

# Tax treatment of **Carried Interest** in key markets

SURVEY 2026

# INTRODUCTION

Carried interest (CI) or “carry” refers to the portion of a fund’s investment profits allocated to a general partner (GP) fund manager as performance-based compensation in connection with their fund management activities. Designed to incentivize fund managers/GPs, and attract and retain top talent, CI is paid in addition to salary and any management fee and is distinct from returns attributable to the manager/GP’s own capital investment in the fund. CI typically represents 20% of investment profits and is distributed only after investors receive a return of their capital contributions plus a pre-agreed rate of profit on funds invested.

The tax treatment of CI across the globe differs and is often the subject of policy debate. Some countries have enacted—or are in the process of enacting—dedicated CI regimes that provide preferential treatment if specified conditions are fulfilled—such as minimum holding periods, acquisition of carry rights at market value, meaningful GP/manager co-investment, etc. Others classify CI as capital gains rather than ordinary income, resulting in lower tax rates and creating disparities compared to other fund employees whose compensation is taxed as salary.

**The following comparative survey looks at the tax treatment of Carried Interest in 20 countries.**



# AUSTRALIA

## Key Features

Australia has a special regime for the taxation of CI for domestic private equity funds structured as Venture Capital Limited Partnerships (VCLPs) and Managed Investment Trusts (MITs).

There is a difference in the tax treatment of CI for each vehicle type due to a policy decision, as MITs are used for other forms of collective investment classes, such as real estate and infrastructure where investors have received concessional deemed capital account treatment, whereas VCLPs are specifically used for collectivised investment in industries that traditionally could not easily access private equity capital.

## Tax Treatment

CI received via a general partner interest in a VCLP is taxed as capital gains rather than ordinary income.

For MITs, CI received on distributions from CI units (or “sponsor units”) are taxed on revenue account.

## Qualifying Conditions

The following conditions must be fulfilled to qualify for capital gains treatment:

- The CI right is generated by a general partner’s interest in a VCLP.
- Generally, the CI is only paid after the investment performance of the VCLP exceeds the commercially agreed hurdle returns already paid to investors.

For MITs, the deemed revenue treatment of returns on sponsor units is imposed on any unit issued to the manager or associate of the manager on account of the services being provided to the MIT, and there is an entitlement to a distribution following gains being made by the MIT.

## Tax Rate

For CI received through a VCLP, a 50% discount on qualifying capital gains is available if the CI is ultimately distributed to a resident individual and the CI entitlement has existed for 12 months or more, to which the rate is 23.25%. The rate is 30% if the CI is ultimately distributed to a corporate.

For CI received on sponsor units from a MIT, as the CI is treated on revenue account, the tax rate is up to 46.5% (excluding the Medicare Levy) if distributed to an individual or 30% if distributed to a corporate.

## Comments

Australian domestic private equity funds will typically avail themselves of the capital gains tax treatment for CI as afforded under the VCLP rules where the investment mandate of the fund includes the sectors to which VCLPs are permitted to invest.

MITs are typically used for sectors in which VCLPs are not permitted to invest, but are within the investment mandate of the fund, although the CI returns are not concessionally taxed on capital account.

# AUSTRIA

## Key Features

Austria does not have a special regime or rules for CI. CI is often taxed as capital income at a rate of 27.5%.

## Tax Treatment

Capital gains

## Qualifying Conditions

- There must be a partnership or co-investment; and
- The CI must qualify as a dividend.

## Tax Rate

**27.5%**

# BELGIUM

## Key Features

A CI regime that applies as from 29 July 2025 aims to provide legal certainty and clarify the tax treatment of CI.

CI is defined in general terms and essentially refers to the share of the profits of a “CI vehicle” received by a taxpayer who directly or indirectly engages in activities for that vehicle or for its manager (it is irrelevant whether the share is distributed as dividends, interest, capital gains or any other form).

The share of profit from a CI vehicle does not constitute CI for purposes of the new regime when the return (of the investment made by the beneficiary of CI) does not exceed proportionally what an ordinary investor receives as a return on their investment.

CI received by resident and nonresident individuals (the latter subject to the provision of a relevant tax treaty) will be classified as movable property income, subject to flat tax rate of 25%.

## Tax Treatment

Movable income

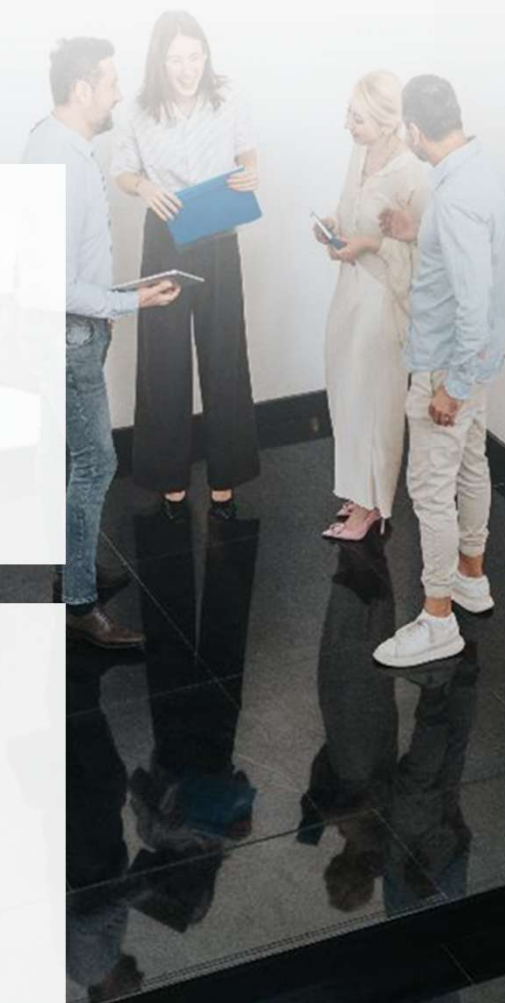
## Qualifying Conditions

- There must be a CI vehicle;
- The regime applies only to individuals.

## Tax Rate

**25%**

A 25% withholding tax is levied on CI.



# CANADA

## Key Features

Canada does not have preferential CI rules.

## Tax Treatment

Generally taxed as ordinary income (business income)

## Qualifying Conditions

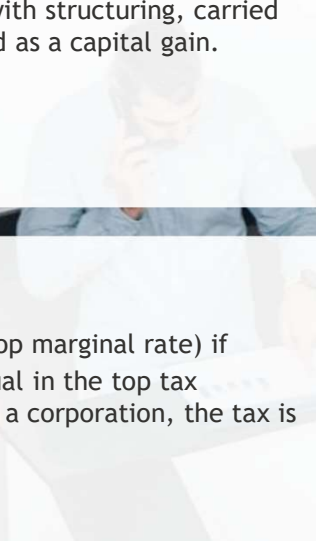
Carry must be received as a profit allocation from partnership income. However, if the partnership is considered to own stock of portfolio entities and with structuring, carried interest may be treated as a capital gain.

## Tax Rate

Up to about **53%** (top marginal rate) if allocable to an individual in the top tax bracket. If allocable to a corporation, the tax is about 26.5%.

## Comments

Although CI in Canada is not treated as capital gains, some planning may achieve capital gains treatment, which is more beneficial, but only on the sale of portfolio entities by the partnership and not as ordinary business income.



# DENMARK

## Key Features

Denmark has statutory rules for the taxation of CI, which are designed to tax CI in a manner similar to the taxation of employment income rather than capital gains, regardless of whether the PE fund participation is direct or indirect through a personal holding company.

## Tax Treatment

Employment income (CFC income if the participation is held through a company)

## Qualifying Conditions

- The recipient must be fully liable to taxation in Denmark;
- The recipient must have preferential rights over other investors; and
- The investment must be “via” (broadly interpreted) a fund that qualifies as a private equity fund, venture capital fund or infrastructure fund (as defined in the regime).

## Tax Rate

Tax rates are progressive at rates ranging from approximately **42%** to **61%**.

## Comments

Any tax on income taxed as CI resulting from an indirect participation through a company can be paid out from the company without paying dividend tax, but this requires communication with the tax authorities and may result in the taxpayer having to pay taxes up front.

# FINLAND

## Key Features

Finland does not have a special regime for the taxation CI-the general tax law applies.

## Tax Treatment

Capital income

## Qualifying Conditions

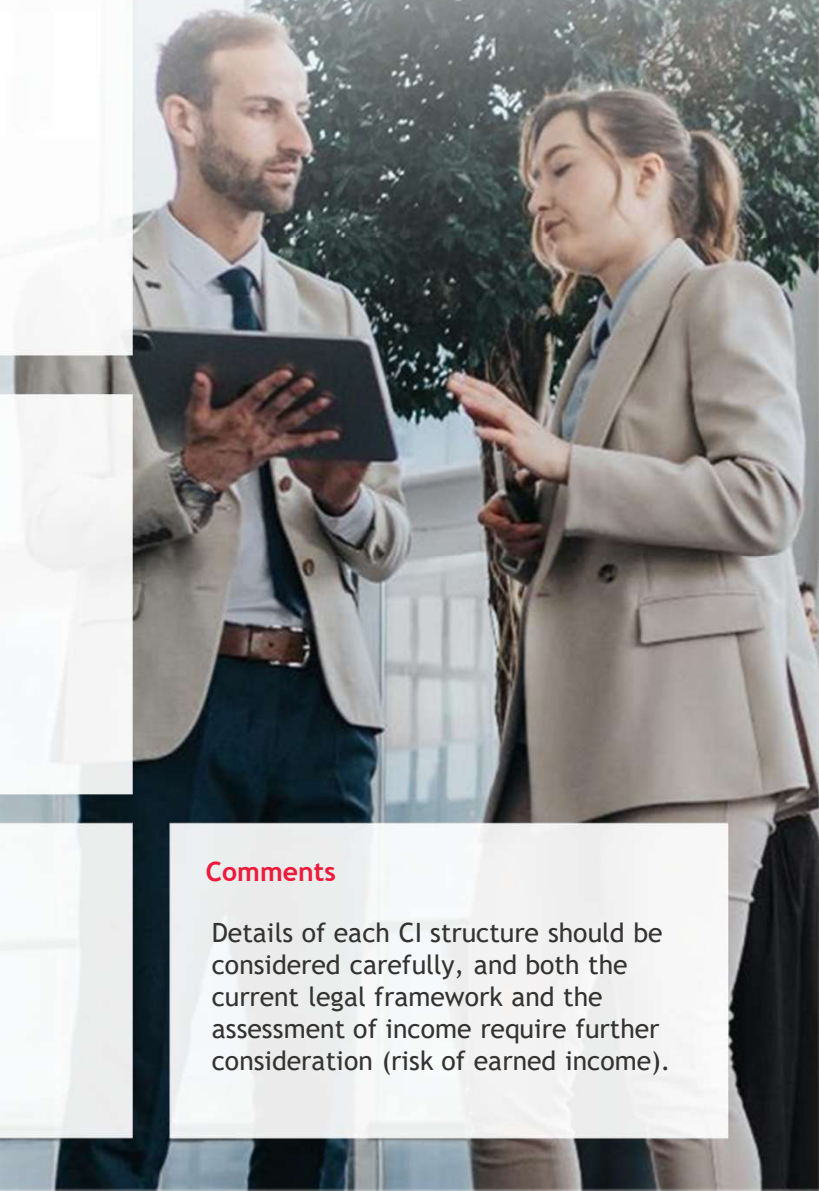
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## Tax Rate

**30%-34%**

## Comments

Details of each CI structure should be considered carefully, and both the current legal framework and the assessment of income require further consideration (risk of earned income).



# FRANCE

## Key Features

France has a special CI regime that provides for preferential tax treatment if certain conditions are fulfilled.

If the conditions for preferential treatment are not fulfilled, CI is recharacterised as employment income, taxable at progressive income tax rates (up to 45%, in addition to a 30% employee social contribution (no employer contribution) and possibly the high-income surtax), which could bring the combined effective tax burden for high-income individuals to over 70%.

## Tax Treatment

Capital gains and/or investment income

## Qualifying Conditions

- At the time of the subscription or acquisition of the CI, the beneficiaries must be employed or hold executive positions in a qualifying French or European fund;
- The CI must be subscribed to or acquired at fair market value;
- The investment must be at least equal to 1% of the total fund commitments (proportionally reduced where the CI represents less than 20% of total profits);
- A reduced minimum investment of 0.25% may apply for innovation focused funds (FIP/FCPI);
- No CI distribution may be made within five years of issuance (or fund establishment, as applicable); and
- CI must be fully subordinated to the full return of investors' contributed capital and any applicable hurdle rate or preferred return.

## Tax Rate

Qualifying CI: Capital gains taxation under the flat tax, i.e., a 30% aggregate rate (12.8% income tax + 17.2% social contributions) for gains taxed up to 2025. An increase in the social contribution component to 18.6% under the 2026 Social Security Finance Act, results in a 31.4% aggregate rate, which applies to gains realised in 2025 and taxed in 2026. Additionally, the high-income surtax of 3%-4% may apply as follows: 3% on CI exceeding EUR 250,000 (single) / EUR 500,000 (joint) and 4% above EUR 500,000 (single) / EUR 1,000,000 (joint).



# GERMANY

## Key Features

CI is typically not considered part of compensation (and therefore not subject to salary tax) in Germany but instead receives separate treatment as capital income or preferential treatment as carry income. Specific conditions must be fulfilled to qualify for preferential treatment.

## Tax Treatment

Preferential treatment (i.e., 60% of the carry payment is subject to the normal personal income tax rate, with the remaining 40% exempt, or 50% for older funds (with the remaining 50% exempt) and, for both, the deduction of costs); or as capital gain, subject to a 26% capital gains tax (without any deduction of costs).

## Qualifying Conditions

- The fund must be a qualifying fund (i.e., qualify as an asset managing partnership) and be set up to acquire, hold and dispose of shares in corporations;
- The fund must be in the form of a limited partnership;
- The CI must be paid as remuneration for services rendered by the carry holder to the entity; and
- The CI must be paid only after other investors have received repayment of their capital commitments. There is no requirement for an employment link.

If the above conditions are not fulfilled, the taxation normally reverts to capital gains taxation (which is sometimes also considered beneficial and therefore triggered intentionally).

## Tax Rate

**25%-30%**

# HONG KONG

## Key Features

An “eligible carried interest,” as defined in section 3 of Schedule 16D of the Inland Revenue Ordinance (IRO), is an amount received by or accruing to a person as a profit-related return from the provision of management services for a certified investment for a certified investment fund or specified entity.

The profit-related return consists of four conditions:

- The sum is received or accrued after the payment of a return on investments in a fund or entity, subject to the fulfilment of the hurdle rate, which refers to a preferred rate of return on investments in the fund or entity stipulated in the agreement governing the operation of the fund/entity;
- The sum arises only if there are profits for a period on the investments, or on particular investments made for the fund/entity, or there are profits arising from a disposal of investment made for the fund/entity;
- The sum is variable by reference to those profits; and
- The returns to external investors of the fund/entity are determined by reference to those profits.

## Tax Treatment

Eligible CI is subject to a concessionary profits tax rate and individuals who receive CI are eligible for a deduction.

## Qualifying Conditions

- The person receiving or accruing the eligible CI is a qualifying person (e.g., a Securities and Futures Commission licensed corporation) for the year of assessment;
- The eligible CI is received or accrued from a qualifying payer (i.e., an investment fund that fulfils the conditions for the fund profits tax exemption regime and is certified by the Hong Kong Monetary Authority);
- The eligible CI arises from profits on investment(s) that derive from transaction(s) (i.e., disposal) in securities in private companies or shares in a special purpose entity;
- The profits earned from the above transactions would, at the level of the fund or special purpose entity, satisfy the conditions for a profits tax exemption in accordance with IRO section 20AN or 20AO; and
- The substantial activities requirement (i.e., activities carried out in Hong Kong) is met for the relevant year of assessment.

## Tax Rate

**0%**

100% deduction

An eligible CI is subject to a concessionary 0% profits tax and individuals who receive CI are eligible for a 100% deduction of such amounts from their assessable income.

# INDIA

## Key Features

India does not have a specific regime for the taxation of CI. CI received by fund managers in India is generally structured as capital gains rather than salary or business income, allowing for preferential tax rates, provided the CI is structured as a return on investment rather than a performance fee.

## Tax Treatment

Capital gains where structured as units in the fund. However, it may be regarded as salary or business income where structured as performance payout.

## Qualifying Conditions

Certain categories of funds enjoy tax pass-through treatment in India. In such a case, characterisation of income in the hands of unit holders (including carry units) would be of same nature as in the hands of the fund. Where the fund has held securities for more than two years, capital gains would be regarded as long-term; otherwise, the gains are short-term.

## Tax Rate

**12.50%-30%**  
(plus the applicable surcharge cess)



# IRELAND

## Key Features

Ireland operates a special favourable regime for the taxation of CI, under which CI is generally taxed as capital gains rather than ordinary income, resulting in a lower tax rate. Specifically, companies face a 12.5% capital gains tax rate, while individuals or partnerships are subject to a 15% capital gains tax rate if certain conditions are fulfilled.

## Tax Treatment

Capital gains

## Qualifying Conditions

The regime applies only to the proportion of CI derived from “relevant investments” in the EEA and the UK and the CI may not exceed 20% of the total profits of the fund.

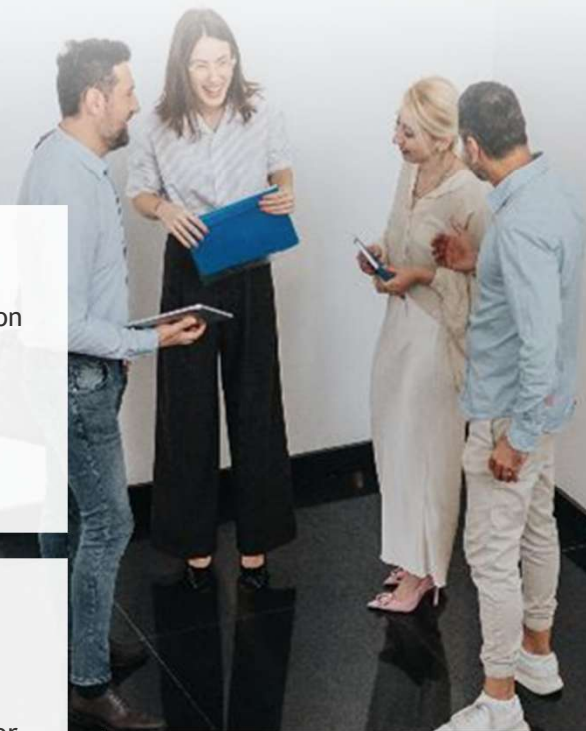
## Tax Rate

**12.5%** for companies

**15%** for individuals and partnerships



# ITALY



## Key Features

Italy has special rules that apply to CI. Under these rules, qualifying CI will be treated as financial income taxed at a lower rate rather than the progressive rates that apply to employment income (plus social security) if the required conditions are fulfilled.

If the relevant conditions are not fulfilled (in whole or in part), the CI will not automatically be classified as income from employment. A case-by-case analysis will need to be made to ascertain the category of income under which the CI falls (i.e., income from capital, capital gains or income from employment).

## Tax Treatment

Financial income or other income, depending on whether the requisite conditions are fulfilled.

## Qualifying Conditions

To qualify as financial income:

- There must be an employment relationship with an investment management company or an open-ended collective investment undertaking;
- The employees/managers must hold at least 1% of the aggregate investment made by the collective investment vehicle;
- The employees/managers must be paid only after all other shareholders or investors have received a return equal to their invested capital, plus the agreed hurdle rate; and
- The interest that entitles the employees/managers to the proceeds must be held for an uninterrupted period of at least five years.

If these conditions are not fulfilled (in whole or in part), however, the CI will not automatically be classified as income from employment; in these circumstances, a ruling may need to be obtained.

## Tax Rate

**26%**

# LUXEMBOURG

## Key Features

An updated CI regime adopted on 22 January 2026 modernizes the regime and introduces a mechanism to reward (i) individuals performing management functions (as employees, partners, managers or directors of AIFMs, management companies or AIFs); and (ii) individuals having a role in the management of an AIF performed in the context of a service agreement in line with the results they deliver.

The new rules, which apply to CI received as from tax year 2026, expand the scope of eligible beneficiaries and funds and make a clear distinction between two categories of CI: purely contractual CI that is not linked to a direct or an indirect investment in the fund and CI linked to a direct or an indirect participation.

The new regime no longer requires investors to be repaid first and will thus include deal-by-deal arrangements.

## Tax Treatment

Capital gains

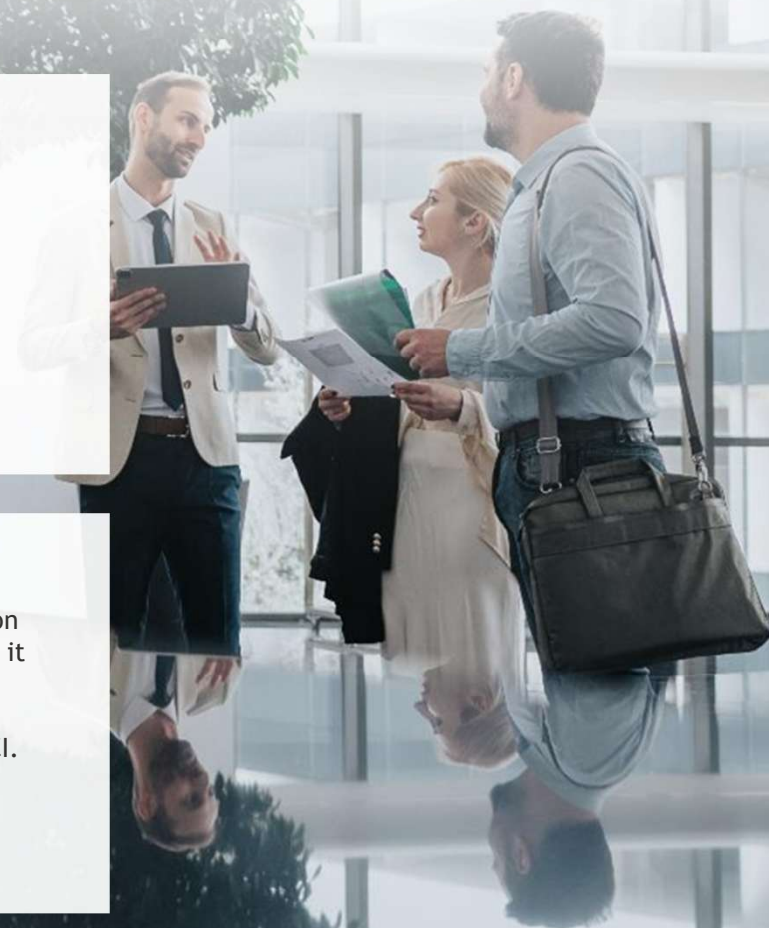
## Qualifying Conditions

For participation-linked CI, the participation must be held for more than six months and it must represent less than a 10% stake.

There are no conditions for a contractual CI.

## Tax Rate

**0%** for participation-linked CI and about  
**13%** (maximum) for contractual CI.



# NETHERLANDS

## Key Features

CI in the Netherlands is currently taxed as “income from other activities” (Box 1), which is subject to tax rates up to 49.5%, unless the CI can qualify for a lower rate under the “substantial interest” regime (Box 2).

The Netherlands tax treatment of CI is under review, with parliament looking at different options for taxing these payments.

## Tax Treatment

Income taxed under Box 1 or Box 2

## Qualifying Conditions

By default, CI benefits are taxed under Box 1, unless the conditions for the more beneficial Box 2 substantial interest variant are met:

- The manager must hold the CI indirectly through a holding company in which the manager has a substantial interest ( $\geq 5\%$ ).
- At least 95% of the CI income received by the holding company must be distributed to the manager in the same year.

If these conditions are fulfilled, the income is fully taxed under Box 2 and if not, the income is taxed in Box 1.

## Tax Rate

Box 1: progressive rates up to **49.5%**

Box 2: EUR 0 - EUR 68.842, **24.5%**  
and income exceeding EUR 68.843, **31%**

## Comments

The parliament is considering a legislative change that would apply as from 2028, which would introduce a multiplier, increasing the Box 2 tax base for indirectly held CI.



# NORWAY

## Key Features

Norway does not have a special regime for the taxation of CI. CI is generally treated as capital gains or business income, rather than employment income. The applicable tax rate for capital gains will depend on whether or not the participation exemption for companies and corporate shareholders applies.

## Tax Treatment

Business income or capital gains.

## Qualifying Conditions

Norway's Supreme Court issued a decision in 2015 in which it clarified the rules applicable to CI. An assessment of concrete facts and the law must be carried out to determine whether CI is business income or capital gains.

The decisive factors are whether the structure is in accordance with market practice, whether the parties have taken sufficient risk (investment risk, establishment risk, market risk) and the nature of the contributions and efforts that generate the return.

## Tax Rate

**22% / 0%**

Business income: 22%  
Capital gain (outside the participation exemption): 22%  
Capital gain (covered by the participation exemption): 0%  
Distributions (outside the participation exemption): 22%  
Distributions (covered by the participation exemption): 0%/0.66% (due to the 3% inclusion rule)

# SPAIN

## Key Features

Spain has a tax regime for CI, under which recipients may benefit from preferential treatment if certain conditions are fulfilled. In particular, CI is generally treated as employment income, but only 50% is included in the taxable base, resulting in an effective tax rate of about 27% (compared to a marginal rate of up to 54%, depending on the region).

## Tax Treatment

Employment income

## Qualifying Conditions

- The CI must arise from closed-end alternative investment funds as defined in the EU;
- The recipient must be a director, manager or employee of the fund, or of their management company or companies in their group;
- The carry shares must be held for at least five years; and
- The carry rights cannot derive directly or indirectly from a fund resident in a country or territory deemed to be a noncooperative jurisdiction or one that does not have a mutual assistance treaty for the exchange of tax information with Spain.

## Tax Rate

Up to **27%**

## Comments

The 50% exemption on employment income can be applied to payments received before the end of the five-year holding period, provided the carry shares are held until the end of the period.

The 50% relief on qualifying CI may be applicable to taxpayers covered by the Beckham law, a beneficial tax regime designed to attract skilled professionals, entrepreneurs and nonresident workers to Spain (to be confirmed by the General Directorate of Taxation).

# SWEDEN

## Key Features

Sweden does not currently have a CI regime, although the introduction of a CI regime is under consideration and was expected to apply as from 1 January 2026 but the measures have not yet been adopted.

The tax treatment of CI earned by employees and partners of PE firms has been a controversial topic, with the tax authorities taking the position that CI should be taxed as employment income and taxpayers arguing it should be investment income.

## Tax Treatment

Capital income or employment income

## Qualifying Conditions

Employment link, co-investment

## Tax Rate

**20%-53%**

Depending on whether the income is deemed to be capital gains or employment income.

## Comments

Sweden's Supreme Court issued a decision on the tax treatment of CI in June 2025, in which the court held that CI was capital gains for the recipient.

However, the tax authorities have taken the position that the outcomes of the cases before the Supreme Court apply only to the specific circumstances of each case and that no general conclusions can be drawn. As a result, there is still some uncertainty about the tax treatment of CI.

# SWITZERLAND

## Key Features

Switzerland has complex tax rules for CI. Corporate structuring is often used to optimize taxation, but the tax treatment of CI varies depending on the canton in which the manager resides and receives the CI.

## Tax Treatment

Ordinary income

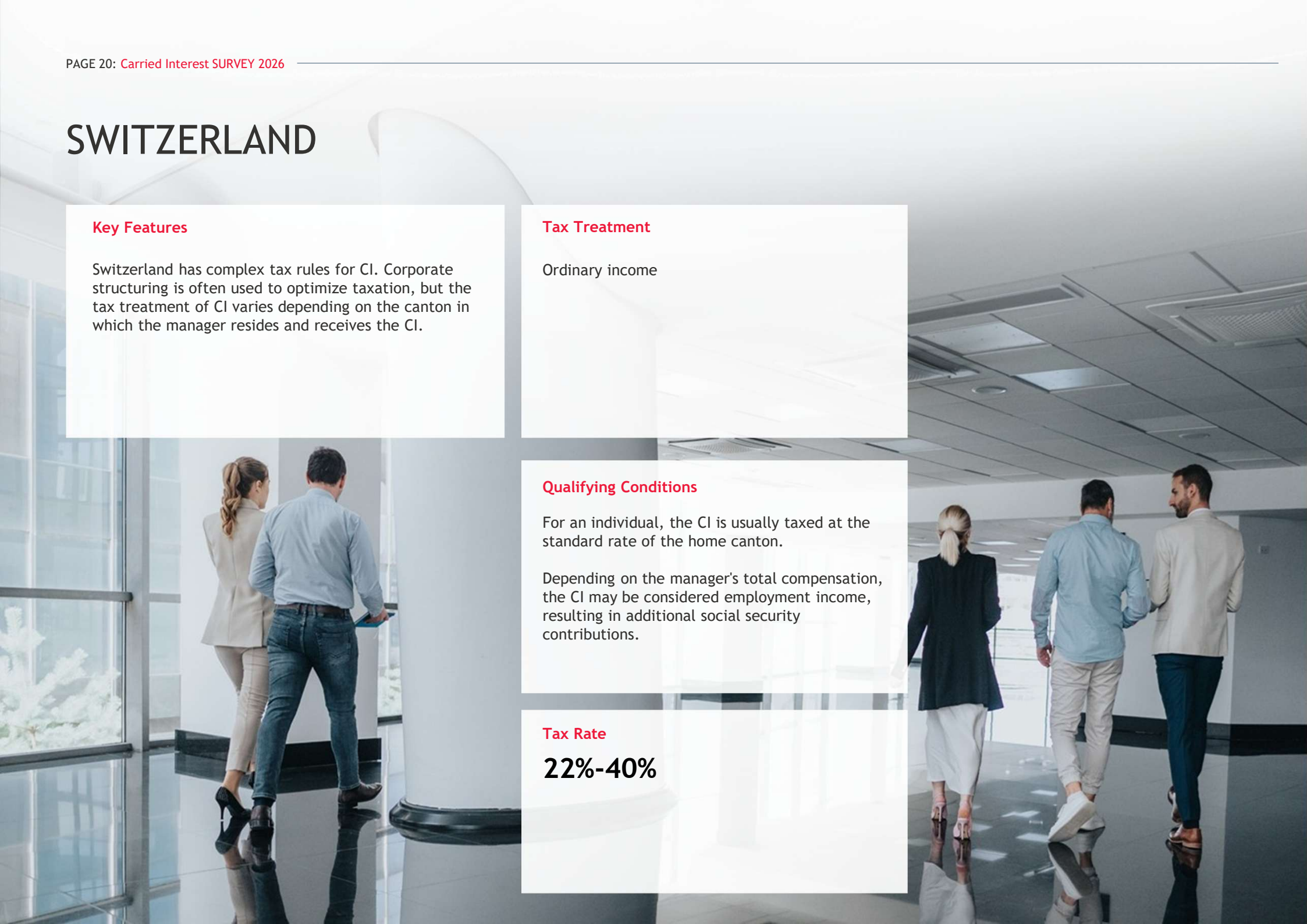
## Qualifying Conditions

For an individual, the CI is usually taxed at the standard rate of the home canton.

Depending on the manager's total compensation, the CI may be considered employment income, resulting in additional social security contributions.

## Tax Rate

**22%-40%**



# UNITED KINGDOM

## Key Features

Legislation will introduce a new CI regime as from 6 April 2026 that will treat all CI as trading profits subject to income tax (up to 45%) and Class 4 NICs (2% on profits above the upper profits limit). The amount of 'qualifying' CI subject to these taxes will be adjusted by applying a 72.5% multiplier, resulting in an effective tax rate of 34.075%.

The new regime is complex with a specific calculation method for the average holding period. The legislation is expected to be finalised in early 2026 with HMRC guidance issued by April 2026.

## Tax Treatment

Taxed as trading income from 6 April 2026

## Qualifying Conditions

Must meet the legislative definition of CI. Assets giving rise to CI must have an average holding period of 40 months or more

## Tax Rate

**34%** (up to 47%)



# UNITED STATES

## Key Features

The US does not have a special tax regime for CI. Instead, when the partnership is “in carry”, it will allocate available items of income, e.g., capital gain and/or ordinary income, to its partners including the carry partner. The character of income or gain allocated to the carry partner will determine the rate of tax imposed on the allocation.

It should be noted that CI may also be subject to state and local income taxation, which could be subject to rates of 14%+. This is in addition to any federal-level tax liability imposed on the allocation.

## Tax Treatment

The tax treatment of a CI allocation is initially determined with reference to the character of income and gain allocated by the partnership. In most fund settings, carry allocation will consist solely of long-term capital gains. However, part of the CI allocation may consist of ordinary income.

## Qualifying Conditions

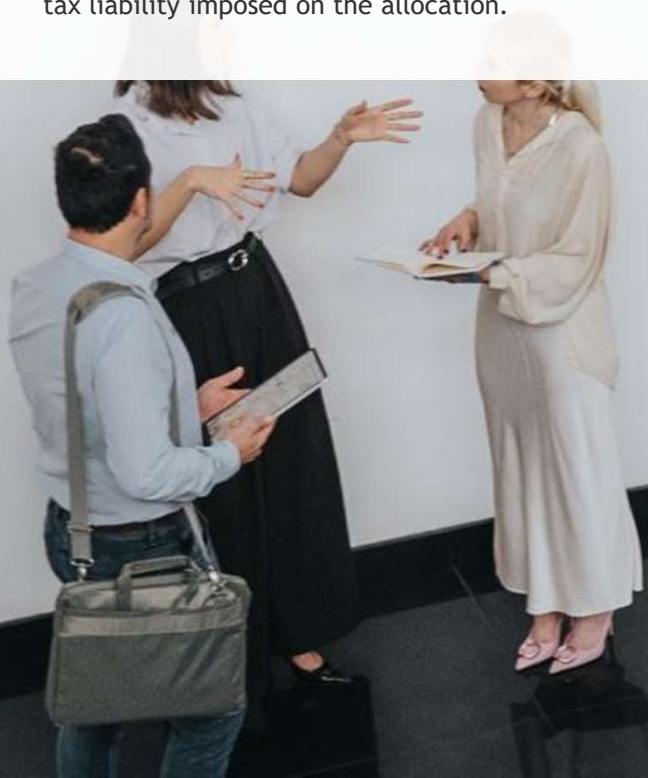
To qualify for long-term capital gains treatment, the property generating the carry allocation, e.g., stock in a portfolio company, must be held for more than three years. Gain attributable to property sold within the three-year holding period will be treated as short-term gains and taxed as ordinary income tax rates.

## Tax Rate

Federal tax rates vary based on the character of income recognized. CI allocations are typically subject to tax at the following rates:

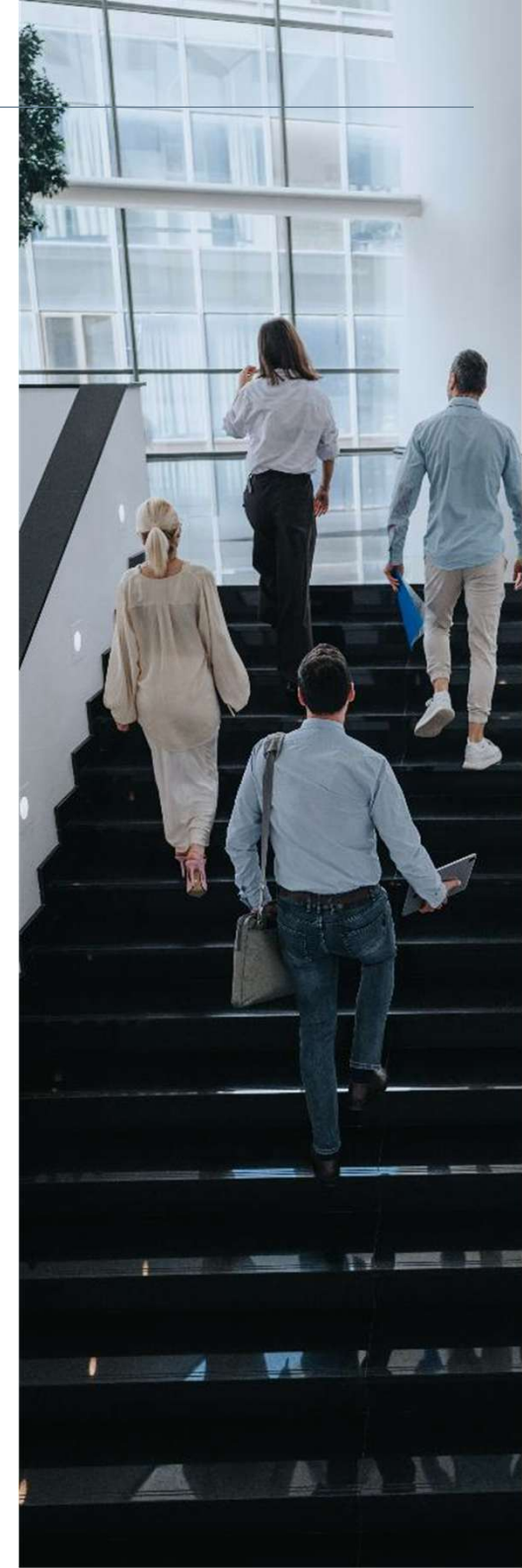
- Long-term capital gains: **23.8%**
- Short-term capital gains: **40.8%**
- Ordinary income: **40.8%**

These federal rates include the highest base rate, plus imposition of a 3.8% surtax associated with investment gains and/or self-employment income



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