

Carried interest taxation:

a comparative guide for fund managers
and investors in Europe and the US

September 2026



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01

Navigating a
fragmented
tax landscape

Navigating a fragmented tax landscape

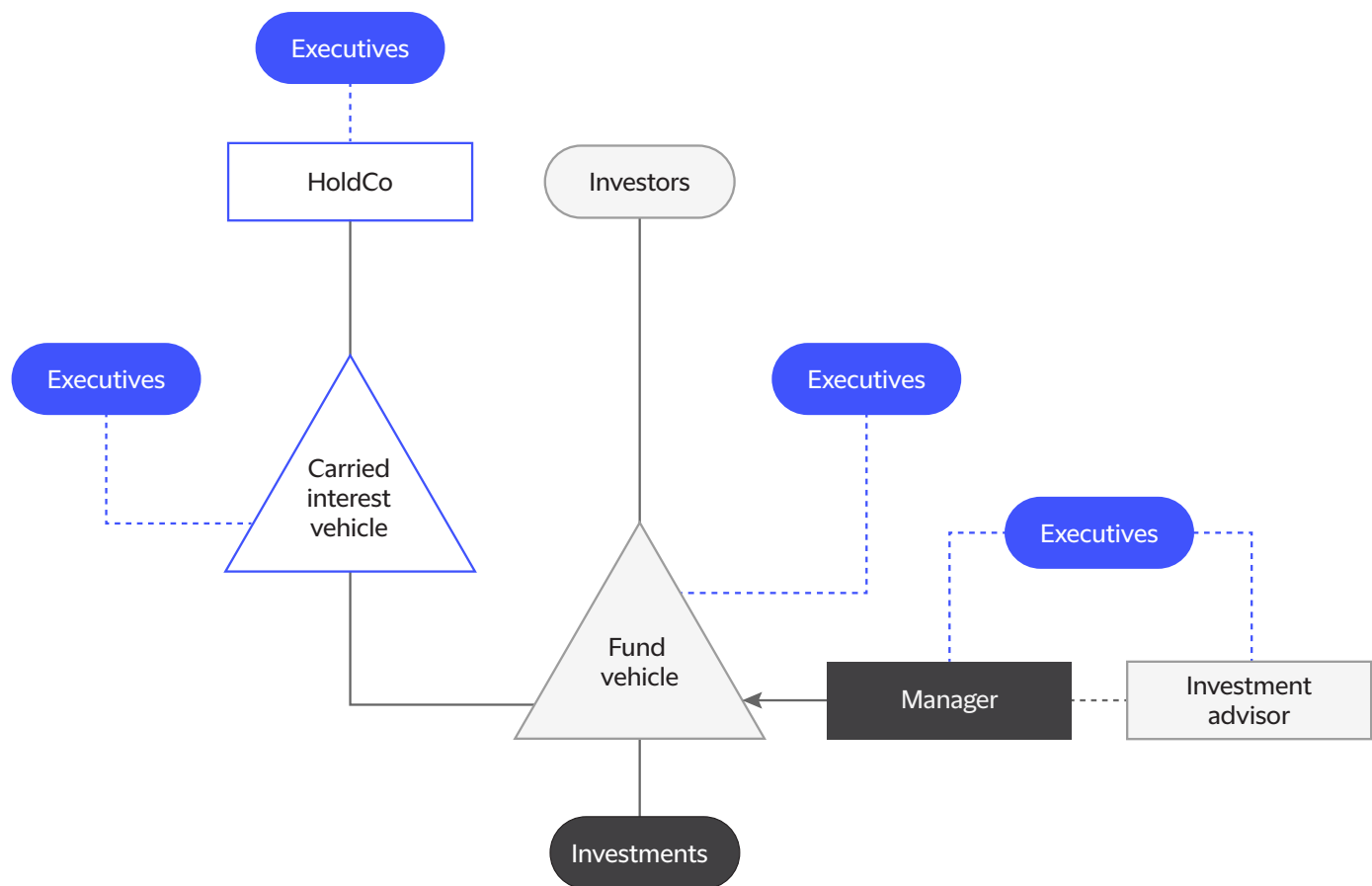
Carried interest is a central feature of the private capital landscape, serving as an incentive mechanism for fund managers. Its tax treatment, however, is a subject of ongoing debate, significant cross-border divergence and, in several cases, recent changes in law. As a result, fund managers must navigate a complex patchwork of differing approaches on governmental policy, rules and tax authority guidance.

This guide draws on the knowledge of our specialists and provides a comparative overview of the taxation of carried interest in the United States and eight major European jurisdictions: Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain and the United Kingdom. Each of these countries has developed its own distinct approach to the characterisation and taxation of carried interest, reflecting differences in domestic policy priorities, legal traditions and tax authority attitudes. Some jurisdictions have specific tax rules that are designed to encourage non-resident individuals to relocate to that jurisdiction – where relevant to the taxation of carried interest, we include brief commentary on these rules.

02

A typical
fund structure

A typical fund structure



In many cases, a "traditional" carried interest structure would involve the relevant fund manager executives holding their participation in the carried interest via a separate carried interest vehicle. However, as we discuss over the coming pages, that will not always be the case – and indeed, for some jurisdictions an indirect participation in carried interest in this way would not be advisable. For illustrative purposes, we have shown above different ways in which carried interest / carried interest-linked payments can potentially be paid out to fund management executives and other persons who might be entitled to such payments. These alternative arrangements are discussed where relevant in this guide.

Key

----- = possible carried interest /
carried interest-linked returns

03

Belgium

Belgium

Prior to 2025, Belgium had no specific tax framework for carried interest. Instead, the tax treatment of carried interest depended on the characterisation of the underlying returns. Now, there is a dedicated 25% tax on carried interest.

Previously, returns realised by fund managers were assessed on a case-by-case basis, with the position often taken by the individual recipients that carried interest was a tax-free capital gain on shares. These positions were, however, sometimes challenged by the tax authorities. The result was a patchwork of inconsistent rulings and limited predictability for private capital executives.

Tax reform in 2025 ended some of that ambiguity, with the introduction of a dedicated 25% tax on carried interest received by individuals. This change has brought clarity (and certainty) in many cases. However, the 25% tax rate does not apply to carried interest returns in all circumstances, and so the tax position remains uncertain in some cases.

“Belgium finally brings a level of clarity to carried interest – but at a price: certainty of tax treatment (at least in some cases...) now comes with a flat 25% tax, turning what was once a grey zone into a clearly taxed one.”



Thomas Linard de Guertechin
Counsel, Brussels

Snapshot summary					
Special regime for carried interest?	If not, can beneficial tax treatment be otherwise obtained?	(Effective) tax rates for carried interest		Is material executive investment a condition for beneficial treatment?	Is beneficial treatment only available to funds with a particular structure or strategy?
		If conditions are met:	If conditions are not met:		
Yes	N/A	25%	Dependant on arrangements in place	Unclear	Yes

Belgium

The current Belgian carried interest regime was introduced in July 2025. Under the new regime, carried interest received by individual fund managers is taxed at a 25% uniform rate, irrespective of the nature of the underlying receipt.

The new regime applies from 29 July 2025 to all carried interest payments made after that date – it does not matter when the underlying carried interest arrangements were established. (There are some grandfathering rules, but these will only apply in limited circumstances.)

Where the rules apply, the carried interest returns are all treated as "movable" income taxed at the rate of 25% – this is irrespective of the underlying nature of the carried interest receipt (e.g. payment representing a dividend, capital gain, liquidation bonus, etc.). Carried interest returns within scope of the rules cannot be taxed (or recharacterised) as employment income and will also not be subject to municipal surcharges.

Persons in scope

The new rules apply to Belgian-tax-resident individuals who directly hold carried interest rights in an AIF. It does not matter if the AIF is Belgian or non-Belgian.

Eligibility conditions

To fall within the regime, the carried interest payment must be received by the Belgian executive from an AIF directly – and so payment via a holding company or even standard (non-AIF) carried interest vehicle would fall outside of the regime; the payment must be a direct payment by the AIF to the executive.

Any carried interest receipts paid via corporate vehicles (whether corporate vehicles and/or standard carried interest partnerships with legal personality) will therefore be subject to tax under normal Belgian tax rules (not considered further in this guide).

The rules do not include details on a minimal level of investment that is required to be made to benefit from the regime. However, the Belgian parliamentary works indicate that entitlement to benefit from the regime is based on the premise that carried interest recipients make a (direct) investment in the relevant AIF and thus have some personal level of capital at risk. It is this genuine investment risk that justifies the classification of the return as movable income (taxed at 25%) rather than professional income.

The 25% rate will not, however, apply to returns received by the executive on his / her capital investment to the extent the return is received on the same terms as a third-party investor in the AIF – and hence a distinction is drawn between investment returns (taxed in accordance with ordinary tax principles, with the relevant tax treatment therefore depending on the nature of the underlying return received, i.e. a 30% withholding tax on dividends and 10% rate on capital gains etc.) and the separate element comprising the carried interest return (which falls within the regime).

This approach can be distinguished (by way of example) from the position in France (as discussed in the following pages).

Where the 25% rate applies, the acquisition value of the carried interest rights (i.e. the price the executive paid to subscribe for or acquire the carried interest rights) is taken into account in calculating the amount of carried interest that is subject to the 25% flat tax rate, with the effect that the reimbursement of the executive's own invested capital is not itself taxed. No other deductions are available.

Carried interest delivered through stock options taxed at grant under the Law of 26 March 1999 is excluded from the regime.

Other considerations

We note Belgium has a similar regime to the Netherlands (see later in this guide) designed to encourage non-residents to relocate to Belgium – in summary, the regime allows a qualifying employer to pay up to 35% of a qualifying employee's gross remuneration (uncapped) tax-free. Whilst relevant to overall compensation arrangements, this regime applies only to professional income and so is not relevant to the treatment of carried interest discussed above.

04

France

France

The French statutory carried interest regime (the Arthuis regime) was introduced in 2009. Under this regime carried interest returns are taxable as investment income at the rate of 31.4%, plus, if applicable, a 3% or 4% surcharge.

The Arthuis regime is, however, subject to numerous conditions. In particular, it only applies to eligible EU / EEA private equity funds and requires a minimum investment by the relevant fund executives when subscribing for the carried interest. Funds with other strategies (such as private credit funds) cannot benefit from the Arthuis regime.

The consequences of not meeting the requirement of the Arthuis regime can be significant, as non-qualifying carried interest can be taxed as employment income, plus a 30% social contribution, resulting in an overall tax rate up to 79%.

“The French Arthuis regime is one of the most established carried interest frameworks in the EU. However, its stringent conditions can create complexity when it comes to structuring investment vehicles with carried interest holders from different jurisdictions.”



Alexandre Lagarrigue
Partner, Paris

Snapshot summary					
Special regime for carried interest?	If not, can beneficial tax treatment be otherwise obtained?	(Effective) tax rates for carried interest		Is material executive investment a condition for beneficial treatment?	Is beneficial treatment only available to funds with a particular structure or strategy?
		If conditions are met:	If conditions are not met:		
Yes	N/A	Up to 35.4%	Up to 79%	Yes	Yes

France

When the conditions of the Arthuis regime are met, carried interest returns are subject to a 31.4% flat tax.

This flat tax (prélèvement forfaitaire unique) includes individual income tax at the rate of 12.8% and social security contributions at the rate of 18.6%. A 3% or 4% surtax applicable to high income taxpayers may also apply resulting in an effective tax rate of up to 35.4%.

Taxpayers may elect to instead be taxed at the progressive income tax rates (of up to 45%), plus social security contributions at the rate of 18.6% and any applicable surtax.

Persons in scope

The Arthuis regime applies to French tax-resident employees investing (directly or indirectly through certain qualifying interposed entities) in an eligible carried interest vehicle.

At the time of the subscription or acquisition of the carried interest rights, French managers must be employed by, or hold an executive position in, an eligible French or EU / EEA fund vehicle, or in a company providing management services to such eligible vehicles and must receive arm's length compensation for such employment.

Eligibility conditions

The main structural requirements under the Arthuis regime are the following:

- Only carried interest rights issued by a French (such as a FCPR, FPCI or SLP) or an EU/EEA capital investment vehicle whose main purpose is to invest, directly or indirectly, in shares or other securities giving access to the share capital of non-listed companies are eligible for the Arthuis regime. Therefore, proceeds from carried interest rights issued (i) by non-EU / EEA vehicles, and/or (ii) by vehicles with a different investment strategy (such as private credit funds) are not eligible to benefit from the statutory regime.
- Carried interest rights must constitute a unique class of shares or units, i.e. all carried interest shares or units must give the same rights over the assets and income of the relevant fund vehicle (and be clearly identified as such) and must be granted in consideration for the participation of a given person in the management of investments.
- Carried interest rights must be subscribed or acquired for a price corresponding to their value. Where the executive is subscribing for the carried interest entitlement this means the price as provided for in the carried interest vehicle's constitutive documentation. Where the carried interest right is being otherwise acquired, the price to be paid is the market value of such right (from a practical standpoint, the last net asset value) or the relevant subscription price if higher.

- The investment must meet a minimum investment level in the fund vehicle. Generally, for a 20% carried interest entitlement, the commitment of the carried interest holders must represent at least 1% of the total commitments in the relevant fund vehicle(s) at the end of each subscription period, subject to certain exceptions.
- Carried interest must represent a long-term investment. Managers cannot receive carried interest returns for a period of five years commencing from the date on which the fund was established or the date the carried interest rights were issued, depending on the nature of the carried interest vehicle. Escrow arrangements may need to be established to ensure compliance with this requirement.

Tax treatment where conditions are not met

When the conditions of the Arthuis regime are not satisfied, carried interest returns can be taxable as employment income at progressive tax rates of up to 45%, plus the 3% or 4% surtax applicable to high income taxpayers (resulting in an effective tax rate of up to 49%), plus a specific 30% social contribution payable by the French carried interest holder (resulting in a total effective tax rate of up to 79%).

Other considerations

In the context of Brexit, a specific regime was introduced under French law to encourage non-resident fund management executives to relocate to France. In summary, qualifying executives could benefit from a 30% flat tax rate on carried interest proceeds regardless of whether the conditions of the Arthuis regime were satisfied. This regime is no longer in place. The French tax rules do contain a general tax regime that offers some tax benefits to certain employees / other qualifying individuals on relocation to France. However, it remains uncertain whether, and to what extent, this general regime applies to carried interest returns.

05

Germany

Germany

Special carried interest taxation rules have been in place in Germany for over 20 years. These special tax rules qualify carried interest as ordinary service income and provide for a 40% tax exemption.

The rules, however, only apply to special situations, so whilst the carried interest tax regime can be very beneficial, a number of conditions need to be met to qualify for this beneficial treatment.

“Germany’s carried interest taxation is still fragmented, although recent fiscal court rulings have brought clarity in some important respects. Careful structuring is required in all cases.”



Stefan Herr
Partner, Frankfurt

Snapshot summary					
Special regime for carried interest?	If not, can beneficial tax treatment be otherwise obtained?	(Effective) tax rates for carried interest		Is material executive investment a condition for beneficial treatment?	Is beneficial treatment only available to funds with a particular structure or strategy?
		If conditions are met:	If conditions are not met:		
Yes	N/A	Up to 28.5%	Up to 47.5%	Unclear	Yes

Germany

The German carried interest tax regime (introduced in 2004) is, in effect, a compromise between the tax treatment of carried interest as (i) fully taxable ordinary service income and (ii) tax-privileged dividends and capital gains.

Where the regime applies, carried interest is treated as ordinary service income with the availability of a 40% tax exemption. As such, every €100 of carried interest will be taxable as to €60 at ordinary income tax rates and as to €40 as being tax exempt. This means that carried interest returns within the scope of the special tax regime are subject to an effective tax rate of up to 28.5%.

Eligibility conditions

The beneficial carried interest tax regime applies if the carried interest is received by the executive:

- as a partner of a “non-commercial” partnership;
- as consideration for promoting the partnership’s purpose; and
- where the partnership has a purpose of the acquisition, holding and disposal of shares in corporations.

This means that some funds (and fund structures) cannot benefit from the beneficial tax regime. This might be because of the fund's strategy - e.g. credit funds are not in scope - or because of the fund's structure - e.g. a fund that is established as (or is treated for German tax purposes as being) a “commercial” partnership is not within scope of the regime. Qualification as a “commercial” partnership depends on a list of criteria published by the German tax administration in 2003 and will depend on the facts of each structure.

Whilst the carried interest recipient must be a partner of the non-commercial partnership, it is not clear whether a recipient must subscribe capital into the partnership to benefit from the regime. Our recommendation is that at least some level of capital contribution should be made.

It is also necessary that an entitlement to carried interest only arises once the investors in the fund have been repaid their capital contribution in full (not typically an issue in standard carried interest arrangements).

Whilst not a requirement to access the benefit of the German carried interest tax regime, it is common for German executives to hold their entitlement to carried interest via a separate carried interest vehicle in the legal form of a (non-commercial) partnership which is transparent for German tax purposes. This aligns with standard fund structuring adopted in many other jurisdictions.

Key risks and points to note

Cross-border structures (German funds with foreign carried interest holders and vice versa) risk double taxation due to the different tax qualifications of the fund and the carried interest in different jurisdictions (though a lower fiscal court decision of 2024 brought clarity insofar as providing that the carried interest shall not constitute business profit for double taxation treaty purposes). Careful structuring therefore is key.

Tax treatment where conditions are not met

If the conditions of the special carried interest rules are not met, the tax position for a German tax resident executive will depend on the specific circumstances. However, in summary, carried interest received outside the scope of the beneficial tax regime will, depending on the specific structure, be treated as (i) salary under an employment contract; (ii) income for services provided to the fund; or (iii) a form of profit distribution. The effective rate of tax in each case can be up to 47.5%. Particularly with respect to carried interest returns falling within (iii), this might depend on the qualification of the executive (e.g., private or business individual) and also the nature of the underlying receipt (e.g. interest income, dividend, capital gain) from which the carried interest return is derived on a "look through" basis.

Other considerations

Unlike some other jurisdictions discussed in this guide, Germany does not have any particular rules relating to carried interest that are designed to attract non-residents to relocate to Germany.

Note: Carried interest taxation is subject to ongoing political review. For example, in 2024 legislative proposals were discussed to treat carried interest in the case of non-commercial partnerships as non-deductible for German tax purposes. The legislative proposals have not become law and it is currently unclear whether any of these proposals will be pursued further.

06

Italy

Italy

Under a special regime introduced in 2017, carried interest returns can be subject to tax as investment income at the rate of 26%. This is, however, subject to the satisfaction of a number of conditions.

“A special regime regulating the taxation of carried interest and similar arrangements based on stocks or shares has been in force in Italy since 2017. The purpose of the regime was to bring greater certainty to the tax treatment of carried interest.”



Sara Mancinelli
Counsel, Milan

Snapshot summary					
Special regime for carried interest?	If not, can beneficial tax treatment be otherwise obtained?	(Effective) tax rates for carried interest		Is material executive investment a condition for beneficial treatment?	Is beneficial treatment only available to funds with a particular structure or strategy?
		If conditions are met:	If conditions are not met:		
Yes	N/A	26%	Up to 43% plus surcharges	Yes	Yes

Italy

Persons in scope

The carried interest rules are aimed at executives working in the asset management industry – and so can be available to Italian executives investing (directly or indirectly) into a relevant fund vehicle where (i) they have an employment relationship with the fund itself, or (ii) the executive is employed by the manager of (or investment advisor to) the relevant fund.

Eligibility conditions

The application of the special tax regime is subject certain conditions. In summary:

- the relevant fund vehicle must be (i) a company, (ii) other form of collective investment undertaking established in Italy or (iii) other form of collective investment undertaking established in a jurisdiction with which Italy has a required minimum level of exchange of information rights and whose manager is subject to the supervision of the competent local authority (these conditions, relevant for non-Italian funds, do not apply to real estate collective investment undertakings);
- in aggregate, all carried interest recipients must make a capital commitment to the fund of at least 1% of total commitments to the fund to which the carried interest is calculated;
- the entitlement to carried interest returns can only arise once all other investors in the fund have received repayment of their invested capital plus a certain threshold return (as set out in the relevant fund documents); and
- the interest in the fund must have been held by the Italian carried interest recipients for at least five years (subject to certain change of control exceptions).

The carried interest can be held directly (as a direct participation in the relevant fund vehicle) or indirectly via a form of carried interest vehicle in which other executives participate. There is no requirement that the carried interest vehicle must be established in Italy.

It is important to note, however, that the special regime does not apply to proceeds from significant interests (i.e. interests of more than 5%) in real estate funds.

Tax treatment where conditions are not met

If any of the relevant conditions to access the tax regime are not met, the tax position of the relevant executive will need to be analysed on a case-by-case basis. In some cases, individual executives will seek to confirm the tax treatment of their carried interest receipts in such circumstances by way of a tax ruling.

In summary, however, where the conditions are not met the carried interest is likely to be taxed as either employment income, or investment income. Employment income would be taxed at progressive rates up to 43% plus surcharges. Investment income (if available, notwithstanding that the conditions for the carried interest regime have not been met) would be taxed at the same rate as returns within the scope of the carried interest regime – i.e. at the rate of 26%.

Key factors for the classification as investment income (rather than employment income) would typically be (i) the alignment of interests between investors/ shareholders and the relevant executives, (ii) the exposure of executives to the risk of investment loss, and (iii) the level of capital investment made by the executives (the key focus here being whether the level of investment can be considered to be a source of financing for the underlying businesses in which the fund invests). Any loan arrangements to executives to finance their investment into the fund would need to be carefully assessed.

Other considerations

The Italian tax rules include several favourable tax regimes designed to encourage non-residents to relocate to Italy. These include:

- an "inbound workers" regime, which allows up to 50% of a qualifying inbound employee's Italian-source salary to be paid tax-free (up to an annual cap of €600,000); and
- a "new-resident" regime, which allows high-net-worth individuals to pay a flat substitute tax (currently €300,000 per year) on all their foreign-source income, regardless of amount, for up to 15 years.

The interaction between these regimes and carried interest taxation needs to be assessed on a case-by-case basis – with the analysis depending on matters such as the territorial source of the carried interest and how the carried interest is classified (i.e. as investment income or as employment income).

07

Luxembourg

Luxembourg

Since January this year, a new special carried interest tax regime has applied to all distributions of qualifying carried interest paid out from 1 January 2026 onwards.

The new regime draws an important distinction between “contractual” carried interest returns and carried interest returns that are linked to an ownership participation in the relevant fund.

Both forms of return are subject to a favourable regime – with a full exemption being available for carried interest returns that are linked to an ownership participation in a fund. This is clearly very attractive to executives based in Luxembourg.

“After years of anticipation, Luxembourg has finally introduced an efficient carried interest tax regime. The new framework provides much-needed clarity and flexibility, covering a wide range of scenarios from ‘contractual’ to ‘invested’ carried interest.”



Maxime Budzin
Counsel, Luxembourg

Snapshot summary					
Special regime for carried interest?	If not, can beneficial tax treatment be otherwise obtained?	(Effective) tax rates for carried interest		Is material executive investment a condition for beneficial treatment?	Is beneficial treatment only available to funds with a particular structure or strategy?
		If conditions are met:	If conditions are not met:		
Yes	N/A	0% if linked to an ownership participation, or up to 11.45%	Up to 45.78%	No	Yes

Luxembourg

The new Luxembourg carried interest tax rules (applicable to all carried interest distributions paid out from 1 January 2026 onwards) establish a separate tax regime for two distinct forms of carried interest payment: (i) "contractual" carried interest and (ii) carried interest that is linked to an ownership interest in the fund.

The new rules replace a temporary (and somewhat limited) preferential tax regime that previously applied to carried interest. There is no grandfathering of the old regime and hence any distribution of carried interest paid out from 1 January 2026 onwards will fall within the scope of the new regime, regardless of whether the payment relates to a carried interest arrangement that was established prior to 1 January 2026.

Persons in scope

The carried interest tax regime in Luxembourg is designed to apply broadly to Luxembourg tax- resident individuals involved in the management of an AIF. The rules can apply to (i) employees of the AIF, (ii) employees of the fund AIFM, and (iii) any other individuals who play an effective role in the management of the AIF (although this must be more than a purely administrative function). This includes persons engaged in portfolio management and risk management activities.

Specifically, the regime covers:

- Employees of related service providers (such as advisory firms);
- Independent directors and non-employees providing services (including consultants); and
- Other individuals involved in the AIF's management or performance arrangements (such as shareholders).

As a result, and as will be clear, the regime applies widely and will apply to most persons who have a role in connection with the management of an AIF. This broad scope regime applies to both "contractual" carried interest and "invested" carried interest.

Eligibility conditions

There are limits in the scope of the rules – a key point to note being that the regime only applies to carried interest that derives from an AIF structure.

It does not, however, matter where the AIF is established – the regime applies to carried interest arising from both Luxembourg and non-Luxembourg AIF structures.

In an extension to the rules that applied before 2026, it also does not matter whether the AIF is treated as tax-transparent or opaque for Luxembourg tax purposes – both can fall within the regime. As such, the new regime can apply to range of AIF structures including limited partnerships (*société en commandite simple*), special limited partnerships (*société en commandite spéciale*) and FCPs.

The regime can also apply regardless of whether the entitlement to carried interest (whether "contractual" or "invested") is held directly in / from the AIF or indirectly, via a dedicated carried interest vehicle.

“Invested” carried interest

For Luxembourg tax-resident executives holding a direct or indirect participation in an AIF carried interest returns will be fully tax exempt provided the relevant executive (i) does not (individually) hold more than 10% of interests in the relevant AIF and (ii) receives any carried interest distributions after an initial six-month holding period.

Although Luxembourg law does not prescribe a minimum investment amount for carried interest holders, the investment should nevertheless be genuine and commercially meaningful. In particular, the participation should reflect real economic substance and exposure to investment risk; a purely nominal, artificial or formal participation is therefore unlikely to be sufficient.

In practice, these requirements should generally not give rise to significant difficulties in the context of a properly structured carried interest arrangement.

“Contractual” carried interest

As an alternative, the new tax regime also provides for arrangements in which "carried interest" is paid out to the individual under a contractual arrangement (without the individual holding any form of direct or indirect ownership participation in an AIF).

Where carried interest is structured in this way, the returns are taxed at a quarter of the global income tax rate – and so will be subject to a tax rate of up to a maximum rate of 11.45%.

Other considerations

As a point of detail, we note that Luxembourg's tax rules include a regime designed to encourage non-residents to repatriate to Luxembourg. However, this regime would not be expected to impact the tax treatment (or reduce the level of tax payable) in respect of carried interest returns as described above.

08

Netherlands

Netherlands

There is no dedicated carried interest tax regime in the Netherlands, and so carried interest returns can be taxed under general principles at progressive tax rates up to 49.5%.

In practice, however, carried interest arrangements are generally structured to qualify as a “lucrative interest” – in which case returns can be taxed under the Dutch personal income tax “Box 2” regime at current rates of up to 31% (from 2026). The tax treatment of carried interest is however a current political hot topic (as well as being a focus of the Dutch tax authorities). As such, we expect that changes are likely to be introduced soon.

“In the Netherlands, carried interest is generally taxed as a “lucrative interest” under the Box 2 regime at rates of up to 31%. These rules are, however, under review, with changes to increase the level at which carried interest is taxed expected in the near future.”



Pascal Borsjé
Senior Advisor, Amsterdam

Snapshot summary					
Special regime for carried interest?	If not, can beneficial tax treatment be otherwise obtained?	(Effective) tax rates for carried interest		Is material executive investment a condition for beneficial treatment?	Is beneficial treatment only available to funds with a particular structure or strategy?
		If conditions are met:	If conditions are not met:		
No	Yes	Up to 31%	Up to 49.5%	No	No

Netherlands

There is no specific tax regime for carried interest in the Netherlands and under general principles carried interest returns can be taxed at progressive rates of up to 49.5% (Box 1). However, carried interest arrangements in which Dutch executives participate can generally be structured to qualify as a “lucrative interest” for Dutch tax purposes. In this case, returns may be taxed under the Box 2 regime at a general rate of 31%.

We note that the Dutch government have proposed amendments to the lucrative interest regime. The contemplated changes include plans to, from 2028 onwards, apply a multiplier to lucrative interests structured through Box 2. While the current regime will continue to exist, the application of this multiplier would increase the taxable base and therefore the effective tax burden. Specifically, if the proposed changes are introduced, the taxable base will be grossed up by applying a 36/31 multiplier. As a result, the effective Box 2 tax rate will increase from up to 31% to up to 36% (calculated using 2026 rates). We will be monitoring developments in this area.

Persons in scope

The “lucrative interest” regime is not specific to carried interest arrangements or the asset-management industry more generally – and hence the possibility of benefiting from this treatment is not limited to any specific sector, investment strategy or legal form of the fund arrangements.

Eligibility conditions

Box 2 treatment applies to certain payments from an entity that in principle qualifies as non-transparent for Dutch tax purposes, in which an individual holds a substantial interest, meaning 5% or more of a certain class of shares (whereby an interest is treated as a ‘share’).

If an executive holds their lucrative interest in a fund through such a holding entity, and at least 95% of the income derived by this holding entity is distributed to the executive in the calendar year of receipt by the fund, Box 2 treatment should be available. These structural requirements can generally be achieved without much difficulty but may require (amongst other things) escrow arrangements at lower levels within the fund structure.

Points of uncertainty

The Dutch tax classification of non-Dutch (fund) vehicles as either tax transparent or opaque is an area of uncertainty. The tax transparency rules have been subject to material legislative change with effect from 1 January 2025 and, noting these rules are not straightforward, as things stand generally entail an assessment of the typical legal features of the fund vehicle and its regulatory status. This is important, because Box 2 treatment can only be available for a participation held (directly or indirectly) in a vehicle that is opaque for Dutch tax purposes.

Further legislative change in this area is anticipated, with new Dutch tax transparency rules proposed to take effect from 1 January 2028. In practice, the application of the Dutch tax transparency rules therefore requires review and detailed consideration to avoid adverse tax consequences.

Employment tax considerations

Whilst the lucrative interest regime does not require a specific level of commitment into a fund (or any other) structure, the Dutch tax authorities are very focused on the day-one value of the carried interest entitlement acquired by the Dutch executives – and will typically not accept that the carried interest entitlement has a low or nominal value. Valuation of the carried interest entitlement acquired by the Dutch executives will typically be a point of discussion with the Dutch tax authority and can lead to significant day-one tax costs on the basis that the relevant executive has obtained a "benefit in kind" attached to their employment. Any such benefit in kind liability will be subject to tax at progressive rates of up to 49.5% (Box 1). To manage this and to obtain certainty, it is common to seek an advance tax ruling with the Dutch tax authorities prior to the launch of the fund structure. This is strongly advisable given the enforcement approach of the Dutch tax authorities, combined with the risk of post-filing challenges issued to executives without such rulings.

Other considerations

As a point of detail, we note that the Dutch tax rules include a regime designed to encourage non-residents to repatriate to the Netherlands. In summary, the regime allows up to 30% of a qualifying inbound employee's salary to be paid tax-free (reducing to 27% from 1 January 2027), subject to eligibility thresholds. Whilst relevant to overall compensation arrangements, this regime is not relevant to the "lucrative interest" tax rules described above.

09

Spain

Spain

Prior to 2023, there was no settled position on the tax treatment of carried interest returns in Spain – with the key point of focus being whether carried interest returns should be taxed as employment or investment income.

The position has however been clarified from 1 January 2023 onwards, as there is now a regime which (subject to certain conditions and restrictions) classifies carried interest as employment income but allows for a 50% reduction of the amount that is subject to tax for Spanish personal income tax purposes.

“Recent legislation confirms the tax treatment of carried interest. The classification as salary income comes along with a beneficial tax treatment for those who fulfil certain requirements.”



Roberto Grau
Senior Counsel, Spain

Snapshot summary					
Special regime for carried interest?	If not, can beneficial tax treatment be otherwise obtained?	(Effective) tax rates for carried interest		Is material executive investment a condition for beneficial treatment?	Is beneficial treatment only available to funds with a particular structure or strategy?
		If conditions are met:	If conditions are not met:		
Yes	No	~23-27%	Up to ~50%	No	Yes

Spain

There is a specific carried interest tax regime in Spain. The rules, introduced in 2023, did not include any form of grandfathering provisions – and hence apply to carried interest returns (and carried interest linked returns) regardless of when the underlying fund arrangements were established.

Similarly to the position in Germany, where the conditions for the regime are met the carried interest returns are treated as ordinary income for Spanish tax purposes with the availability of a 50% tax exemption (rather than the 40% exemption in Germany). As such, every €100 of carried interest is taxable as to €50 at ordinary income tax rates and €50 is exempt from tax. The effect is that qualifying carried interest is subject to an effective tax rate of approximately 23% –27%, compared with the ordinary personal income tax rates of up to approximately 50%.

Persons in scope

The carried interest rules are aimed at executives working in the asset management industry – and are available to Spanish executives investing (directly or indirectly) into a relevant fund vehicle (i) where they have an employment relationship with the fund itself, or (ii) the executive is employed by the manager of (or investment advisor to) the relevant fund.

Similar to the position in Luxembourg, there is no need for the Spanish executive to hold an ownership interest (direct or indirect) in the relevant fund. The carried interest regime can apply to returns paid out via a form of ownership interest (such as via a standard carried interest vehicle arrangement) or contractually (for example, a bonus paid by the executive's employer where such bonus is linked to the carried interest paid out by a fund).

Eligibility conditions

Whilst potentially very beneficial, the scope of the Spanish carried interest tax regime is, however, somewhat restricted.

Certain conditions for application of the regime are as follows:

- The entitlement of the carried interest recipients must be conditional on third-party investors receiving a minimum return as defined in the fund documents.
- The entitlement to receive carried interest is subject to a five-year lock-up period (similar to the position in France). This is subject to limited exceptions.

However, the key limitation of the Spanish carried interest tax regime is that the rules only apply with respect to carried interest paid out by certain types of fund vehicle. Accordingly, many standard European fund structures and strategies will not fall within the scope of the rules.

To fall within the rules, the underlying carried interest entitlement must derive from one of the following forms of vehicle:

- Venture capital entities (Entidades de Capital Riesgo)
- European venture capital funds (Fondos de Capital Riesgo Europeos)
- European social entrepreneurship funds (Fondos de emprendimiento social europeos)
- ELTIFs – European Long-Term Investment Funds
- Other analogous investment entities – in relation to the concept of “analogous investment entities”, the Spanish tax authority published a ruling in July 2023 stating that a case-by-case analysis must be made to determine whether a given foreign entity is analogous.

As such, many standard fund structures are not within the scope of the Spanish carried interest regime – for example, the regime would not be available to a standard Luxembourg non-ELTIF credit fund.

Tax treatment where conditions are not met

Any carried interest return that does not satisfy the above requirements would be generally treated as salary income and taxed at the ordinary Personal income tax rates of up to c. 50%. This is the case regardless of how the entitlement to benefit from the carried interest returns is structured – i.e. the same result would apply if amounts were paid as a bonus or, for example, received via a participation in a carried interest vehicle that forms part of the fund. In the latter case, it would, however, be necessary to consider if the carried interest vehicle would be “looked through” for Spanish tax purposes (noting this can give rise to timing and other mismatch issues for Spanish tax purposes).

Other considerations

As a point of detail, we note that the Spanish tax rules include a regime designed to encourage non-resident individuals to relocate to Spain – in summary, where an individual elects into this regime the individual can benefit from a reduced tax rate (24%) on employment income up to a threshold of €600,000 (with employment income above this taxable at 47%). This regime is not generally relevant to Spanish executives receiving carried interest returns that qualify for the 50% tax exemption described above, but can be of some interest to any executive who receives carried interest returns that fall outside of the tax exemption regime.

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United Kingdom

United Kingdom

In April 2026, a significant change to the way in which carried interest is taxed in the UK was introduced.

Under the prior rules, carried interest kept its characterisation as a return on an investment in a fund – albeit certain adjustments were made, including to the applicable capital gains tax rate.

The revised framework now sits within the UK's income tax regime, but the provision of a 72.5% multiplier for “qualifying” carried interest has preserved a special status – an effective tax rate of ~34.1% (against a headline income tax rate of 45% plus national insurance contributions) – for carried interest that meets certain conditions.

While simplifying the existing rules was one of the stated benefits of the proposals, the main driver was the government's policy objective of addressing the perceived “loophole” in the existing framework and aligning the taxation of carried interest more closely with its perceived economic characteristics as a reward for investment management services (i.e. as income).

“The UK's revised regime places carried interest firmly within the income tax framework, but the application of a 72.5% multiplier for ‘qualifying’ carried interest preserves a special status for carried interest where the relevant conditions are met. The new regime has extra-territorial application, causing complexity for many non-UK tax residents.”



Laura Underhill
Partner, London

Snapshot summary

Special regime for carried interest?	If not, can beneficial tax treatment be otherwise obtained?	(Effective) tax rates for carried interest		Is material executive investment a condition for beneficial treatment?	Is beneficial treatment only available to funds with a particular structure or strategy?
		If conditions are met:	If conditions are not met:		
Yes	N/A	~34.1%	45% (for additional rate taxpayers) plus national insurance contributions	No	Yes

United Kingdom

Under the UK's new carried interest tax regime, carried interest returns will be taxed as profits of a deemed trade (rather than as a return on an investment in a fund).

As a result, carried interest (subject to certain limited deductions) will be subject to income tax at the relevant carried interest recipient's marginal rate of tax (currently 45% for additional rate taxpayers) plus self-employed national insurance contributions. Where the conditions for "qualifying" carried interest are met, a 72.5% multiplier applies, producing an effective tax rate of approximately 34.1%.

Persons in scope

The regime applies to all individuals who perform "investment management services", directly or indirectly, in respect of an "investment scheme". There is no requirement for material executive investment in the fund.

Both UK and non-UK tax residents may fall within scope, subject to statutory limitations for non-UK residents (see below) – this extraterritorial application therefore represents a significant expansion of the UK's tax net.

There is no prescriptive list of vehicles from which the carried interest must arise; the term "investment scheme" is drafted broadly, and the fund or its investments need not be situated in the UK.

Eligibility conditions

The core condition for carried interest to be "qualifying" (and therefore eligible for the reduced rate) will be the AHP of the fund's investments. Broadly, if the AHP of the underlying investments from which carried interest is derived is at least 40 months, 100% of the carried interest will be "qualifying". A sliding scale applies where the AHP is at least 36 months but less than 40 months. Below 36 months, none of the carried interest will be "qualifying". Detailed rules apply to the calculation of the AHP, which vary depending on the type of fund and investments in question, building on (and in some cases improving on) elements of the previous regime.

Considerations for non-UK residents

The UK will seek to exercise extraterritorial taxing rights on non-UK residents under the new rules. The "deemed trade" will be treated as carried on in the UK (and subject to UK tax) to the extent that investment management services are performed in the UK, with a specified apportionment methodology set out in the rules.

Certain statutory limitations are available for non-UK residents who may otherwise fall within scope. Very broadly, the carried interest holder would need to work fewer than 60 days in the UK in a tax year, or the carried interest would need to arise more than three tax years after the last year in which the carried interest holder worked more than 60 days in the UK (or was UK tax resident) in a tax year in order for these to be relevant. Note that days worked in the UK before October 2024 may be discounted.

Importantly, however, these statutory limitations only apply where the carried interest is (or is anticipated to be) “qualifying”. Non-UK tax residents should therefore consider carefully the implications of performing investment management services in the UK given the potential tax consequences (including the risk of double taxation). Relief from double taxation might be available under double tax treaties, but that is far from certain and further consideration of that point is beyond the scope of this guide.

Employment tax considerations

Where UK participants in carried interest arrangements are employees, in addition to the specific carried interest regime described above, consideration should be given to applicable employment tax considerations. Generally, provided that the participants are acquiring their carried interest at market value (ignoring any depressing effect of transfer restrictions, vesting and other restrictions) and valid Section 431 Elections are made, no employment tax issues should arise. These employment-related tax considerations are unchanged by the new UK carried interest regime.

Other considerations

As a point of detail, we note that the UK tax rules include a regime (the so-called “FIG” regime) that allows individuals who relocate to the UK to claim tax relief on certain types of foreign income and gains for a four-year period. It is possible (depending on the facts) for a portion of carried interest to fall within the scope of qualifying foreign income for the purposes of these rules, and so in some circumstances relief from tax on carried interest returns can be claimed under the FIG regime.

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United States

United States

Provided that carried interest is properly structured, US executives generally benefit from a flow-through of the character of profit allocations from the underlying fund rather than employment income.

Thus, to the extent that allocations are attributable to the sale of capital assets held for more than three years or certain types of dividend income, such allocations generally should be taxed as long-term capital gain at a maximum US tax rate of 20% rather than as employment income (i.e. disguised compensation) at a maximum US tax rate of 37%.

“The United States taxation of carried interest is well settled. US tax-resident executives generally benefit from a favourable tax regime on underlying long-term capital gains to the extent they are properly structured.”



Rebecca Pereira
Partner, New York

Snapshot summary					
Special regime for carried interest?	If not, can beneficial tax treatment be otherwise obtained?	(Effective) tax rates for carried interest		Is material executive investment a condition for beneficial treatment?	Is beneficial treatment only available to funds with a particular structure or strategy?
		If conditions are met:	If conditions are not met:		
No	Yes	Up to 20%	Up to 37%	No	Yes

United States

The two principal US tax issues impacting the treatment of carried interest paid to US tax-resident executives are (i) whether the carried interest is granted in a vehicle treated as a partnership or corporation for US tax purposes, and (ii) whether the US executive will be treated as a "partner" in the applicable vehicle or will instead be treated as receiving disguised compensation.

Persons in scope

US tax resident individuals typically are entitled to benefit from flow-through taxation on capital gains in respect of carried interest, including in certain cases interests held through personal holding companies treated as partnerships or "disregarded entities" for US tax purposes, as well as certain trusts.

"Qualifying" carried interest

Assuming the vehicle granting carried interest is treated as a partnership for US tax purposes, a US tax resident executive generally is not treated as receiving any amount of taxable compensation income by reason of the issuance of the carried interest, provided that (i) the carried interest received represents solely an interest in the future profits of the vehicle, and does not provide the US executive with embedded value on a "deemed liquidation" basis in excess of the amount the US executive paid for his or her carried interest, and (ii) the amount the US executive pays for the carried interest is otherwise equal to the fair market value of such interest. In addition, US executives receiving a grant of carried interest should make a valid election under Section 83(b) of the U.S. Internal Revenue Code of 1986, as amended, within 30 days of the grant of such carried interest.

Provided that a US executive is considered a partner in the vehicle granting the carried interest, and not receiving carried interest as disguised compensation, the US executive should benefit from a flow-through of the character of his profit allocations from the vehicle and, indirectly, the underlying investments. Thus, to the extent that allocations are attributable to the sale of capital assets held for more than three years or certain types of dividend income, such allocations should be taxed as long-term capital gain at a maximum US tax rate of 20% (except for specific categories of gains subject to higher maximum rates) rather than as employment income (i.e. disguised compensation) at a maximum US tax rate of 37%.

In addition, US state and local taxes and federal surtaxes may apply to the carried interest returns of a US tax resident executive.

Cross-border issues (or non-resident considerations)

Non-US Tax residents that are granted carried interest in a vehicle that is treated as a partnership for US tax purposes may be subject to US tax filing and payment obligations to the extent such partnership is treated as engaged in the conduct of a US trade or business or derives ECI. In addition, carried interest generated from US source dividends or US source interest from underlying investments may be subject to US WHT. An applicable double tax treaty may prevent double taxation through exemption or credit mechanisms (though this point is not explored further in this guide).

In addition, non-US tax residents that perform services from within the United States should consider the impact of the US tax rules on the taxation of their carried interest.

Other considerations

Unlike some other jurisdictions discussed in this guide, the US does not have any particular rules relating to carried interest that are designed to attract non-residents to relocate to the US.

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Glossary

Glossary

AHP	Average holding period
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
ECI	Income that is treated as “effectively connected” with the conduct of a trade or business within the United States
EEA	European Economic Area
ELTIE	European Long-Term Investment Fund
EU	European Union
FCP	Fonds Commun de Placement (Luxembourg)
FCPR	Fonds Commun de Placement à Risque (France)
FPCI	Fonds Professionnel de Capital Investissement (France)
SLP	Société de Libre Partenariat (France)
US tax	US federal income tax
WHT	Withholding Tax

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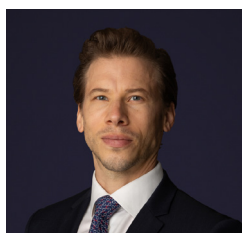


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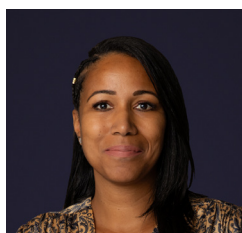
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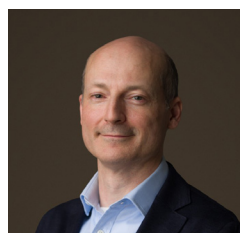
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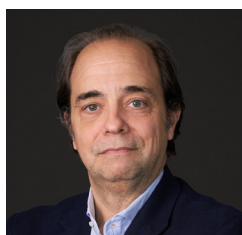
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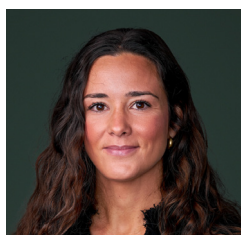
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Scope and disclaimer

The guide focuses on tax-resident individuals as recipients of carried interest rather than corporates or other vehicles, the tax treatment of which may differ. Unless otherwise stated, the guide does not cover "shadow" carried interest or other contractual or bonus-like arrangements. It also does not consider in detail the impact of cross-border arrangements and, in particular, does not focus on the possible impacts that the availability and operation of double taxation treaties may have. If you would like to discuss any of the issues raised in this guide, or any other matter relating to carried interest and/or executive incentivisation, please contact us.

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.

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