

# Carried Interest: what tax changes mean across jurisdictions

*Luxembourg has recently announced changes to the Grand Duchy's carried interest tax rules, so has the UK. [Gaëtan Grein](#) and [Mark Swiecichowski](#) explain the changes and compare them with other preferred private markets jurisdictions.*

Carried interest is often the primary incentive for alternative investment fund managers to deliver strong returns, and higher tax rates can significantly reduce its value. Changes in tax treatment can also influence where managers choose to domicile funds, as jurisdictions with more favourable tax regimes attract more capital and, potentially, more talent. For investors, these shifts impact fund structures, costs, and the net returns they receive, making tax policy a key factor in investment decisions.

Luxembourg Minister of Finance, Gilles Roth, recently confirmed that Luxembourg is making changes to carried interest rules that parliament will consider in the autumn, for implementation from 2026. In the UK changes to the tax treatment of carried interest came into effect in April 2025 and in April next year there will be more changes to how it is treated.

## What is carried interest?

The term “carried interest” has its origins in the Middle Ages and refers to the compensation mechanism for captains operating vessels carrying goods from Europe to Asia. The ship's captain would claim a share of the profits arising from the goods transported, to compensate them for the cost of carriage and risks associated with the journeys.

In a modern sense, this term refers to a right granted to key members of the management team of a fund by the investors. Generally, this right consists of a share of the return of the fund, after each Limited Partner (LP) has been repaid their initial investment and received a preferred rate of return (the “hurdle rate”). When this “hurdle rate” has not been exceeded, the LPs receive the entire return generated by the fund. If the hurdle rate is exceeded, the balance is referred to as

the “excess return”.

**On Thursday, 2 October we held a webinar titled *‘New rules, new risks: what you need to know about carried interest changes’*.**

**You can watch the full webinar recording here:**

## **How has carried interest been taxed in Luxembourg historically?**

Generally, carried interest is structured as a separate class of shares within a non-tax transparent investment fund. For those resident in Luxembourg, capital gains tax (CGT) is applied to carried interest held for more than six months at 0% when the holding represents less than 10% participation in the share capital of the Luxembourg fund (up to 22.89% otherwise). Capital gains on carried interest held for less than six months is taxable at 45.78%. Income from dividends is taxed under normal income tax rules.

For those not resident in Luxembourg, carried interest income (from distributions or capital gains) are not taxable in Luxembourg but may be taxable in country of residence.

# What is the revised carried interest regime in Luxembourg?

After Parliamentary consideration and approval, expected until end of 2025, the new Draft bill 8590 would be in force and applicable from 1 January 2026. The changes aim to further strengthen Luxembourg's position within the alternative investment funds industry by attracting industry talent, specifically those involved in front office work, establishing clearer rules and a permanent regime for how carried interest is treated.

The bill differentiates carried interest within the following dual regime:

- **Contractual carried interest:** applies when no capital contribution or equity stake in the fund is required, the income will qualify as a speculative gain taxable as extraordinary income at 25% of the taxpayer's global tax rate (i.e., 45.78%), resulting in an effective rate not higher than 11.45%.
- **Participation-linked carried interest:** applies when it is tied to direct or indirect participation in the fund's capital. The income qualifies as speculative gain taxed under progressive personal rates up to 45.78%, however, if the individual does not hold a substantial shareholding (lower than 10%) in the fund and holds it for at least six months, carried interest distributions would be 100% tax-free.

# How has the UK changed the way it taxes carried interest?

Historically, carried interest in the UK has been taxed under CGT rules, with an applicable rate of 28% for higher-rate taxpayers. The UK has recently announced that from April 2026, carried interest will be taxed as trading profits and subject to income tax at a rate of up to 45% plus national insurance contributions. Employees will be subject to these rules once they come into effect, with the current exemption being withdrawn.

Certain "qualifying carried interest" will be subject to a lower effective income tax rate of 34.1% based on the holding period under the Income Based Carried Interest rules. Currently in the UK, carried interest is taxed as capital gains at

32% from 6 April 2025 (recently increased from 28%).

Read the background to the UK changes [here](#).

## What is the direction of travel in other jurisdictions?

In Belgium, new legislation would see carried interest being taxed at a flat rate of 25% as investment income. There had previously been uncertainty around the treatment of this income, with it often being taxed as professional income liable to tax at progressive rates up to 50%. A maximum tax rate of 30% was introduced in 2025, and the new legislation appears to be continuing in this favourable trend.

In the Netherlands, a comprehensive review is being undertaken following a detailed report published by the Dutch Ministry of Finance. No immediate change has yet been announced, but the government is reviewing the framework, planning a public consultation and will aim to coordinate any changes with broader tax reform that is ongoing.

## How is carried interest treated in different jurisdictions?

The table below lays out the differences in the tax treatment of carried interest across preferred private markets jurisdictions.

<b>Jurisdiction</b>	<b>Tax treatment</b>	<b>Typical rate</b>	<b>Notes</b>
<b>UK</b>	Income tax (trading profits)	Up to 45% (with 72.5% multiplier)	Significant shift from CGT to income tax

<b>Jurisdiction</b>	<b>Tax treatment</b>	<b>Typical rate</b>	<b>Notes</b>
<b>Luxembourg</b>	Often structured as capital gains or special regimes	Contractual carry regime: not higher than 12% Participation linked regime: exempt if conditions are met	Favourable treatment via carried interest regime for qualifying managers and individuals under the new regime
<b>Ireland</b>	Income tax unless structured otherwise	Up to 52%	Carried interest may qualify for CGT (33%) under certain conditions
<b>Jersey &amp; Guernsey</b>	No capital gains tax	0%	Popular for fund structuring due to tax neutrality
<b>United States</b>	Capital gains (with 3-year holding period)	20% + 3.8% NIIT	Ongoing political debate; some proposals to reclassify as ordinary income

## **How a specialist fund admin can help**

For private markets managers who are unsure of how the changes will impact them and their employees, getting tax advice is a good start and your fund administrator is able to help with the scoping exercise.

To discuss any points raised in this article please contact us below.



**Click here** to talk to us



**Click here** to talk to us