Doing Business with China (Mainland) 2026 – Seize opportunities, manage tax risks

China* will remain a key market for German companies in 2026 – despite geopolitical tensions, new compliance requirements and increasing regulatory complexity. To succeed, you must know the rules, act strategically and remain tax-compliant.

Economic outlook
China's economy is growing at a moderate rate of around 4.5%. The main drivers are high tech, green energy and consumer goods, while the property and export sectors are under pressure. For German companies this means responding with agility and reviewing business relationships in order to capture opportunities in future-oriented industries and to optimise tax aspects of margin and financing planning.

Corporate law developments
Following the reform of the Company Law, a clear rule has applied in China since July 2024: registered capital must be fully paid in within five years. For existing Chinese companies, the capital must be fully paid in by the end of 2032 at the latest. Anyone planning to establish an entity in China should review capital structure and governance at an early stage to avoid subsequent compliance risks.

Trade and sustainability
On 1 January 2026, the definitive phase of the EU Carbon Border Adjustment Mechanism (CBAM) commenced. For imports of steel, aluminium, cement and other products, companies must purchase CO_2 certificates and submit annual declarations. This requires precise data collection along the supply chain and clear contractual clauses with Chinese partners. Non-compliance can trigger significant tax risks, for example disruptions to multinational transfer pricing strategies caused by operational adjustments.

Data protection and digital compliance
China's data protection laws (PIPL, DSL, CSL) are strict. As from 2026, the full triad of security assessment, standard contractual clauses and certification applies to cross-border data transfers. For German companies operating ERP, HR or CRM systems and for intercompany transactions with China, this is a critical issue: all data flows must be comprehensively mapped and compliance processes implemented with care.

Tax and payments
In China, the new VAT Law enters into force on 1 January 2026, accompanied by the nationwide roll-out of electronic "Fapiaos". "Fapiao" is the

* This refers exclusively to mainland China.

Chinese term for an official tax invoice. It serves not only as proof of payment but, above all, as evidence of VAT to the tax authorities.
At the same time, China's State Administration of Foreign Exchange (SAFE) is facilitating payments, for example through digital proofs and netting models.

Nevertheless, documentation obligations and sample-based reviews remain in place. SAFE or the tax authorities do not pre-approve every transaction; instead, ex post reviews are carried out. Certain cross-border payments or companies are selected at random to check compliance, including whether the use of foreign currency aligns with permitted purposes, whether capital controls have been circumvented, whether tax calculations are accurate, and whether the conditions for preparing transfer pricing documentation are met.

This means that, even though processes have been simplified (e.g. fewer prior approvals), the risk of sanctions in China persists where documentation is missing or defective.

Mobility of personnel
To strengthen innovation capacity, China introduced the K visa in 2025, which is particularly attractive for German R&D centres.

An advantage for employers: German companies can more easily recruit highly qualified early-career talent (with at least a bachelor's degree) from Europe for their Chinese research sites without immediately having to meet the high administrative hurdles of the traditional work visa.

Transfer pricing: Proactive documentation as a protective instrument
In transfer pricing, compliance and long-term planning certainty are becoming increasingly important: companies whose annual transaction volume exceeds RMB 200 million (approx. USD 31.4 million) for tangible goods or RMB 100 million (approx. USD 15.7 million) for intangibles are legally required to prepare a Local File in China by 30 June of the following year.

Given the ten-year look-back period for tax adjustments by the Chinese authorities, we recommend a proactive documentation strategy.

This not only ensures legal compliance but also serves as a key protective instrument against potential additional tax assessments in China / Germany and helps safeguard the stability of your business operations in China.

Recommended actions

- Review the capital and governance structure of your Chinese entities.
- Prepare for CBAM – including CO_2 data management and budget planning.
- Implement a data-compliance framework for PIPL and the EU GDPR.
- Update your tax and ERP processes for the new VAT Law and e-fapiao.
- Optimise cash management and payment processes under the new SAFE rules.

Also review tax compliance in Germany and China as well as record-keeping and documentation obligations in both countries. Proactivity is required to avoid having to meet tax law requirements at a later stage – if that is even still possible.

Conclusion
The German-Chinese business relationship remains attractive but demands greater tax-compliance efforts, foresight and proactivity. Those who act in good time secure not only compliance but also competitive advantage.

At Nexia, we will be pleased to support you with our Chinese Desk and our international network in China. Our Chinese Desk advisors speak German, Chinese and English.

Do you have questions on this topic?

Need support? Simply contact our experts Henning Straeter, Yuze Wu and Eva Tian.

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