



UK Carbon Border Adjustment Mechanism: time to take action

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Overview of UK CBAM



UK CBAM: Introduction

01

The UK Carbon Border Adjustment Mechanism is a new tax that will take effect from 1 January 2027.

02

It will ensure that highly-traded, carbon-intensive products from jurisdictions outside the UK face a comparable carbon price to that paid by UK manufacturers, so that UK decarbonisation efforts lead to a true reduction in global emissions, rather than simply displacing carbon emissions overseas.

03

It supports UK industry investment by reducing the risk that domestic producers are undercut by imports from jurisdictions with lower carbon costs.

04

The regime is designed to work alongside the UK Emissions Trading Scheme (UK ETS), including the gradual phase-out of free allowances for CBAM sectors.

05

CBAM will apply across the whole of the UK, including Northern Ireland. Goods which enter the UK from the Crown Dependencies including the Isle of Man, Overseas Territories and UK Continental Shelf will be subject to CBAM.

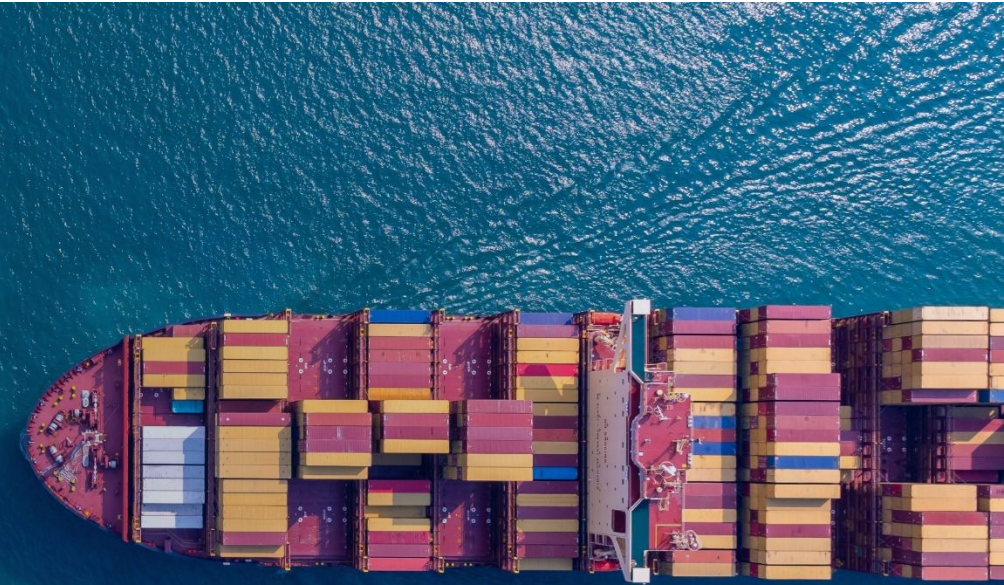
Not the same as the EU CBAM



Feature	UK CBAM	EU CBAM
Electricity	✗ Not included.	✓ Included.
Mechanism	Environmental tax.	Certificate purchase & surrender.
Transitional period	✗ None (aside from an extended first accounting period).	✓ Multi-year transitional reporting
Emissions data	Actual preferred; default values permitted under legislation.	Actual required over time.
Administration	HMRC-administered tax.	EU ETS linked certification.

Goods and sectors in scope

- CBAM applies initially to specified imported goods from the following sectors:
 - Aluminium
 - Cement
 - Fertiliser
 - Hydrogen
 - Iron and steel
- The in-scope goods are identified by **customs commodity code** within the UK Trade Tariff (**list published on HMRC guidance**).
- Government has indicated that sectoral and product scope will remain under review after implementation.



UK CBAM: What's in scope?

Commodity code	Description (aluminium)
7601	Unwrought aluminium.
7603	Aluminium powders and flakes.
7604	Aluminium bars, rods and profiles.
7605	Aluminium wire.
7606	Aluminium plates, sheets and strip, of a thickness exceeding 0.2 mm.
7607	Aluminium foil (whether or not printed or backed with paper, paper-board, plastics or similar backing materials) of a thickness (excluding any backing) not exceeding 0.2 mm.
7608	Aluminium tubes and pipes.
7609 00 00	Aluminium tube or pipe fittings (for example, couplings, elbows, sleeves).
7610	Aluminium structures and parts of structures, and aluminium components prepared for use in structures.
7611 00 00	Aluminium reservoirs, tanks, vats and similar containers, capacity exceeding 300 litres.
7612	Aluminium casks, drums, cans, boxes and similar containers, capacity not exceeding 300 litres.
7613 00 00	Aluminium containers for compressed or liquefied gas.
7614	Stranded wire, cables, plaited bands and the like, of aluminium, not electrically insulated.
7616	Other articles of aluminium.
Code	Description (hydrogen)
2804 10 00	Hydrogen.

Code	Description (cement)
2507 00 80	Other kaolinic clays.
2523 10 00	Cement clinkers.
2523 21 00	White Portland cement, whether or not artificially coloured.
2523 29 00	Other Portland cement.
2523 30 00	Aluminous cement.
2523 90 00	Other hydraulic cements.
Code	Description (fertiliser)
2808 00 00	Nitric acid; sulphonitric acids.
2814	Ammonia, anhydrous or in aqueous solution.
2834 21 00	Nitrates of potassium.
3102	Mineral or chemical fertilisers, nitrogenous.
3105	Mineral or chemical fertilisers containing two or three of the fertilising elements nitrogen, phosphorus and potassium; other fertilisers; goods of this chapter in tablets or similar forms or in packages of a gross weight not exceeding 10 kg – Excludes 3105 60 00.
3105 60 00	Mineral or chemical fertilisers containing the two fertilising elements phosphorus and potassium – excluded from scope.
Code	Description (iron and steel)
2601 12 00	Agglomerated iron ores and concentrates, other than roasted iron pyrites.
72	Iron and steel (Subject to the exclusions listed below).

UK CBAM: What's in scope? (Cont.)

Code	Description (iron and steel)
7202 21	Ferro-silicon (Codes in red excluded from heading 72).
7202 30 00	Ferro-silico-manganese.
7202 50 00	Ferro-silico-chromium.
7202 70 00	Ferro-molybdenum.
7202 80 00	Ferro-tungsten and ferro-silico-tungsten.
7202 91 00	Ferro-titanium and ferro-silico-titanium.
7202 92 00	Ferro-vanadium.
7202 93 00	Ferro-niobium.
7202 99 10	Ferro-phosphorus.
7202 99 30	Ferro-silico-magnesium.
7202 99 80	Other.
7204	Ferrous waste and scrap; remelting scrap ingots and steel.
7301	Sheet piling of iron or steel; welded angles, shapes and sections, of iron or steel.
7302	Railway or tramway track construction material of iron or steel.
7303 00	Tubes, pipes and hollow profiles, of cast iron.
7304	Tubes, pipes and hollow profiles, seamless, of iron (other than cast iron) or steel.
7305	Other tubes and pipes, having circular cross-sections, external diameter exceeding 406.4 mm, of iron or steel.

Code	Description (iron and steel)
7306	Other tubes, pipes and hollow profiles, of iron or steel.
7307	Tube or pipe fittings, of iron or steel.
7308	Structures and parts of structures, of iron or steel; prepared structural components of iron or steel.
7309 00	Reservoirs, tanks, vats and similar containers, of iron or steel, capacity exceeding 300 litres.
7310	Tanks, casks, drums, cans, boxes and similar containers, of iron or steel, capacity not exceeding 300 litres.
7311 00	Containers for compressed or liquefied gas, of iron or steel.
7318	Screws, bolts, nuts, coach screws, screw hooks, rivets, cotters, cotter pins, washers and similar articles, of iron or steel.
7326	Other articles of iron or steel.

Tax points



The CBAM tax point is the point at which the CBAM charge arises.

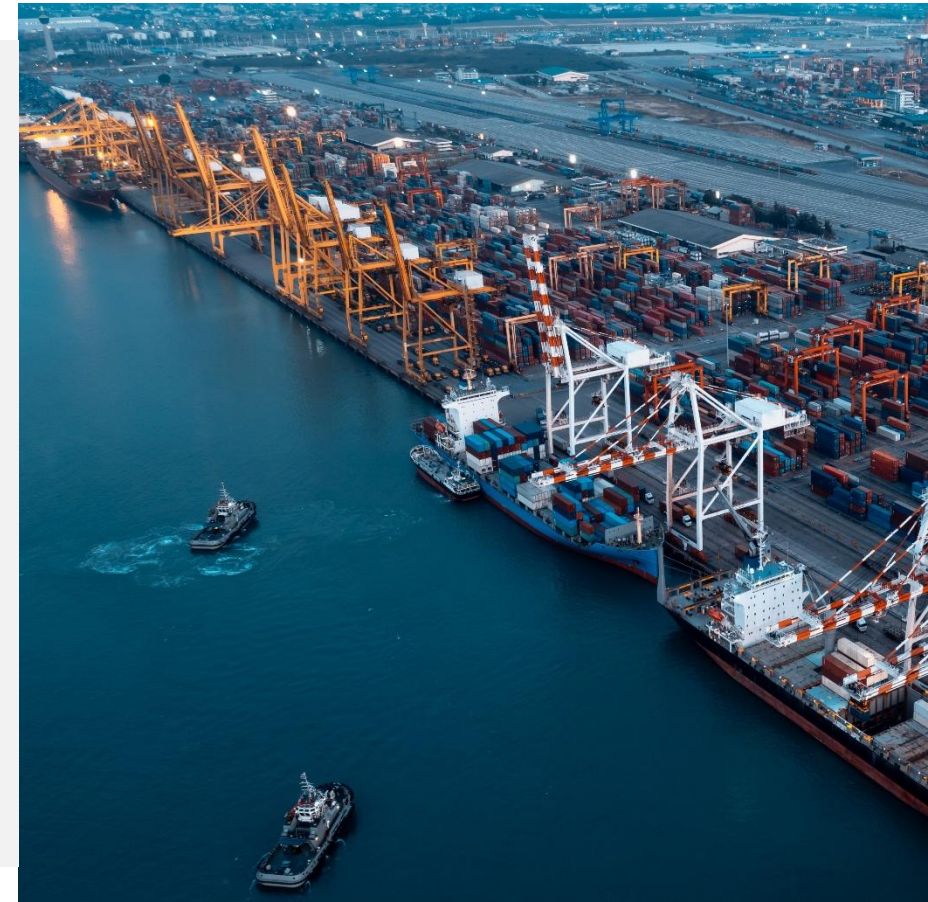


In most cases, the tax point arises when a CBAM good is imported into the UK and becomes liable to import duty (or would become liable if legislation did not disapply that duty). For goods that are not subject to import duty, the tax point occurs when the goods enter the UK.



CBAM will be charged on the entire CBAM good, except for specific exceptions e.g.

- Goods processed under special customs procedures (changes between non-CBAM goods and CBAM goods whilst under special procedure will be taken into account when calculating tax).
- Goods processed outside of the UK (rules apply around status of exported and re-entered good).



Who is liable

The liable person is generally the person responsible for importing the CBAM goods into the UK for commercial purposes, or the person on whose behalf the goods are imported.

HMRC guidance explains this more specifically as:



The person responsible for completing the customs declaration, or on whose behalf it is made where customs controls apply, or.



The person on whose behalf goods are moved into the UK where there are no customs controls.

This means contractual importer-of-record analysis will be important, especially where customs agents, principals and group entities are involved.



Registration threshold



£50,000

Registration is required where the value of CBAM goods imported into the UK exceeds **£50,000** over the relevant period.

The threshold is tested by reference to:



Imports over the preceding 12 months, or,



expected imports over the coming 30 days



HMRC states that ordinarily the liable person has 30 days to register once they become liable, although there will be longer to register in the first year of CBAM.



The threshold is intended to exclude many smaller importers from the regime altogether.

How CBAM liability is calculated



Broadly, liability depends on

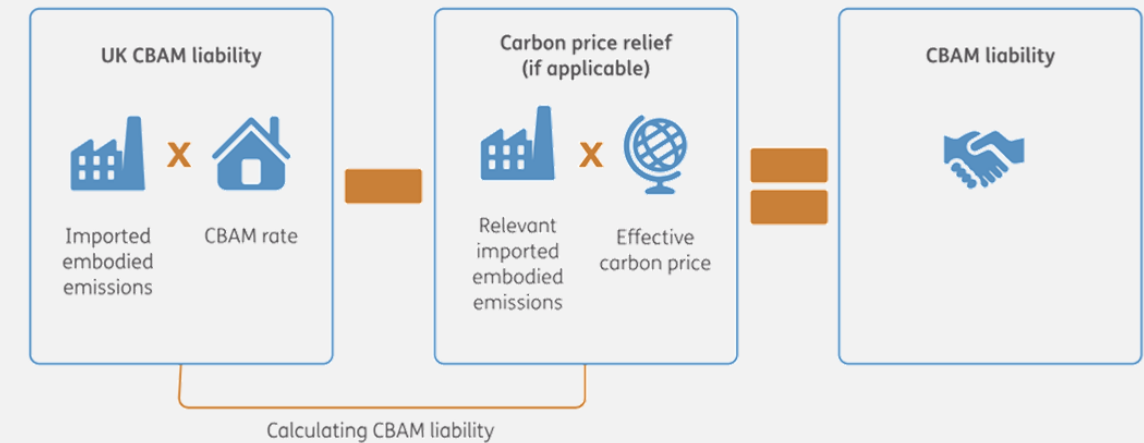
- The **value and quantity** of in-scope imported goods,
- The **embodied emissions** attributed to those goods,
- The applicable **CBAM rate**,
- Any **allowable relief** for overseas carbon prices.



The CBAM rate is charged per tonne of embodied emissions attributed to CBAM goods.



The rate is intended to reflect the carbon price faced by UK producers under the UK ETS, net of free allowances and similar reductions.



Emissions in scope



At commencement, CBAM applies to direct emissions embodied in imported CBAM goods, including direct emissions embodied in relevant precursor goods further up the value chain.



Indirect emissions are expressly not in scope from 1 January 2027 and are delayed until 2029 at the earliest.



The legislation allows delegated legislation to define or expand the emissions scope over time.

Determining embodied emissions

Importers may use either of the following

- Independently verified actual emissions data. The liable person will need to obtain the relevant verified emissions intensity data from the producer of the CBAM goods. They will need to acquire this information, expressed in tonnes of carbon dioxide equivalent (tCO₂e per functional unit), from their supply chains, along with evidence that these emissions figures have been verified by a qualifying verifier.
- Default emissions values. Government has said that from 2027 there will be a single default value per product, with methodology and values to be published in advance.

This creates a practical choice

- Use verified actual data where it lowers liability and can be obtained reliably, or.
- Rely on defaults where supplier data is unavailable or too costly to verify.



Setting the CBAM rate



The CBAM rate is linked to domestic carbon pricing under the UK ETS.



The primary legislation confirms that the rate calculation is based on sectoral average emissions covered by free allowances over a baseline period, adjusted by a reduction factor to reflect the phase-out of free allowances.



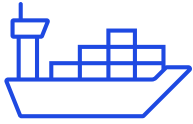
Draft secondary materials indicate that rates will be calculated and published by government quarterly from 1 January 2027.



This means that liability will not be static; importers will need systems capable of applying the correct sector rate for the relevant accounting period.



Relief for overseas carbon prices



CBAM liability may be reduced where the embodied emissions in imported goods have already been subject to a qualifying overseas carbon price and the importer holds the required evidence.



Deductible carbon prices include taxes, emissions trading schemes, or another CBAM that directly or indirectly prices emissions.



Draft consultation materials indicate that secondary legislation will set out the detailed calculation and evidential rules for carbon price relief.



Relief is therefore available in principle, but its practical value will depend heavily on documentation quality and whether the overseas charge qualifies under the UK rules



Exemptions and exclusions

Exemptions apply, including for:

- Non-registered and non-registrable importers,
- Goods imported otherwise than in the course of business,
- Goods originating in the UK,
- Goods where returned goods relief applies.
- UK pre-cursor goods.
- Goods imported into the UK under temporary admission.



The legislation also provides an exemption for goods originating in a country with an ETS linked to the UK ETS.



HMRC has indicated that the UK and EU are working towards linking their ETS systems, which could create mutual CBAM exemptions if implemented and if legislative conditions are met.



That point remains contingent on future agreement and implementation; it is not a current blanket exemption for EU-origin goods.



Returns, accounting periods and payment

01

The liable person will need to complete and submit a tax return for CBAM following the end of each accounting period from the time they become registrable, until they satisfy the rules for deregistration.

02

After each accounting period, the liable person must submit an online return and pay the CBAM due.

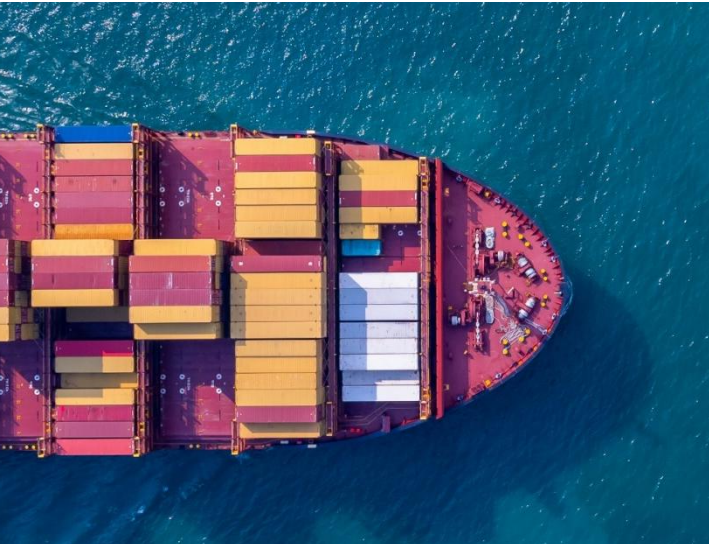
03

The first accounting period is annual:

1 January 2027 to 31 December 2027,
with payment due at the end of May 2028.

04

Thereafter, accounting periods are quarterly, with payment generally due two months after period end.



Administration, enforcement and offences

The following records will need to be held by liable persons for 6 years after the end of the accounting period the goods are attributed to:

Goods imported

Importers of CBAM goods will need to keep records of all CBAM goods imported including commodity code, date of import, value, weight etc. This can be in the form of customs declarations (C88/SAD) or other documents relating to import of goods such as:

- Import entry acceptance advice.
- Bill of lading documents and information concerning the import, export, or declaration of goods by or on behalf of the relevant person.
- Documents and information concerning the discharge of a customs or export procedure (other than a temporary admission procedure).
- Commercial documentation, including records concerning movement of goods within the UK where these are relevant to a customs obligation of the relevant person.
- Documents and information relating to the calculation of UK customs duty, including evidence of eligibility for any lower rate of duty or relief (this includes temporary admission relief and returned goods relief).
- Documents and information relating to any remission or repayment of duty.
- Documents and information relating to evidence of UK origin that has been provided in relation to exported goods which are then reimported in a complex good to be treated as an exemption.

Registration

- Liable persons required to register for CBAM will need to keep a record of the information provided in the registration process along with any evidence used to support it.

Carbon price relief

- Evidence pertaining to how the CBAM good was subject to a qualifying carbon pricing scheme.
- The verification document pertaining to elements of the effective carbon price.
- The headline carbon price of a qualifying carbon pricing scheme and that of Greenhouse Gas Removals (GGRs) if relevant.
- The relevant verified information on emissions intensity and the weight of the good if multiplying the effective carbon price by actual embodied data.
- Evidence of how the CPR in an overseas currency was converted into GBP following hmrc's requirements.
- Calculations to support how any of the following was used to determine the CPR claimed on the return.

Using actual emissions data

- The address of the installation at which the CBAM good was produced, and where relevant, the address of any installation producing a precursor good used in that CBAM good.
- The details of the operator of the installation, including any company number.
- Where the monitoring period used to determine embodied emissions is the calendar year in which the CBAM was produced, the month and year of production supported by evidence demonstrating when the good was produced.
- The dates of the applicable monitoring period, and documentation showing which monitoring period applied.
- The verification report or good-specific verification summary provided to the liable person by the installation operator that produced the CBAM good.
- The name, address and company number of the verifier.
- The emissions intensity of the CBAM good and, where relevant, the emissions intensity of any precursor good.

Compliance and penalties



HMRC will extend the use of existing powers and penalties to enforce compliance with CBAM where appropriate. This means there will be penalties for:

- Failure to notify HMRC of liability for CBAM.
- Failure to submit a CBAM return.
- Failure to pay CBAM.
- Errors in CBAM returns or other documents relied upon by HMRC.
- Failure to disclose relevant tax avoidance schemes and serial tax avoidance.
- Failure to comply with an information notice.

In addition to the above, HMRC is introducing a general penalty for failure to comply with specific requirements relating to CBAM, such as notifying HMRC when a business address changes or that a business is being carried on by another person due to death, incapacity or in cases of insolvency. HMRC is also introducing legislation to deter the artificial separation of business activities and prevent circumvention of liability to the tax.

Criminal offences will also apply for fraudulent evasion and deliberate misstatement of CBAM.

Where the liable person fails to register for CBAM or fails to provide a complete or accurate return, HMRC will make an assessment of the amount of CBAM that is due and notify the liable person accordingly.

Where the liable person fails to register for CBAM, HMRC will be able to compulsorily register them and if appropriate, assess for the tax due.

Practical issues for businesses



Key implementation issues include:



Ensuring customs data is accurate and of good quality.



Identifying whether imported goods fall within the relevant commodity codes.



Determining who is the liable person in the supply chain.



Determining who is the liable person in the supply chain.



Monitoring the £50,000 threshold.



Early supplier interaction.



Obtaining and checking legitimacy of verified emissions data from overseas suppliers.



Evidencing overseas carbon prices.



Building/maintaining systems for return preparation and record retention.

SMEs may face proportionately higher administrative burdens, although the registration threshold is intended to mitigate this.

Current consultation and developing areas



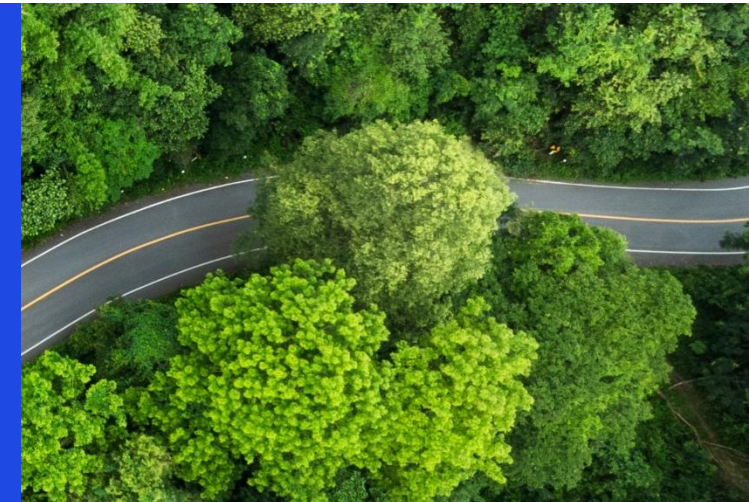
HMRC published a policy summary and draft secondary legislation for consultation in February 2026.



HMRC has also updated communications resources for CBAM in April 2026.

Areas still developing include:

- ▶ Detailed registration mechanics,
- ▶ reporting content,
- ▶ record-keeping,
- ▶ quarterly rate publication mechanics,
- ▶ carbon price relief calculations,
- ▶ transitional rules.



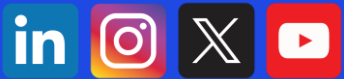
Businesses should therefore treat current materials as establishing the framework, with important operational detail still to be finalised in secondary legislation and HMRC guidance.

Q & A





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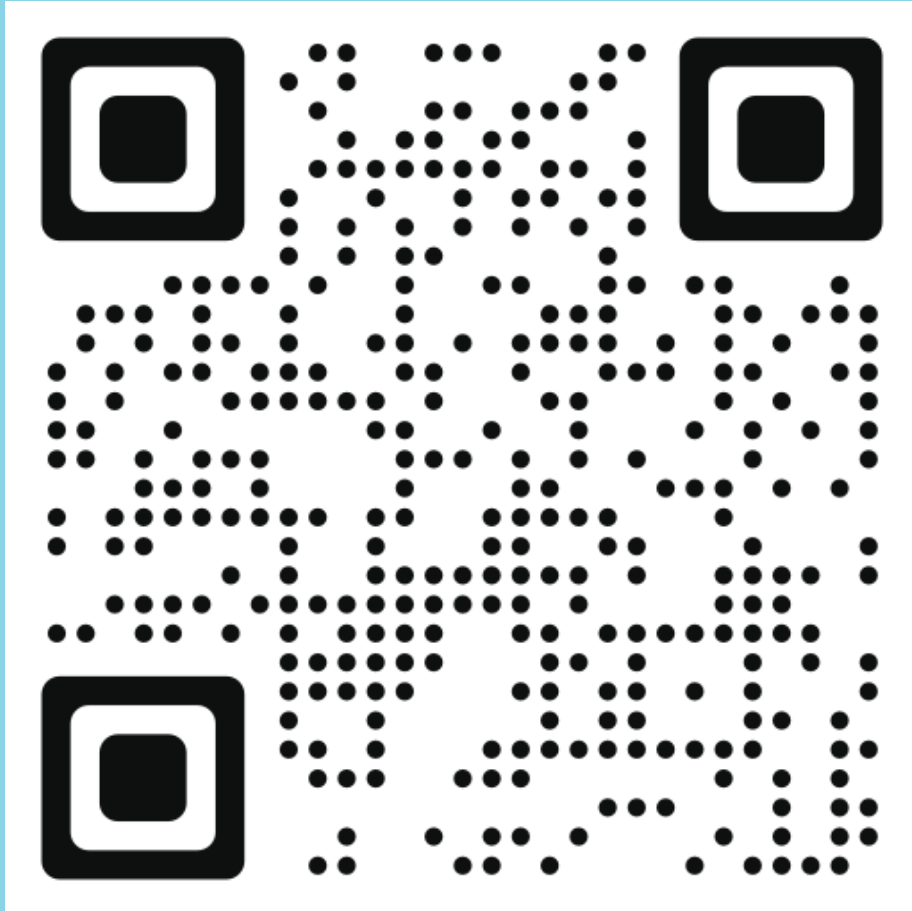


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