

Carried Interest: 5 Investor Questions Answered

Following our webinar on the significant changes to the carried interest tax treatment in both the UK and Luxembourg, New rules, new risks: what you need to know about carried interest changes, held earlier this month, [Gaëtan Grein](#) and [Mark Swiecichowski](#) have collated the five most common questions sent in from those who attended.

1. Could you confirm the additional UK tax compliance requirements if I become a carried interest holder subject to the new rules?

From April 2026, assuming the draft legislation does not change, you may need to take some or all of the following actions if you receive carried interest:

- Obtain a Unique Taxpayer Reference (UTR) number if not already registered for UK tax
- File a UK income tax return (including UK employees, as they now have a UK trade)
- Pay UK income tax and class 4 national insurance contributions
- Calculate and make estimated payments on account
- If carried interest is over £50,000 you may also need to file quarterly account updates electronically under making tax digital
- Monitor your UK 'workdays' in line with the definition in the legislation
- Consider cash flow for making tax payments over time
- Agree with the fund manager how you will obtain information to calculate the average holding period of assets in the fund

You should contact your tax advisor to confirm which of the above is important, as each situation can have different requirements.

2. Is all carried interest subject to the UK tax

rules?

The rules cover all arrangements where a sum of carried interest may accrue to an individual from an investment scheme.

For **UK resident** taxpayers, all receipts of carried interest will normally be taxable, unless the taxpayer qualifies for the Foreign Income and Gains (FIG) regime.

Non-UK resident taxpayers will be subject to tax where they have performed investment management services in the UK during the lifetime of the relevant fund. Tax payable will be based on their UK workdays (as defined in the legislation).

3. Are there risks of double taxation for non-UK residents receiving carried interest?

The double tax relief problem arises when two countries treat the same income differently for tax purposes, causing difficulties when claims for relief are made under international tax treaties.

This is an issue which has been raised to HMRC. Under the new rules, the UK will tax carried interest as trading profit, while other jurisdictions such as the U.S. and Germany generally treat it as capital gains. If a taxpayer is taxed in both countries but the income is classified differently, they may not be able to claim a credit or exemption under the relevant treaty, leading to double taxation.

In their response to the consultation exercise, HMRC acknowledged the above issue. They believe that the current treaty network will be applicable in several cases, and that there are mechanisms for agreeing the correct taxing rights between jurisdictions. They have also introduced three statutory limitations to ensure the rules work in a proportionate way.

4. If we acquire an asset and make payments over time, how does that impact the average holding

period calculation?

The average holding period (AHP) is important, as this determines whether the lower rate of tax can be applied.

The details of the contract will need to be considered in this case, as the draft legislation refers to the 'relevant investment' and the 'value invested' at the time. The legislation specifically references section 28 Taxation of Capital Gains Acts 1992 in relation to contractual arrangements. There is a specific rule for new shares, which says the investment date is when the shares are issued.

On this basis (assuming it is not shares), if the full legal interest of the asset transfers on completion of the contract, the best interpretation would be that the value 'invested' was the entire amount legally payable under the terms of the purchase on the completion date, assuming the fund is contractually obligated up front to make full payment over the period (albeit at different dates). Here, the assumption is there is one agreed amount of consideration being paid for one investment.

However, if these staged payments are a condition for receiving a further interest in the asset, each payment will be treated as obtaining another 'investment' at that later time. This may have the effect of lengthening the time you need to hold the asset(s) to qualify for the reduced tax rate.

The rules for determining the AHP can be complicated and should be discussed with your tax adviser.

5. Are there any expected changes before the UK legislation is finalized? Are there any further announcements expected?

The draft legislation was released on 21 July 2025 and there have been further discussions between HMRC and key stakeholders around the provisions. No further detail or announcements have been made by the government recently. The budget is set for 26 November 2025 and we may hear more detail at that stage.

If you have additional questions that aren't covered here, or simply want to

discuss a topic raised here, please contact us.

You can read more about the legislation in both the UK and Luxembourg [here](#).

You can watch the full webinar recording, ‘New rules, new risks: what you need to know about carried interest changes’, [here](#):

If you want to find out more, please contact us below.



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