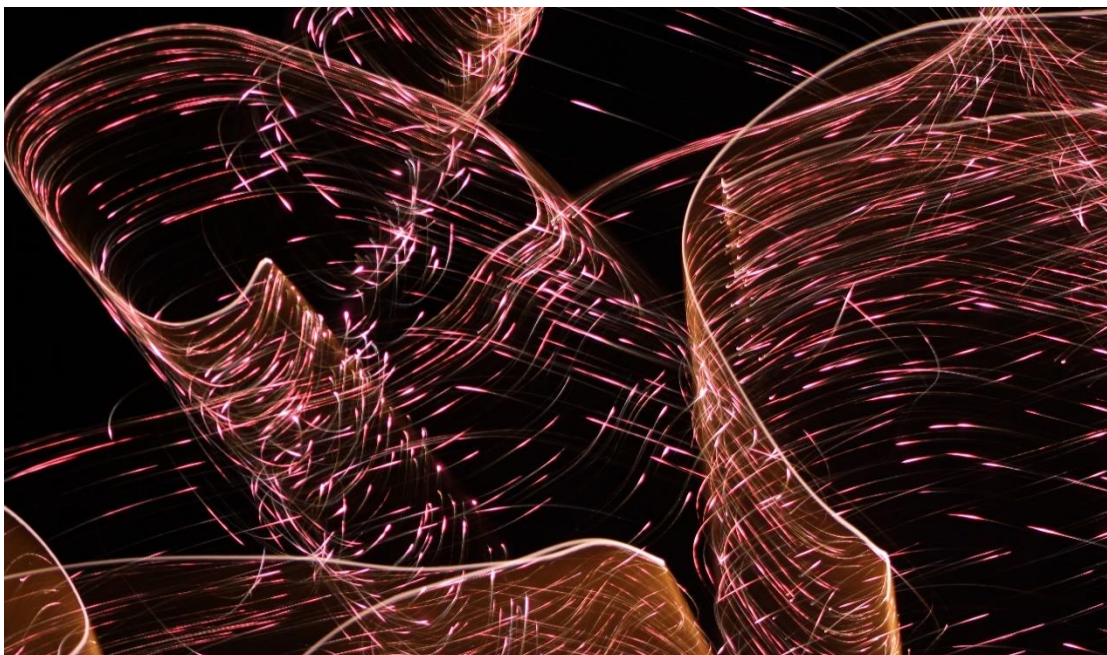
Within the EU VAT administration system, identifying whether a transaction constitutes a taxable activity is the fundamental prerequisite for determining obligations such as VAT registration, filing and payment. For Chinese exports to EU, the key focus is to judge whether a transaction qualifies as a VAT-taxable activity in Germany.

As a core EU member state, Germany aligns its VAT rules closely with EU VAT Directives while formulating detailed operational standards tailored to national conditions, serving as a typical reference benchmark. Under German VAT law, a transaction is deemed taxable only if five statutory conditions are met simultaneously:

- a) The transaction involves the supply of goods or provision of services; non-commercial transactions outside this scope are non-taxable.
- b) The participating entity qualifies as a taxable person engaged in ongoing commercial activities for profit, in line with EU and German definitions.
- c) The activity is commercial and profit-driven, excluding non-commercial acts such as personal consumption and free gifts.
- d) The transaction takes place within German territory, establishing tax jurisdiction.
- e) Valid consideration is provided for the transaction; gratuitous transactions are not subject to VAT.

Most Chinese exporters satisfy the criteria of taxable person, commercial activity and valid consideration. Therefore, the core judgment lies in verifying whether the transaction involves goods or services and whether the activity occurs in Germany — two decisive factors triggering German VAT obligations.

EU's complex rules for determining the place of supply involve goods transportation, service delivery methods and customer categories, representing the highest compliance risk for Chinese enterprises. Accurate determination of the place of supply is essential to clarify taxable scope and subsequent VAT procedures.



Types of EU goods movement and VAT rules

To facilitate the free movement of goods within its single market, EU has formulated differentiated VAT rules for three categories of goods movement:

a) Intra-EU goods movement

Cross-border circulation between the 27 EU member states. Intra-EU supplies of goods are VAT-exempt for sellers; intra-EU acquisitions are subject to VAT, which buyers may deduct as input tax, resulting in no net tax cost. This framework eliminates internal trade tax barriers.



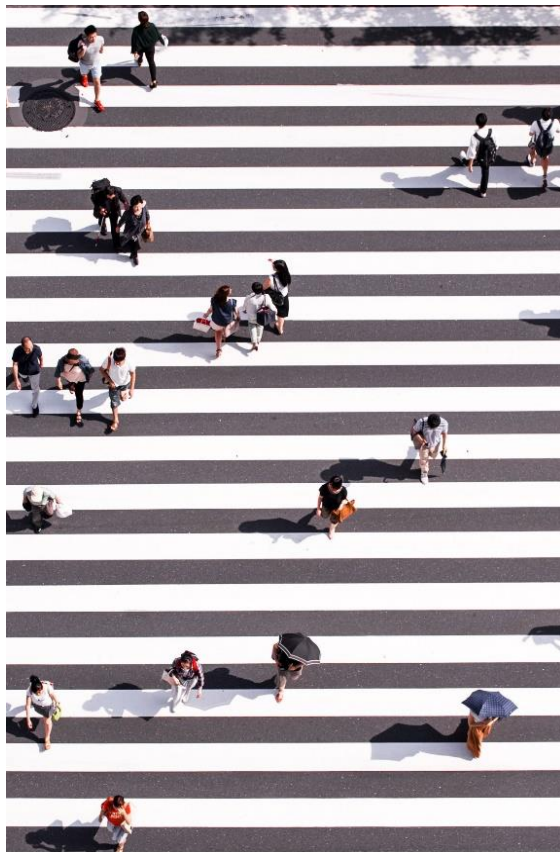
b) Domestic goods movement within a single member state

Taking Germany as the representative, domestic supply and delivery of goods are taxable transactions subject to Germany's standard 19% VAT rate, with mandatory VAT filing and payment for both contracting parties.



c) Goods movement between third countries and EU

Cross-border trade between non-EU nations and EU member states. Goods exported from Germany to third countries are VAT-exempt. By contrast, goods imported into EU from third countries including China are subject to import VAT, the most prevalent VAT cost for Chinese exporters.



In German practice, the importer of record is generally liable for import VAT. If a Chinese enterprise has no German VAT registration, the local consignee will assume customs clearance and import tax obligations. This directly impacts trade contract terms and determines whether overseas suppliers need to complete local VAT registration, with Incoterms playing a decisive role in liability allocation.

**Determination rules for the place of supply of goods and services**

a) Place of supply of goods

For transported goods, the place of supply is primarily defined by the departure location. Goods shipped within Germany and delivered locally are deemed German domestic taxable supplies subject to German VAT. For goods dispatched from China to EU, the place of supply is determined comprehensively by trade terms and the timing of ownership transfer.

EU defines the supply of goods as the transfer of legal title to tangible property. The moment of title transfer is recognized as the transaction completion point. While this aligns generally with China's sales tax logic, critical differences exist in cross-border place-of-supply judgment and ownership recognition, requiring strict adherence to EU-specific provisions.



b) Place of supply of services

Services cover all commercial activities outside goods supply, including consulting, legal and tax services, equipment leasing, maintenance, installation and engineering services. The place of supply of services is determined based on service categories, recipients and delivery locations to define taxable scope.

Chinese enterprises providing installation, commissioning or after-sales services alongside exported goods must comply with service place-of-supply rules. The outcome determines mandatory EU VAT registration and tax liabilities. Distinguishing between goods and service supplies is critical to avoiding unaddressed service-related VAT risks under bundled transactions.

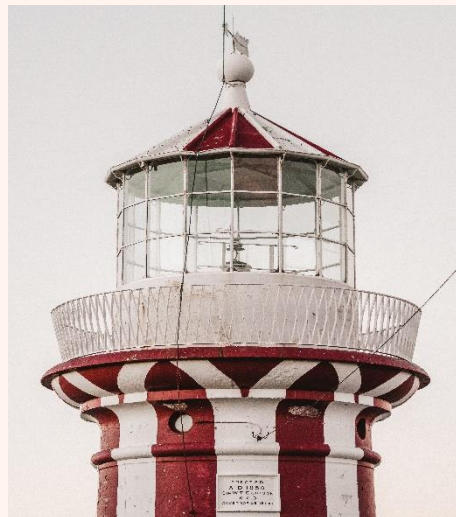


**Triggering conditions for German VAT registration for Chinese enterprises**

VAT registration in Germany is not mandatory for all Chinese exporters, but highly dependent on agreed Incoterms:

- Non-DDP terms (e.g., EXW, FOB, DAP)

The German buyer undertakes all customs clearance, import VAT and tariff liabilities. The Chinese seller's obligations terminate upon goods shipment or arrival. No German VAT registration is required, making these terms the most common and low-risk option for exports to Germany.



- DDP (delivered duty paid)

Chinese suppliers take full responsibility for transportation, customs clearance, import VAT and tariffs until final delivery. Such transactions are classified as domestic goods supplies in Germany, requiring mandatory German VAT registration, issuance of 19% VAT invoices, timely tax remittance, and monthly/quarterly VAT filing plus annual returns.

Registered Chinese enterprises may deduct import VAT incurred at customs as input tax to eliminate net costs. Without local VAT registration, companies with procurement activities in Germany cannot claim input tax refunds or deductions, increasing operational expenses. Thus, long-term German traders with local procurement needs benefit substantially from voluntary VAT registration.



**Special EU VAT compliance rules under B2C models**

## a) VAT rules for sales via third-party e-commerce platforms

For B2C sales to end consumers in Germany and EU via platforms such as Amazon, special simplified rules apply. For individual consignments valued at no more than €150, transactions are split legally: Chinese enterprises sell goods VAT-exempt to the platform, which resells to end consumers and assumes full VAT declaration and payment obligations at a 19% rate.

Small- and medium-sized cross-border sellers are exempt from EU VAT registration under this model, with simplified compliance procedures. Enterprises must comply strictly with the €150 value cap - including goods, logistics and insurance fees - and cannot circumvent regulations via order splitting.



## b) Remote sales via independent official websites

Direct cross-border remote sales to EU consumers with consignment values below €150 may adopt the Import One-Stop Shop (IOSS) scheme. A single IOSS registration enables unified VAT declaration across all EU member states, eliminating the need for separate national registrations and reducing administrative costs.

Enterprises under IOSS must charge VAT at the rate applicable in the buyer's member state and maintain complete sales, logistics and filing records for regulatory inspection. Transactions exceeding €150 per consignment are ineligible for IOSS and require standard local VAT registration.



**VAT compliance for goods supplies with installation and assembly services**

## a) Goods supplies with installation services

Exports of large-scale equipment, production lines and industrial facilities bundled with on-site installation, construction and commissioning constitute composite transactions. Where installed goods are physically attached to real estate or fixed infrastructure in Germany, transactions qualify as installation-integrated supplies.

Under German VAT rules, non-EU suppliers in such scenarios adopt the reverse charge mechanism, under which the German local buyer assumes VAT filing and payment obligations. Chinese enterprises may issue net-price invoices without itemized VAT. If Chinese suppliers handle import and retain ownership, appointment of an EU customs representative is mandatory for clearance and tax procedures.

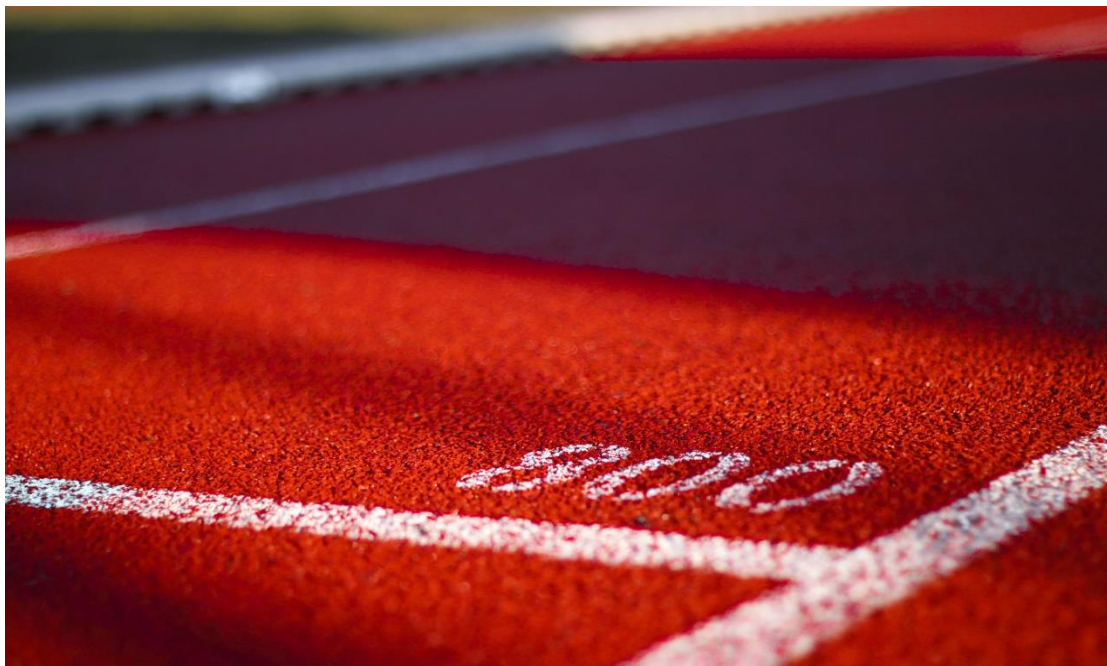
## b) Goods supplies with assembly services

Assembly only involves on-site assembly and commissioning without permanent physical attachment to the buyer's assets. Legal title transfers upon final local acceptance, qualifying the transaction as a taxable domestic goods supply in Germany. Accordingly, Chinese suppliers must complete German VAT registration and fulfill full tax compliance obligations.

German tax authorities judge transaction nature comprehensively based on contracts, service content and goods attributes. Clear contractual distinction between installation and assembly services is essential to prevent misclassification and associated tax risks.

**Legal consequences of EU VAT non-compliance**

Failure to fulfill EU and German VAT obligations will result in administrative penalties, late payment surcharges and targeted fines proportional to outstanding tax amounts and violation severity. Non-compliance records will be integrated into the EU trade supervision system, causing customs clearance delays, cross-border settlement restrictions and damaged business partnerships, leading to tangible commercial losses. Full adherence to registration, filing and payment requirements is critical for sustainable EU market operations.



## Compliance guidelines for EU's CBAM

### Core definition and scope of CBAM

#### a) Core concept of CBAM

The Carbon Border Adjustment Mechanism (CBAM) is an EU cross-border carbon cost regulation designed to address climate change, advance green low-carbon development, and ensure fair competition. Its core principle is to impose equivalent carbon costs on high-carbon imported goods from non-EU countries, aligning carbon expenditure between EU and foreign manufacturers. Functioning as a border carbon regulation rather than a traditional tariff, CBAM has become a flagship tool of EU green trade governance.



#### b) Current covered product scope

Having entered the definitive phase in 2026, CBAM initially covers six high-emission sectors determined exclusively by HS Codes: cement, steel, aluminum, fertilizers, electricity and hydrogen. EU plans to expand product coverage between 2028 and 2029, with full implementation completed by 2034, eventually restricting the majority of industrial goods exported from China to EU.



### CBAM implementation timeline and core phases

#### a) Transition period (October 2023 – December 2025)

EU importers are only required to submit quarterly reports on import volumes and carbon emissions, with no mandatory CBAM certificate purchases or actual carbon costs.

#### b) Definitive Phase (1 January 2026 onwards)

- 2026: Mandatory annual emission reporting for EU importers
- February 2027: Mandatory retroactive purchase of 2026 CBAM certificates
- September 2027: Submission of the first official annual CBAM report
- 2028 onwards: Gradual expansion of regulated product categories
- 2034: Full carbon cost collection with no transitional relief

**CBAM compliance obliged parties and thresholds**

a) Responsible parties

EU-based importers are the primary obliged parties for CBAM reporting, certificate procurement and regulatory coordination. However, Chinese exporters must provide verified embedded carbon emission data, forming a critical collaborative partnership. Under DDP terms, Chinese suppliers are deemed the actual importers and bear direct CBAM compliance liabilities.



b) Compliance threshold

EU importers with annual CBAM product imports below 50 tons are exempt from registration and certificate obligations, only requiring internal data retention. Volumes exceeding 50 tons mandate official registration and full annual compliance procedures.



**CBAM certificates and carbon cost calculation rules**

## a) Core CBAM certificate rules

One CBAM certificate corresponds to one ton of CO<sub>2</sub> equivalent embedded emissions. Certificate prices are linked dynamically to EU Emissions Trading System (ETS) market prices, with the 2026/Q1 price being €75.36 per ton. Pricing will shift to weekly averages from 2027, increasing market volatility.

## b) Carbon cost calculation formula

CBAM carbon cost=[(embedded carbon emissions-(CBAM benchmark×CBAM factor)]×EU ETS price x volume of goods

The “EU ETS price” refers to the market price of EU’s Emissions Trading System (ETS), serving as the final multiplier for carbon costs.

The other two key parameters including “CBAM benchmarks” and annual declining “CBAM factors” are stipulated by EU legislation. Among them, the “embedded carbon emissions” of a product refer to the total greenhouse gas emissions generated throughout the entire product production process, covering carbon emissions from all links including raw material production, processing and manufacturing, and energy consumption. Such data is categorized into two types: enterprise actual measurement data and EU default values.

The “CBAM benchmark” value represents the average emission level of the top 10% production facilities with the lowest carbon emission intensity within EU. It is a statutory deduction item designed to gradually reduce enterprises' carbon cost burdens.

The “CBAM factor” is an adjustment coefficient that decreases year by year. It stands at 97.5% in 2026 and will decline annually thereafter, which means carbon costs will rise progressively over time.

## Default values vs. verified actual data

CBAM default values are set at high levels based on high-carbon global benchmarks. Enterprises unable to provide third-party verified actual emission data will face substantially inflated carbon costs and weakened competitiveness. Independent verified actual data remains the optimal compliance strategy.



Core CBAM compliance obligations for Chinese exporters

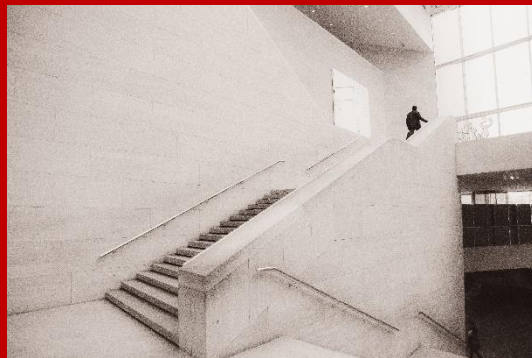
- a) Provide full-lifecycle carbon emission data verified by EU-recognized third-party institutions such as SGS and Bureau Veritas.
- b) Establish full supply chain carbon accounting systems by collecting emission data from upstream raw material and energy suppliers.
- c) Retain complete documentation for the future deduction of carbon-related taxes and fees already paid in China to avoid double taxation.



Impacts and practical countermeasures for Chinese exporters

Full CBAM implementation increases carbon costs, administrative burdens and supply chain compliance requirements. To respond effectively, enterprises shall:

- Conduct comprehensive carbon inventory and pre-verification;
- Optimize production processes and energy structures to reduce carbon intensity;
- Clarify carbon data responsibilities and cost allocation in commercial contracts;
- Continuously track EU policy updates and adjust compliance strategies dynamically.



**Takeaway**

For Chinese enterprises expanding into the EU market, EU VAT and CBAM represent two non-negotiable core compliance challenges. Precise transaction classification, reasonable Incoterms selection and proactive carbon data management are essential to controlling compliance costs and mitigating risks.

While large manufacturers and long-term EU traders are recommended to engage local EU tax and carbon consulting experts, small- and medium-sized enterprises may prioritize simplified transaction models. This publication delivers systematic, practice-oriented guidelines based on current EU regulations.

WTS Germany and WTS China will continue to launch in-depth training on EU cross-border compliance, covering CBAM updates, VAT operations and cross-border tax planning, with presentation materials distributed to participants for ongoing reference. With proactive compliance layout and standardized operations, Chinese enterprises can effectively navigate EU's regulatory requirements and achieve sustainable development in the European market.

**WTS China**

WTS China, a member firm of WTS Global based in Shanghai, provides a comprehensive range of finance and tax services to multinational and Chinese enterprises. Operating with a "local roots, global reach" philosophy, WTS China leverages its international network spanning over 100 countries to deliver pragmatic and efficient cross-border solutions via a team of experienced professionals led by a senior former Big Four partner.

**WTS Germany**

With over 20 years of development, WTS Germany is a leading comprehensive tax service provider with more than 1,500 professional experts and branches across German cities including Munich, Frankfurt, Hamburg and Cologne. Its service scope covers corporate income tax, VAT, energy tax, audit support and cross-border trade compliance, with team members boasting extensive Big Four and international service experience.

Dedicated to serving Chinese enterprises investing and trading in EU, the China Desk in Munich maintains close coordination with European partners and WTS China, delivering localized, tailored tax solutions. Leveraging a global partner network spanning over 100 countries, WTS provides one-stop cross-border compliance support for Chinese enterprises expanding across EU.

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With representation in over 100 countries, WTS Global has already grown to a leadership position as a global tax practice offering the full range of tax services and aspires to become the preeminent non-audit tax practice worldwide. WTS Global deliberately refrains from conducting annual audits in order to avoid any conflicts of interest and to be the long-term trusted advisor for its international clients. Clients of WTS Global include multinational companies, international mid-size companies as well as private clients and family offices.

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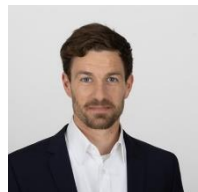
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