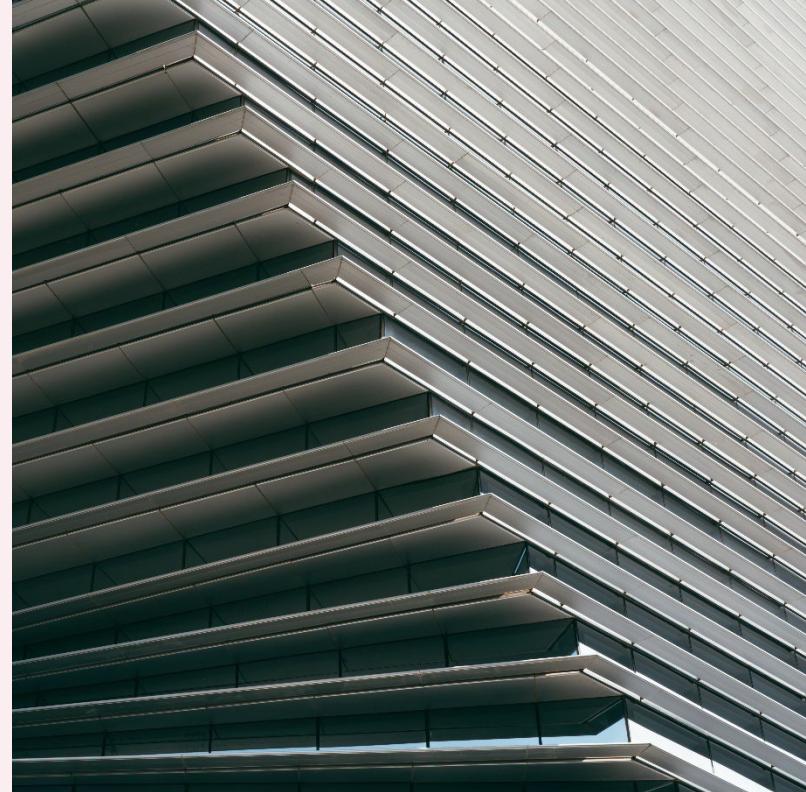


Luxembourg modernises its carried interest tax regime

22 January 2026



On 22 January 2026, the Luxembourg Parliament adopted bill n°8590 introducing a significant and positive reform of the existing carried interest tax regime, aiming to strengthen Luxembourg's position as a leading hub for alternative investment funds ("AIFs") and attract front-office talent (the "**Carried Interest Law**").

Key topics

- 1 AIF industry
- 2 Fund management
- 3 Contractual carried interest
- 4 Invested carried interest

BACKGROUND

Prior to the adoption of the Carried Interest Law, Luxembourg operated a carried interest tax regime that was complex and fragmented, relying on a combination of the AIFM law of 12 July 2013 and a specific provision of the Luxembourg income tax law ("LITL"), namely article 99bis LITL. This framework was characterised by its limited scope and temporary provisions, holding back Luxembourg's competitiveness compared to other fund jurisdictions.

"After years of anticipation, Luxembourg has finally introduced an efficient carried interest tax regime."

Geoffrey Scardoni
Partner, Luxembourg

The Carried Interest Law introduces a comprehensive and permanent regime, broadening the range of eligible beneficiaries and extending the types of AIFs permitted to grant a carried interest.

KEY FEATURES OF THE NEW REGIME

1. Scope of beneficiaries

The Carried Interest Law defines carried interest broadly as performance-based remuneration derived from the outperformance of an AIF, granted through explicit rights over the fund's net assets or income. This remuneration is inherently uncertain, as it is contingent upon the underlying assets achieving returns above a specified threshold, commonly referred to as the 'hurdle rate'.

The new regime extends eligibility beyond traditional employees of fund managers (AIFMs and management companies of AIFs) to a broader range of individuals who may receive carried interest, including:

- Employees of related service providers (e.g. advisory firms);
- Independent directors and non-employees rendering services (e.g. consultants); and
- Other individuals involved with the fund's management or performance arrangements (e.g. shareholders).

During the legislative process, the Council of State considered that extending the carried interest tax regime to natural persons "working for AIFMs or management companies of AIFs" constituted overly broad and imprecise terminology that created legal uncertainty. It therefore requested an amendment to clearly specify the scope of beneficiaries.

It is now clear from article 99bis LITL that the carried interest tax regime must benefit to individuals that contribute effectively to the management of the AIF (as opposed to purely administrative functions). This includes portfolio management and risk management functions.

2. Types of AIFs

The Carried Interest Law expands the type of AIFs that can grant a carried interest to transparent entities, i.e. limited partnerships (*société en commandite simple*), special limited partnerships (*société en commandite spéciale*), or FCP (*Fonds Commun de Placement*).

The favourable tax treatment of carried interest (see section 3 below) will therefore apply regardless of whether the underlying AIF granting it is transparent or opaque from a Luxembourg tax perspective.

3. Categories of carried interest regimes

Two types of carried interest regime are now available:

- (a) Investment-linked carried interest

For Luxembourg tax resident carry holders holding a direct or indirect participation in the AIF, the carried interest is fully exempt if they hold no more than 10% in the AIF and receive the carried interest after a six-month holding period.

This capital gain treatment encourages alignment of interests between investors and managers while preserving favourable tax treatment when genuine investment risk is taken.

(b) Contractual carried interest

For contractual carried interest (i.e. under a legal arrangement between the AIF and the manager, with no participation of the latter in the AIF), it is taxed at a quarter of the global income tax rate (i.e. up to a maximum of 11.45%).

This contractual carried interest is thus treated as an extraordinary income and is no longer limited in time as was the case under prior rules.

More generally, the Carried Interest Law now allows deal-by-deal transaction schemes (i.e. with no requirement of full return of capital to investors before any carry is paid) under certain conditions.

ENTRY INTO FORCE

The new carried interest tax regime as provided by the Carried Interest Law applies for the 2026 tax year onwards.

HOW CAN WE HELP?

Our team is well-equipped to guide you through the implications of the new Luxembourg carried interest tax regime.

We offer tailored advice on structuring your carried interest arrangements to ensure compliance with the latest legislative developments while optimising tax efficiency for both fund managers and investors.

Please contact us to discuss how we can help you navigate these changes and achieve your business objectives.



Geoffrey Scardoni
Partner, Luxembourg

Email: geoffrey.scardoni@cliffordchance.com
Mobile: +352 48 50 50 410

This publication does not necessarily deal with every important topic or cover every aspect of the topics with which it deals. It is not designed to provide legal or other advice.

www.cliffordchance.com

Clifford Chance, 10 Upper Bank Street, London, E14 5JJ

© Clifford Chance 2026

Clifford Chance LLP is a limited liability partnership registered in England and Wales under number OC323571

Registered office: 10 Upper Bank Street, London, E14 5JJ

We use the word 'partner' to refer to a member of Clifford Chance LLP, or an employee or consultant with equivalent standing and qualifications

If you do not wish to receive further information from Clifford Chance about events or legal developments which we believe may be of interest to you, please either send an email to nomorecontact@cliffordchance.com or by post at Clifford Chance LLP, 10 Upper Bank Street, Canary Wharf, London E14 5JJ

Abu Dhabi • Amsterdam • Bangkok • Barcelona •
Beijing • Brussels • Bucharest • Casablanca • Doha •
Dubai • Düsseldorf • Frankfurt • Hong Kong •
Istanbul • Jakarta* • London • Luxembourg • Madrid •
Milan • Moscow • Munich • New York • Paris •
Perth • Prague • Rome • São Paulo • Seoul •
Shanghai • Singapore • Sydney • Tokyo • Warsaw •
Washington, D.C.

*Linda Widjati & Partners in association with Clifford Chance.

Clifford Chance has a co-operation agreement with Abuhimed Alsheikh Alhagbani Law Firm in Riyadh.

Clifford Chance has a best friends relationship with Redcliffe Partners in Ukraine.



Maxime Budzin
Counsel, Luxembourg

Email: maxime.budzin@cliffordchance.com
Mobile: +352 48 50 50 456



Josselin Badoc
Counsel, Luxembourg

Email: josselin.badoc@cliffordchance.com
Mobile: +352 48 50 50 291



Katharina Creutz
Counsel, Luxembourg

Email: katharina.creutz@cliffordchance.com
Mobile: +352 48 50 50 214

Antoine-David Freymann
Counsel, Luxembourg
Email: Antoine-David.Freymann@CliffordChance.com
Mobile: +352 48 50 50 420



Aude Tusamba

Senior Knowledge Lawyer, Luxembourg
Email: aude.tusamba@cliffordchance.com
Mobile: +352 48 50 50 411