



# CONSULTATION ON THE INTRODUCTION OF A UK CARBON BORDER ADJUSTMENT MECHANISM

Issued 13 June 2024

ICAEW welcomes the opportunity to comment on the consultation on the introduction of a UK carbon border adjustment mechanism published by HM Treasury and HM Revenue & Customs on 21 March 2024, a copy of which is available from this [link](#).

This response of 13 June 2024 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the ICAEW Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

This ICAEW response of 13 June 2024 reflects consultation with the Sustainability Committee. Sustainability describes a world of thriving economies and just societies based on what nature can afford. Members in practice, in business and private individuals all have a role to play if sustainability goals are to be met. The work being undertaken by ICAEW in this area is to change behaviour to drive sustainable outcomes.

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## ICAEW

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## KEY POINTS

1. ICAEW broadly supports the introduction of a CBAM as an important measure to address carbon leakage and promote cleaner production globally.
2. Overall, we believe the government's proposals represent a sensible approach to implementing the CBAM.
3. However, we caution that the proposed timelines for compliance may be overly ambitious for many businesses, particularly smaller businesses.
4. Key areas of concern include:
  - a. The five-month deadline after the first accounting period may be too short for obtaining accurate emissions data from global supply chains; and
  - b. Moving to quarterly reporting periods from 2028 could pose significant administrative burdens.
5. A more gradual transition, starting with six-month reporting periods in year two, would allow businesses crucial additional time to adapt to the new requirements.
6. While the CBAM is an important environmental initiative, care must be taken to provide businesses with reasonable timelines and ample guidance to facilitate smooth implementation and effective compliance. Adopting a phased approach would help realise the CBAM's goals while promoting fairness across industries and size of business.
7. Other key recommendations include:
  - a. Considering a tiered approach to default emissions values based on data availability and reliability from different regions/sectors.
  - b. Providing comprehensive guidance and support for businesses, especially SMEs, in navigating CBAM requirements and accessing necessary data.
  - c. Regularly reviewing and updating default values, CBAM rates, and other system parameters to maintain fairness as market and trade conditions evolve.
  - d. Establishing mutual recognition agreements with other countries to streamline reporting of overseas carbon prices.
  - e. Providing clear guidelines on enforcement, including examples of punishable non-compliance actions, to ensure transparency.
8. While supporting the CBAM's objectives, adopting these recommendations can help the UK government address complexities, reduce business burdens, maintain competitiveness, and ensure the system remains fair, effective, and responsive to evolving circumstances over time.

## ANSWERS TO SPECIFIC QUESTIONS

### APPLYING THE UK CBAM

**Question 1: Do you agree that the list of commodity codes in Annex A are an accurate reflection of the policy intent described above? Please provide supporting evidence.**

9. We are unable to comment on this question.

**Question 2: Are there any relevant commodity codes omitted or any that should be excluded? Please provide supporting evidence.**

10. We are unable to comment on this question.

**Question 3: Do you have any concerns on the feasibility of any of the commodity codes in Annex A being within scope of the CBAM? Please provide supporting evidence**

11. We are unable to comment on this question.

**Question 4: Do you agree that scrap aluminium, scrap glass and scrap iron & steel do not pose a carbon leakage risk and should not be within scope of the CBAM? If not, please provide evidence to support your response.**

12. In principle we would agree that scrap aluminium, glass, iron, and steel pose a low carbon leakage risk and should not be within the scope of the UK CBAM. Further, including them in scope could have negative consequences on increasing the use of recycled materials.

13. However, we note that ‘ferrous waste and scrap’ (ie, scrap iron & steel) is included within the scope of the EU CBAM. Given its inclusion, to support businesses operating in sectors impacted by the CBAM, the UK may wish to align the scope of its CBAM with that of the EU unless there is a clear reason not to. Non-alignment could lead to policy outcomes that are difficult to predict.

### CALCULATING THE UK CBAM LIABILITY

**Question 5: Do you agree that the government’s definitions of ‘direct’ and ‘indirect’ emissions accurately describe the embodied emissions a CBAM ought to place a carbon price on, in line with those emissions within scope of the UK ETS? If not, please explain why not.**

14. We agree that the government’s definitions of ‘direct’ and ‘indirect’ emissions are in line with the definitions for those emissions within scope of the UK ETS.

15. We note that the definitions focus on emissions from production processes and omit emissions resulting from the extraction of raw materials. We recommend that, in due course, the government considers expanding the scope of both the CBAM and UK ETS to encompass emissions from resource extraction. This would promote a more holistic approach to decarbonisation.

16. To some extent, extraction could be covered in future by “precursor goods”, though we note that they are initially intended to be manufactured goods.

**Question 6: Do you foresee any issues with calculating the emissions associated with precursor goods in CBAM goods?**

17. Including emissions from precursor goods is crucial for the UK CBAM to effectively reduce carbon leakage, ensuring a consistent carbon price across entire supply chains and alignment with the UK ETS.

18. However, data availability challenges across global supply chains, particularly from regions with limited emissions reporting infrastructure, can hinder accurate calculation of the emissions content in precursor goods. The government should explore data-sharing agreements and partnerships to improve access to reliable data.
19. Clear methodologies and guidelines are needed to allocate emissions to precursor goods while avoiding double counting when used in more complex products. Collaboration with industry and international bodies can help develop harmonised approaches.
20. The government should consider publishing default emissions values for common precursor goods and learn from the EU's experience of including some precursor goods in its CBAM.

**Question 7: Do you foresee any difficulties with the government's proposal to use product level default emissions values calculated in line with global average emissions weighted by the production volumes of the UK's key trading partners? Please outline.**

21. While the government's proposal aims to use the most accurate data available, gaps and inconsistencies in global emissions data could affect the precision of default values. Paragraph 6.16 of the consultation document outlines some key risks and these must be kept in mind when developing default values.
22. Emissions intensities and trade patterns can, and will, shift over time. The UK's CBAM needs to be flexible enough to enable default values to be updated regularly to reflect these changes and maintain fairness.
23. Using weighted averages can help ensure the CBAM is effective at reducing carbon leakage. However, clear guidelines and ongoing evaluation are needed to ensure fairness for all importers.
24. Providing resources and guidance for businesses, especially smaller ones, to understand and navigate the complexity of the system will be crucial for a successful implementation.

**Question 8: Are there alternative approaches to default emissions values the government ought to consider which neither undermine the environmental integrity of the CBAM nor are punitive in nature? If so, please provide detailed evidence.**

25. There are alternative approaches to default emissions values that the UK government could consider which balance environmental integrity with practicality and fairness.
26. For example, as suggested above, the government could consider a tiered system of default values, based on:
  - a. Data availability;
  - b. Product complexity; and
  - c. Emission intensity.

**Question 9: Do you have views on how a percentage-based mark-up (in addition to global average emissions weighted by production volumes of embodied emissions intensities of the UK's key trading partners) could impact the use of default values and actual reported emissions data? Please outline.**

27. The mark-up would make using the default values less appealing, as it would increase the CBAM liability for importers using them. This would push them towards obtaining and reporting actual emissions data, which is the preferred option for accuracy and environmental integrity.
28. Importers would have a stronger incentive to work with producers in their supply chains to collect and verify emissions data, leading to improved data availability and transparency.
29. Determining the appropriate mark-up percentage is crucial. If too low, it might not be effective in disincentivising the use of default values. If too high, it could be perceived as punitive and create barriers to trade.

30. Furthermore, a mark-up could disproportionately affect importers of goods from regions with less developed emissions reporting infrastructure, potentially raising concerns about fairness and competitiveness.
31. If using a percentage-based mark-up, we'd recommend the government:
  - a. starts with a moderate mark-up to allow businesses to adapt and invest in data collection and emissions reduction measures.
  - b. regularly reviews the effectiveness of the mark-up and adjusts it as needed to ensure it strikes the right balance between incentivising actual emissions reporting and maintaining fairness and competitiveness.

**Question 10: Do you have any initial views on the considerations and/or aims of a future review into the use and functionality of default values? Please outline.**

32. A future review into the use and functionality of default values should consider:
  - a. Progress in data collection, accuracy, and accessibility;
  - b. Whether default values effectively incentivised actual emissions reporting; and
  - c. The impact on importers from different regions and industries.
33. Any changes coming out of such a review should aim to:
  - a. Increase reliance on actual emissions data;
  - b. Ensure equitable treatment for all importers; and
  - c. Reduce the administrative burden on businesses.

**Question 11: Do you foresee any issues with a liable person acquiring and providing to HMRC details of emissions embodied in CBAM goods at the end of the accounting period (should they choose to)? Please outline.**

34. Obtaining emissions data from suppliers along complex global supply chains will be time-consuming and challenging, particularly for smaller businesses with limited resources or those sourcing from regions with less developed reporting standards.
35. The requirement for independent verification of emissions data could add significant costs and time delays for businesses, especially if multiple suppliers are involved in the production process.
36. Gathering comprehensive emissions data for an entire accounting period could be a lengthy process, especially if it requires co-ordination with multiple suppliers across different countries and time zones. This could create challenges in meeting the reporting deadline at the end of the period.

**Question 12: Do you agree that verification of emissions should be performed by any body accredited by accreditation services which are part of the International Accreditation Forum (IAF), like UKAS in the UK? If not, please explain why not.**

37. Yes, we agree that verification of emissions should be performed by a body accredited by accreditation services part of the IAF (such as UKAS in the UK). This ensures a globally recognised standard for verification, promoting consistency and comparability. IAF accreditation ensures that verifiers possess the necessary technical expertise and competence to assess complex emissions data and methodologies. This is important for maintaining the integrity and accuracy of the CBAM calculations.
38. Allowing verification by any IAF-accredited body, regardless of location, provides flexibility for importers and producers globally. This ensures that even producers from countries without a national accreditation service can still participate in the CBAM by utilising accredited verifiers from other regions.

39. Our only concern would be the limited availability of accredited verifiers, which may be more of an issue in specific regions or countries. If the supply of accredited verifiers does not meet demand, this could push up the costs of verification.
40. We recognise that this is a market that is evolving rapidly, in terms of demand, and also increasing professional standards and expectations from a broad range of stakeholders. As such, it may be appropriate to have a transition period to allow time for companies to put in place appropriate arrangements, and become accredited (if applicable). We would also recommend any future reviews include assessing the scope and quality of verification work performed.

**Question 13: Would the market respond adequately to provide for the accreditation of verifiers by accreditation services and the verification of emissions independent verifiers?**

41. We have no reason to believe that the market would not eventually respond adequately. However, the demand for verification services might initially outstrip the available capacity of accredited verifiers. This could increase the cost of verification, which might be prohibitive for small businesses.
42. To support the market, the UK could share knowledge and best practices with other countries to foster a global network of accredited verifiers. The EU's implementation of its own CBAM should support this also.
43. As noted above, it may be appropriate to have an initial transition period during which emissions do not have to be verified by bodies accredited by accreditation services which are part of the IAF.

**Question 14: Noting that the government is still developing policy in this area, do you have any initial views on the monitoring, reporting and verification (MRV) rules for the UK CBAM? Please outline.**

44. The MRV rules should, where possible, align with the existing UK Emissions Trading Scheme (ETS) to ensure consistency and leverage established methodologies and procedures. This would reduce the administrative burden on businesses already familiar with the UK ETS.
45. The MRV rules should allow for flexibility to accommodate international standards and best practices, particularly in cases where the source country has robust emissions reporting and verification systems. This would facilitate data exchange and avoid unnecessary duplication of efforts.
46. The government should provide clear guidance and support to businesses, especially SMEs, on the specific MRV requirements for the UK CBAM. This could include detailed guidelines, templates, training resources, and dedicated expert helplines to assist with compliance.
47. The government should implement rigorous verification procedures, including independent third-party verification of emissions data, to ensure the accuracy and integrity of the CBAM. It should also establish robust enforcement mechanisms to deter and penalise non-compliance, while maintaining fairness and transparency.

**Question 15: Do you foresee any difficulties in obtaining an accurate weight for CBAM imported goods? If so, please specify the difficulties, why they will arise and any suggestions you might have for dealing with those concerns.**

48. Importers may struggle to obtain accurate weight information from suppliers, especially those in regions with less developed data collection practices. Varying measurement standards across countries can create discrepancies in reported weights. The weight of some goods can vary greatly depending on type and production, making a standard weight difficult to determine.



49. To ensure accurate weight reporting, importers could use a combination of supplier data, industry standards, and sampling/weighing a small portion of goods. To deliver certainty, this approach could be agreed with HMRC for added assurance.

**Question 16: If a liable person was required to arrive at the weight of the goods themselves, how would they do that? Please explain how CBAM products that you import are weighed. For example, is the weight arrived at by means of a calculation or is it physically weighed?**

50. Not applicable.

**Question 17: Is there a UK industry standard weight for the CBAM good you import? If so, please give details.**

51. Not applicable.

**Question 18: Do you agree that the CBAM rate calculation sets out a fair reflection of the price paid in the production of goods in UK? If not, please explain why not.**

52. The proposed sector-specific rates are a positive step towards aligning the CBAM with the UK ETS, as they acknowledge that different sectors face varying carbon costs due to factors like free allocation, energy source mix, and overall energy intensity. This approach aims to create a more level playing field for domestic and imported goods.
53. Using the average UK ETS auction price from the preceding quarter allows the CBAM rate to track the dynamic carbon market, reflecting the actual costs faced by UK producers. This promotes fairness and avoids penalising importers with outdated or artificially fixed prices.
54. Factoring in free allowances granted to domestic producers is crucial for accurately reflecting the effective carbon price they face. This adjustment ensures that imported goods are not unfairly taxed compared to domestic products.
55. Incorporating the Carbon Price Support (CPS) rate for electricity generation is essential for capturing the indirect emissions associated with electricity consumption in production. This aligns the CBAM with the broader carbon pricing landscape in the UK.
56. The weighted average approach, which combines the UK ETS reference price, free allocation adjustment, and CPS rate based on the proportion of direct and indirect emissions in each sector, is a sensible methodology. It ensures that the CBAM rate reflects the overall carbon cost faced by UK producers.
57. While the proposed calculation is a fair starting point, there might be further refinements to consider. For example, the specific weighting factors used for direct and indirect emissions could be reviewed to ensure they accurately reflect the latest data and technological advancements. Additionally, the potential impact of future policy changes on the calculation should be continuously assessed to maintain fairness and effectiveness.

**Question 19: Does setting a CBAM rate for each sector on a quarterly basis strike the right balance between tracking the UK ETS market price and giving importers certainty for financial planning? If not, please explain why not.**

58. Setting CBAM rates quarterly is beneficial as it allows for a more dynamic tracking of the UK ETS market price. This reflects the changing costs of carbon allowances faced by domestic producers, ensuring a fairer comparison for importers. Quarterly adjustments also reduce the risk of significant misalignment between the CBAM rate and the actual carbon price.
59. While quarterly adjustments provide flexibility, they might not offer enough certainty for importers' long-term financial planning. Some importers may prefer a more predictable pricing mechanism, such as a six-monthly or annual adjustment, to better forecast their costs and make informed business decisions.
60. A potential compromise could be a hybrid approach, where the CBAM rate is adjusted annually with the option for more frequent adjustments (eg, quarterly) if the UK ETS price

fluctuates significantly beyond a certain threshold. This would provide a balance between market responsiveness and predictability for importers.

***Question 20: Are there any other considerations for setting the UK CBAM rate not set out above? Please outline.***

61. The UK ETS market price can be volatile, which could lead to unpredictable CBAM rates and create financial risks for importers. The government should consider mechanisms to manage this volatility, such as smoothing mechanisms or hedging options of the UK ETS market price, to provide greater predictability and stability for businesses.
62. The methodology for calculating the CBAM rate and any future adjustments should be transparent and clearly communicated to all stakeholders. This would help build trust and understanding among businesses, allowing them to plan and adapt their strategies accordingly. Regular communication and consultation with industry representatives can help ensure that the CBAM rate remains fair, effective, and aligned with broader economic and environmental objectives.

***Question 21: Are there explicit carbon pricing policies which do not align with our criteria which should be recognised by the UK? Please outline.***

63. We are not aware of any explicit carbon pricing policies which do not align with the government's criteria which should be recognised by the UK.

***Question 22: Are there other recognised forms of evidence which a liable person could provide? Please outline.***

64. We are not aware of anything specific.

***Question 23: Are there additional considerations or processes that might facilitate the provision of information on the overseas carbon price from producer to liable person, including by mutual agreement with other jurisdictions? Please outline.***

65. Developing (globally) standardised templates or formats for reporting overseas carbon prices would streamline the process and ensure consistency across different jurisdictions. This would make it easier for producers to provide the necessary information and for importers to understand and utilise that information.
66. Establishing mutual recognition agreements (MRAs) with other countries/regions that have implemented carbon pricing mechanisms could simplify the process of recognising and verifying overseas carbon prices. This would reduce the need for duplicate verification and streamline the information flow between jurisdictions, also reducing the risk of double taxation.
67. Encouraging collaboration between industry associations, trade organisations, and government agencies could foster the development of best practices for sharing carbon price information. This could include the creation of industry-specific guidelines and templates for reporting and verification.

***Question 24: For operators overseas, do you foresee challenges providing the evidence for importers to comply with the measure? Please outline.***

68. Many overseas operators, particularly smaller businesses or those in developing countries, may lack the resources, expertise, or established systems to accurately collect and report emissions data. This could make it difficult for them to provide the necessary evidence to importers.
69. Independent verification of emissions data can be expensive, especially for smaller operators. The cost of verification could be a barrier for some overseas producers, limiting their ability to participate in the UK market.



**Question 25: Do you foresee challenges with referencing the overseas carbon price on a quarterly basis? Please outline.**

70. Obtaining accurate and up-to-date information on overseas carbon prices on a quarterly basis could be challenging, especially for jurisdictions with less developed carbon markets or where price information is not readily available or transparent. This could lead to delays in calculating and applying the appropriate adjustments to the UK CBAM rate.
71. Quarterly reporting and verification of overseas carbon prices could create a significant administrative burden for both importers and verification bodies. This could lead to increased costs and delays in the CBAM process.
72. There could be a risk of importers strategically timing their imports to take advantage of lower carbon prices in certain quarters, potentially undermining the effectiveness of the CBAM in reducing carbon leakage.

**Question 26: Do you have views on what types of third parties would be appropriate to verify overseas carbon price? Please outline.**

73. It is important that verification is performed by a third party that is competent, capable, and objective. As referenced in question 12, third parties who are accredited with globally recognised standards for verification, promoting consistency and comparability such as the IAF, and UKAS in the UK, is one way to ensure that verifiers possess the necessary technical expertise and competence to assess complex emissions data and methodologies.
74. In addition, independent auditing firms with experience in financial and environmental audits could be considered. Their expertise in financial reporting could ensure the accuracy and integrity of the carbon price verification process.
75. We recommend that this is kept under review as the market evolves.

**Question 27: Do you have views on how the government could decrease the burden on the liable person to evidence an overseas carbon price? Please outline.**

76. The government could establish mutual recognition agreements with countries (or territories) that have comparable carbon pricing mechanisms, allowing for the direct acceptance of their carbon pricing documentation. It could also explore the possibility of establishing data-sharing agreements with foreign governments or regulatory bodies to facilitate the verification of overseas carbon prices.
77. Consideration could also be given to simplifying the documentation required for evidencing overseas carbon prices. A standardised template for submitting relevant information could reduce the administrative burden on importers.
78. The government should provide comprehensive guidance and online resources to help importers understand the requirements and procedures for evidencing overseas carbon prices. It could also offer dedicated support services to address specific questions.

**Question 28: Do you agree that where a CBAM good has been subject to multiple carbon prices, the total carbon price can be offset from the UK CBAM liability? If not, please explain why not.**

79. Yes, we agree. Allowing importers to offset the total carbon price paid across multiple jurisdictions is essential to avoid double counting the cost of carbon emissions and ensure fairness in the application of the UK's CBAM regime.
80. This approach will also incentivise more countries to implement their own carbon pricing policies, to capture revenue from carbon pricing, before it is captured in the destination country.

81. However, verifying the legitimacy and accuracy of multiple carbon prices from different jurisdictions could pose challenges. A robust verification system is needed to ensure transparency and prevent fraudulent claims.
82. Aligning the UK CBAM with international standards and best practices for recognising carbon pricing in global supply chains would promote consistency, avoid trade disputes, and reduce the scope for fraud and evasion.

## ADMINISTRATION, PAYMENT AND COMPLIANCE OF THE UK CBAM

**Question 29: Do you foresee any difficulties with the arrangements for where the tax point arises, including which rates will apply? Please explain where you have any difficulties with the proposed policy.**

83. Although businesses will generally be restricted by commercial constraints, there is a risk that by creating the tax point only when the good is released into free circulation, businesses could enter goods into a customs warehouse and then release them to free circulation if the carbon price drops in a particular quarter.
84. However, on the basis that the carbon price should trend upwards as free allocations are removed, we are inclined to agree that this is still the best approach rather than having a tax point date at the point of import and having to implement a refund system for goods that are exported.
85. We recommend that this is kept under review.

**Question 30: Do you foresee any risks with our proposal to base the CBAM liability on the CBAM good which is processed into a non-CBAM good before it is released into free circulation? Please explain the risks.**

86. Yes, we consider that this approach could disincentivise businesses from importing CBAM goods for further processing in the UK, as they would still be liable for the CBAM charge even if the final product is not subject to it.
87. This could encourage the import of “finished” non-CBAM goods over raw materials and increase the risk of carbon leakage.

**Question 31: Do you agree that the proposal for designating the liable person is appropriate or are there likely to be unintended consequences? If you do not agree, please explain your reasons.**

88. The proposal for designating the liable persons seems generally appropriate.
89. The dual approach for determining the liable person (based on whether or not there are customs controls) does create some potential for confusion. We nonetheless understand the rationale for the approach, particularly with regards to the approach discussed in Question 30.
90. Some additional clarity would be useful on what exactly is meant by the “person on whose behalf the goods are moved to the UK”. Would designating the importer of record as the liable person be a clearer approach?

**Question 32: Do you agree that there should be a minimum threshold below which a person should not be required to register for the CBAM? If not, please explain why not.**

91. Yes, we agree that there should be a minimum threshold below which a person should not be required to register for the CBAM. A minimum threshold exempts small importers who might import negligible amounts of CBAM goods. This significantly reduces the administrative burden for both businesses and HMRC, allowing resources to be focused on larger importers with more significant environmental impact.

**Question 33: Do you agree that an annual value of £10,000 is an appropriate level at which to set the minimum threshold? If not, please explain where you think it should be set and your reasoning.**

92. The proposed £10,000 annual threshold seems reasonable, as it is estimated to exclude 60% of potential registrations while capturing over 95% of emissions. However, it is essential to periodically review this threshold to ensure it remains effective and relevant as the CBAM evolves.

**Question 34: Do you agree with the tests set out in Figure 15 for assessing whether a person has met the minimum threshold? If not, please explain how you think the threshold should be assessed.**

93. Yes, we agree with the tests. Retrospective and prospective tests of this nature are tried and tested for other indirect taxes.

94. The definition of "reason to expect" in Test 1 could be further clarified to avoid ambiguity and potential disputes. Specific criteria or guidelines could be provided to help businesses determine whether they meet this test.

**Question 35: Do you consider the registration and deregistration requirements set out above to be appropriate? If not, please specify why not.**

95. Regarding deregistration, the requirement to demonstrate no CBAM liability for four consecutive quarters might be too stringent and leave some businesses at a competitive disadvantage.

96. A business that usually imports £5,000 of CBAM goods a year but that crosses the registration threshold due to a one-off import would have to remain registered indefinitely, while a business that imports £9,000 of CBAM goods a year but never crosses the threshold would never have to register.

97. Introducing a deregistration threshold of, for example, £7,500 per annum may be fairer.

98. It should also be considered whether businesses should have the ability to apply for an exception from registration, as they do for VAT (see [paragraph 3.7 of VAT Notice 700/1](#)).

**Question 36: Do you foresee any difficulties with the arrangements set out for completing and submitting returns, including the content required on the return? If so, please specify the difficulties and why they would arise.**

99. Businesses, particularly smaller ones, may face challenges in gathering accurate data on the carbon content and weight of imported CBAM goods, especially if suppliers in other countries have varying reporting standards or limited data collection capabilities. This could lead to delays in filing returns or reporting inaccurate information, which may result in penalties or compliance issues.

100. As HMRC will be developing a new online service for CBAM registration and returns, businesses will need time to familiarise themselves with the new system and ensure their IT infrastructure is compatible. Initial technical issues or lack of familiarity could cause delays in submitting returns.

101. The return requires detailed information on CBAM commodities, import dates, weight, emissions, and overseas carbon prices. This could be overwhelming for businesses with limited resources or experience in carbon accounting, potentially leading to errors or omissions in the return.

102. The proposed deadlines for submitting returns and payments, especially the transition to quarterly reporting from 2028, could pose challenges for businesses with limited staff or resources. Smaller businesses might struggle to meet these deadlines, leading to potential penalties or compliance issues.

**Question 37: Do you think that allowing 5 months from the end of the first accounting period until returns are due allows sufficient time for a liable person to obtain data about the carbon content of their CBAM goods? If you think a different period should operate, please explain why.**

103. Given the complexity of the new CBAM tax and the novelty of reporting requirements for embodied emissions, a five-month period might be insufficient for businesses, especially smaller ones with limited resources, to gather and compile accurate data. An additional month could provide valuable breathing room.
104. Extending the deadline to six months from the end of the period would allow HMRC more time to ensure the stability and functionality of its new online CBAM system, potentially mitigating technical issues that could arise during the initial filing period. Businesses would also have more time to familiarise themselves with the system and its requirements.
105. A six-month deadline is more intuitive and easier to remember than a five-month period, as it aligns with common accounting and reporting cycles. This could reduce the risk of missed deadlines and associated penalties.
106. By providing ample time for businesses to prepare and submit accurate returns, a longer deadline could foster better compliance and reduce the risk of errors or omissions in the reporting of CBAM liabilities.

**Question 38: Do you agree with the proposal to move to quarterly accounting periods from 2028 and, if not, why not?**

107. No, we do not agree with the immediate transition to quarterly accounting periods from 2028. Quarterly returns would significantly increase the administrative burden on businesses, especially smaller importers with limited resources. This could lead to errors, delays, and potential non-compliance.
108. Businesses need time to adapt to the new CBAM requirements. A sudden shift to quarterly reporting could be disruptive to workflows and hinder business's ability to comply effectively.
109. We recommend a more gradual transition to quarterly returns. Starting with six-month returns in 2028, with a three-month submission period, would allow businesses to adjust and gain experience with the CBAM system before moving to a more frequent reporting cycle. This would help ensure smoother implementation and better compliance.

**Question 39: Do you foresee any difficulties in moving to a system of four fixed accounting periods a year from 2028, with returns/payments generally due a month later? If so, please explain your concerns and any suggestions for dealing with those concerns.**

110. Although we don't have any objections to moving to a system of four fixed accounting periods in the long term, as mentioned above, we think a more gradual transition might be needed. Complying with CBAM is a big administrative burden being placed on businesses and they will need time to adapt.
111. We recommend that, at least in the first year of quarterly returns, businesses have two months to submit their returns and make payment of their CBAM liability. One month to report is less than businesses currently have for their VAT return, which businesses have been complying with for over 50 years. The CBAM is a new tax and arguably more complex with significantly more data points than VAT so businesses should have longer, at least initially, to report on each period.

**Question 40: Do you consider that HMRC's approach to enforcement powers and penalties is appropriate? If not, please specify why.**

112. Yes, we consider that HMRC's approach to enforcement powers and penalties is appropriate. HMRC's approach to align enforcement powers and penalties with existing tax

regimes provides familiarity and predictability for businesses, potentially easing the compliance process and reducing uncertainty.

113. The proposed penalty system, particularly aligning with the VAT penalty points system, could effectively deter non-compliance by imposing proportionate penalties based on the severity and frequency of violations. However, the effectiveness of this approach will depend on the specific penalty levels set.
114. While the intention to introduce a general penalty for CBAM-specific non-compliance is welcomed, clear guidelines and specific examples of punishable actions are needed to ensure transparency and avoid arbitrary enforcement. The government should also consider a grace period for initial compliance to allow businesses time to adapt to the new requirements.

**Question 41: Do you have any other concerns or suggestions around potential compliance risks? Please outline.**

115. Attempts to circumvent the CBAM by misclassifying goods or underreporting emissions could undermine the effectiveness of the CBAM. HMRC should implement robust monitoring and enforcement mechanisms including random audits and targeted inspections.



## APPENDIX 1

### ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory:** tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. **Certain:** in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. **Simple:** the tax rules should aim to be simple, understandable and clear in their objectives.
4. **Easy to collect and to calculate:** a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. **Properly targeted:** when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. **Constant:** Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. **Subject to proper consultation:** other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. **Regularly reviewed:** the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. **Fair and reasonable:** the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. **Competitive:** tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as [TAXGUIDE 4/99](#).