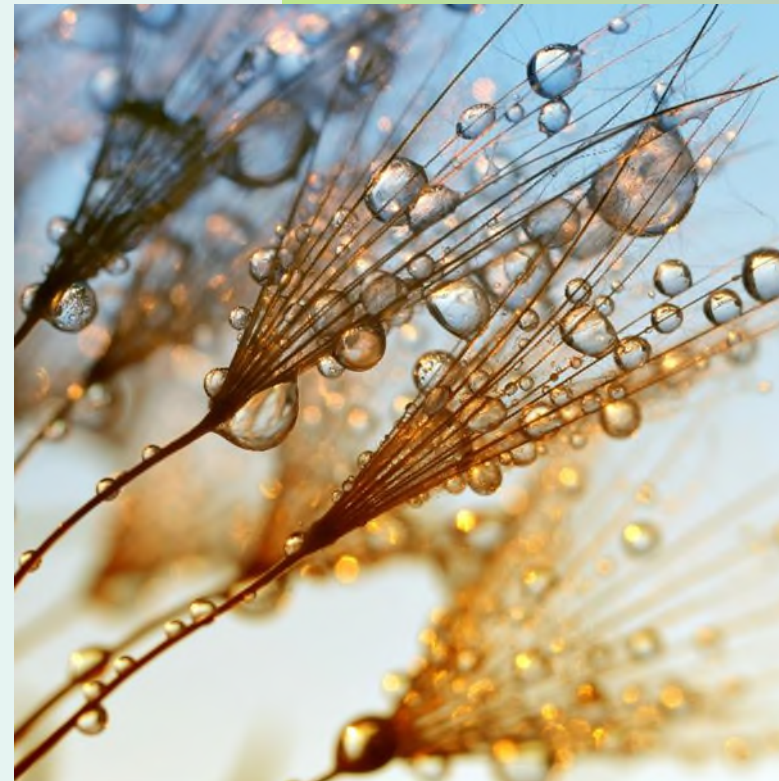


Hogan  
Lovells

# Carried interest for fund managers

Features in key  
jurisdictions

May 2026



# Contents

## Introduction

3

## France

4

## Germany

5

## Luxembourg

6

## Netherlands

7

## Spain

8

## United Kingdom

9

## USA

10

## Singapore

11

## Hong Kong

12

## Key contacts

13

# Introduction

**The continued rise of private capital has reshaped global investment markets. Capital flows have diversified across asset classes—from real estate and infrastructure to private credit and private equity—driving increasingly sophisticated fund structures and incentive arrangements.**

**Against this backdrop, carried interest and co investment mechanisms have evolved well beyond traditional models. Fund managers now face heightened tax, regulatory and reputational considerations when structuring performance-based returns, whether through classic or bespoke carry arrangements. In this environment, thoughtful tax design is not simply a matter of efficiency, but a critical element in mitigating risk, maintaining alignment, and achieving sustainable returns.**

This toolkit highlights the main tax structuring products available for carried interest payments to fund managers in the major fund jurisdictions – France, Germany, Luxembourg, the Netherlands, Spain, the UK, the U.S., Singapore and Honk Kong.

*The information included herein is solely for preliminary information purposes and is not intended to be, nor should it be construed to be, legal or tax advice. It is contained herein based on the tax laws presently in force at the date of this publication and is thus subject to any change in law that may take effect thereafter. It is therefore of utmost importance to consult our firm as to the effects of state, local or foreign laws to which they may be subject before any investment decision is taken.*

We are globally experienced in drafting and advising with respect to below areas, including some which are only locally specific:

- Carried interests, promotes and incentive fees
- Strategy-appropriate vesting arrangement
- Tax outcomes of carried interest shifts during fund life
- Tax distributions
- Management fee waivers/conversions
- Tax-motivated carried interest deferrals
- Special limited partners and other employee equity participation structures
- UBTI and ECI sensitive carried interest structures
- Legislative and regulatory changes
- Employment tax election

# France

## Legal scheme

Certain qualifying entities or funds (based in an EU member state or EEA country) can issue carried interest units to their French-based employees and managers.

Qualifying carried interest can benefit from a special tax regime, whereby it is treated as capital gains and taxed at a flat 31.4% rate (including income tax and social contributions but excluding the exceptional and differential contributions on high incomes), rather than employment income, subject to certain conditions.

### Conditions with respect to the beneficiaries

- Carry out **employee or manager functions** in one of the following entities or provides services related to the management of the vehicles mentioned below:
  - a French SCR (*société de capital-risque*),
  - a European capital-risk entity incorporated in an EU/EEA member state that has a DTA with France,
  - a management company of certain qualifying vehicles (such as FCPR, FPCI or SLP).
- Receive an **arm's length remuneration** with respect to their employment contract or corporate officer functions (i.e., in the range of usual market remunerations for the activities in question).

### Conditions with respect to the instruments

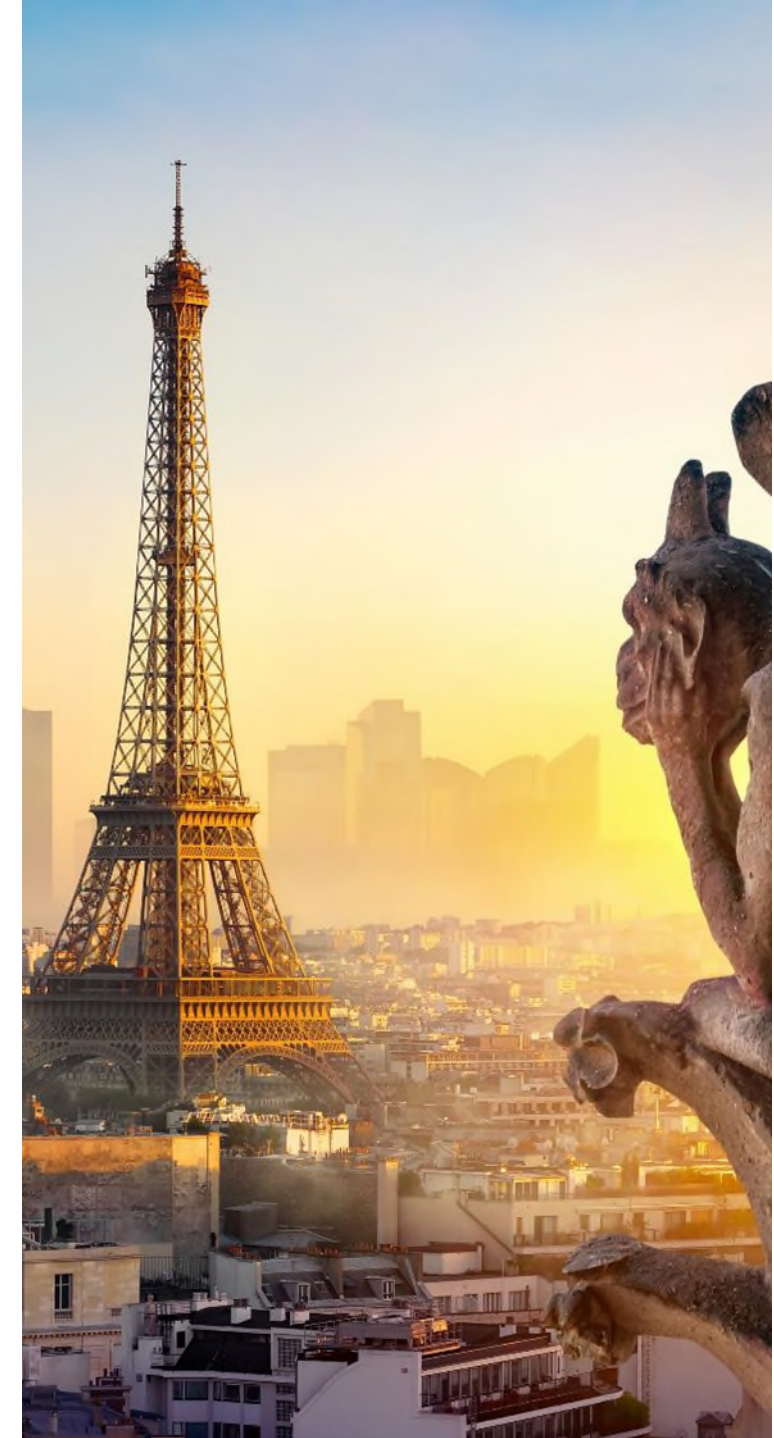
- Represent the **same class** of shares/units.
- Represent a **minimum percentage** of the amount of total subscriptions of the issuing entity:
  - 1% of the portion of subscriptions below €1bn,
  - 0.5% of the portion of subscriptions in excess of €1bn,
  - derogatory rate of 0.25% for PME under certain conditions,

The above percentages can be proportionally reduced when the carried interest entitlement is below the 20% benchmark of net assets or profits.
- Represent a **long-term** investment (minimum 5-year holding period)
- Be subscribed or acquired at their **fair market value**

Please note that carried interest remains outside of the scope of the newly enacted management packages tax regime (Article 163 *bis* H of the French tax code).

## Alternative tax efficient structures

Alternative schemes may be set up for the benefit of employees/managers, such as restricted stock unit (free shares) or employee warrant (BSPCE) which may benefit from special tax and social security regimes subject to certain conditions. Stock-options plans are also available, but the tax and social regime is no longer efficient.



# Germany

## Legal scheme

The tax treatment of carried interest in Germany depends on the type of fund.

Carried interest paid by an asset-management (*vermögensverwaltender*) fund can benefit from a special tax regime whereby 40% of the carried interest is tax-exempt. 60% will be taxed at the individual's tax rate as self-employed income. However, this exemption only applies if, under the carry agreement, any carry payment is subject to the condition of a full recovery of initial investments of the investors.

Carried interest paid by a trading (*gewerblicher*) fund, on the other hand, does not benefit from this preferential tax regime. Trading funds include funds that generate trading income based on their activities (*gewerblich tätig*) and funds that are deemed to generate business income based on their legal form (*gewerblich geprägt*). In these cases, the carried interest is generally considered as a service remuneration and as such, is fully taxable as self-employed income at the individual's tax rate.

However, recent German Federal Fiscal Court (“**the BFH**”) rulings imply that in case of a trading (*gewerblicher*) fund (where the special tax regime does not apply), the carried interest would under certain conditions nevertheless be 40% tax exempt (for individuals) because it is qualified as a disproportionate profit distribution. The BFH applies a two-step test to determine whether carried interest qualifies as a dividend distribution for tax purposes:

- First, a profit distribution agreement is presumed unless the carried interest is treated as a commercial (accounting) expense under the partnership agreement and is payable even in the absence of profits. Absent such an unambiguous arrangement, the carried interest qualifies as a profit share.
- Second, the profit distribution agreement must be grounded in the partnership relationship and withstand an arm's length comparison.

## Typical arrangements in practice

Under common German carried interest schemes, initiators invest in the fund through a carry vehicle which is usually an asset-management partnership which is fully tax transparent. This vehicle provides greater flexibility for corporate law purposes. It is also possible to set up the carry vehicle as a tax-opaque vehicle.



# Luxembourg

**Legal scheme:** As of 1<sup>st</sup> January 2026, a new preferential tax regime applies to both contractual and participating carried interest holders (11.45% taxation or full exemption), regardless of when their rights were acquired.

## Beneficiaries

- Any Luxembourg tax-resident individual directly or indirectly involved in the effective management (i.e., the performance) of the Alternative Investment Fund (AIF). Two scenarios are distinguished:
- Investment management functions: individual exercising portfolio and risk management function (either under an employment contract or as a partner, manager, or director), with purely administrative roles being excluded.
- Service providers: individual service provider involved in the management of the AIF under a consulting agreement.

## Attractive tax structuring

- Beneficiaries may now receive carried interest progressively as the fund's underlying assets are realized (deal-by-deal carry structure).
- All income derived from a participating carried interest in a tax-transparent AIF will systematically benefit from the exemption regime (if the conditions are met), regardless of the nature of the underlying income.
- Carried interest may be paid directly by the AIF or indirectly via the AIFM or GP provided the latter receive the income on behalf of the beneficiaries and subsequently distribute it to them.

## Tax Treatment

- Contractual carried interest:
  - Taxation of approx. 11.45%.
  - No participation in the AIF requirement
- Participating carried interest (co-investment or carried invest):
  - Full exemption if the participation is below 10% and held for a period above 6 months
  - No participation disposal requirement.

## Alternative tax efficient structures

### Issuance of warrants, beneficiary interests, units, etc. whose repurchase can be made under certain conditions:

- Free of withholding tax (WHT).
- With 0% Luxembourg capital gain taxation.

### Set-up of a carried interest vehicle (CarryVe) as a tax transparent partnership to:

- Ease carried interest allocation.
- Provide confidentiality of carried entitlement from other investors.

### Set-up of a tax opaque CarryVe to benefit under certain conditions from the following:

- No WHT on dividend distributions to CarryVe.
- Exemption on dividend income and capital gains.
- 50% dividend exemption for Luxembourg residents.



# Netherlands

**Legal scheme:** For individuals, depending on the specific characteristics, the carried interest would be subject to tax in Box 1, Box 2 or Box 3 for Dutch personal income tax purposes. The rules regarding taxation of a carried interest in Box 2 are expected to change as per 2028 (in short, higher effective tax rate for a carried interest in Box 2). This should therefore be monitored.

## Box 1: employment or lucrative interest

- If deemed salary, wage tax should be withheld by the employer (to be credited against personal income tax payable).
- If the carried interest forms a lucrative interest, any income and gains taxable.
- Progressive income tax rate with a maximum of 49.50% (for 2026).

## Box 2: substantial interest

- Direct or indirect share interests or option rights of at least 5% in a carry vehicle and any loans granted thereto.
- Progressive income tax rate with a maximum of 31% (for 2026).
- Can be applied to lucrative interest under certain conditions (as described below).

## Box 3: savings and investments

- Deemed annual taxable income based on the individual holder's yield basis (subject to counter-evidence rules).
- Flat tax rate of 36% (for 2026).
- Methodology likely subject to change in the future due to Supreme Court judgements on taxation on deemed returns.
- Unlikely to apply to carried interest.

## Alternative carried interest structure: lucrative interest taxed in Box 2 instead of Box 1

### Set up a personal holding or pooling vehicle ("Holding").

- Fund manager holds a substantial interest (in short, at least 5% of the shares) in Holding.
- Holding holds at least 5% of the nominal paid-up share capital in carry vehicle (or additional feeder company).

### Holding distributes at least 95% of profits received by way of dividend to carry holder during the same calendar year.

- Holding applies participation exemption on profit distributions received or gains derived provided all criteria are met.

### Carry holder taxed in Box 2 for dividend income.

- Effective combined Dutch tax rate between 24.5% - 31% (for 2026) (participation exemption at the level of Holding, no taxation in Box 1 at the level of fund manager).



# Spain

- Until 2023 Spain did not have a specific tax regime for carried interest (except in the Navarra and Basque Regions) and the Spanish tax authorities have considered that it shall be characterized as “employment income” (subject to top marginal rates of 45%-54%, depending on the region), instead of investment income (top tax rate of 28%), on the basis that it remunerates services as managers and does not derive from their position as shareholder.
- However, with effect as of year 2023, the Spanish Government introduced a special tax regime applicable to carried interest paid to managers with tax domicile in Spanish territory (other than Navarra and Basque Regions):

## Tax treatment

- Carried interest is characterized as “employment income” (and thus subject to top marginal rates ranging between 45%-54%);
- But only 50% of the carried interest would be subject to tax, which results in an effective rate close to the rates applicable to investment income / capital gains.

## Scope

This special tax treatment only applies to directors, managers or employees of the following entities (or of its managing entities or entities of its group):

- Closed-ended AIFs defined in AIFM Directive 2011/61/EU and included in any of the following categories: Spanish venture capital funds (SCRs and FCRs), European venture capital funds, European social entrepreneurship and long-term investment funds; and
- Other investment entities/funds similar to the funds mentioned above.

Bonuses or incentives received by directors, managers or employees of qualifying entities that are linked to the carried interest to which such entities are entitled to this tax regime.

## Requirements

The 50% tax exemption only applies if, amongst other requirements:

- The carried interest is subject to other investors obtaining a minimum preferred return;
- The carry shares or rights are held during at least 5 years with certain exceptions (partial collections before the 5-year period are allowed); and
- The carried interest rights do not derive, directly or indirectly, from an entity resident in a non-cooperative jurisdiction or with which Spain does not have rules on mutual assistance for the exchange of tax information.

## Other typical arrangements to remunerate fund managers

- Bonus generated over a period of more than 2 years: 30% tax reduction (cap of €300k), subject to certain requirements.
- Call option over shares acquired at market value (based on Black-Scholes formula): gain treatment on cash-settle exercise.



# United Kingdom

An individual who performs investment management or advisory services in respect of a fund is subject to UK income tax (and National Insurance Contributions) on “qualifying” carried interest at an effective tax rate of about 34.1% (rather than the highest income tax rate of 45%) from 6 April 2026.



Typically, an individual investment manager acquires a share in a carry partnership which holds the carried interest in the fund.



To benefit from the tax regime for carried interest, the sums arising to the investment manager must not be a disguised fee and must arise from profits of the fund and returns to external investors must be determined by reference to those same profits.



The nature of the profits of the fund giving rise to the carried interest (e.g. capital gains, distributions or interest) no longer affect the tax treatment for the individual investment manager.



In order for all of the carried interest to be “qualifying” carried interest, the investments of the fund must have been held for an average holding period of 40 months or more.



There is no restriction on the timing of distributions of carried interest (and tax distributions can be treated as carried interest).



A non-UK resident individual can be subject to UK income tax on carried interest to the extent that they perform investment management services in the UK, subject to relief under a double tax treaty, unless they fall within the safe harbor of having fewer than 60 “UK workdays” in a tax year.



An individual investment manager should pay market value for their right to carried interest (which prior to the first investment by the fund, may be a nominal capital amount) and make a tax election (section 431 election) to prevent employment income tax charges from arising.



# United States

## Benefits

- Both grant, and vesting, of carried interest can be tax-free, if structured appropriately as a “profits interest”.
- LTCG rates may apply to carried interest upon monetization.
- Tax distributions are typically made to cover phantom income.

## Impediments

- A three-year holding period for LTCG treatment is required for certain carried interests.
  - Asset class is relevant to the application of the three-year rule.
  - Certain monetization events may result in full or partial STCG taxation.
- Frequent discussion and proposed legislative changes to LTCG for carried interests and LTCG rates.

## Current U.S. maximum tax rates for individuals

### Long-Term Capital Gain (LTCG)

- U.S. federal rate = 20%
- Net investment income tax of 3.8%
- State and local tax rates vary
- No employment tax or employer withholding

### Short-Term Capital Gain (STCG)

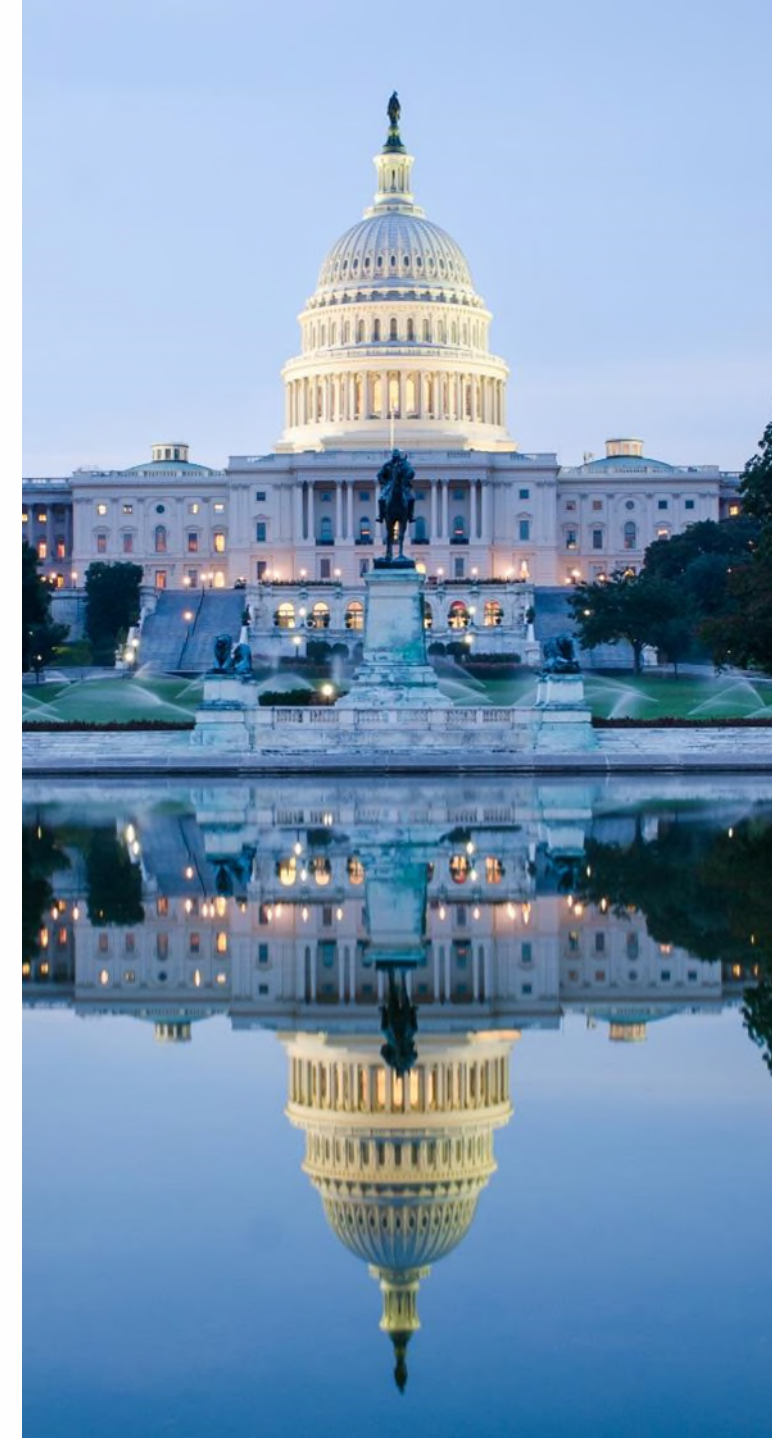
- U.S. federal rate = 37%
- Net investment income tax of 3.8%
- State and local tax rates vary
- No employment tax or employer withholding

### Compensation

- U.S. federal rate = 37%
- “Medicare” tax of 3.8% over certain thresholds
- State and local tax rates vary
- Employment taxes and employer withholding apply

## Requirements and features

- Issued by an entity classified as a partnership for U.S. tax purposes.
  - The legal entity form may vary (limited partnership; limited liability company), and profits interests can be issued by U.S. or non-U.S. entities.
- Entitlement to share only in future profits, not current capital. Future profits must be subject to “entrepreneurial risk”.
- Minimum holding period required, and interest can be subject to transfer restrictions.
- Often includes clawback obligations.



# Singapore

Singapore does not have a dedicated tax regime for carried interest. The tax treatment of carried interest depends on whether such payments constitute income or capital (based on the underlying character of such payments made to carry scheme participants).

## If Carried Interest is characterized as Income

- Carried interest paid to the fund manager is generally treated as income derived from fund management services and subject to income tax. This is consistent with the tax treatment of management fees.
- Income derived in consideration of services is taxable at a flat corporate rate of 17%. This can be reduced to a 10% concessionary tax rate under the Financial Services Incentive for Fund Managers (FSI-FM) if the fund manager:
  - holds a capital markets services (CMS) licence or is legally exempted from obtaining a CMS licence,;
  - employs at least three investment professionals in Singapore; and
  - has a minimum AUM of S\$250 million.
- Carried interest may also be subject to 9% goods and services tax (GST) if received by a Singapore fund manager, although certain qualifying funds may claim a remission of such GST incurred based on a fixed recovery rate (89% for 2026).

## If Carried Interest is Characterized as Capital Gains

- Capital gains are generally not taxable in Singapore, and it is common for fund managers to structure carried interest so that it is paid to a separate carry vehicle that makes a sponsor commitment.
- This structure supports the tax filing position that carried interest constitutes an investment return on the sponsor commitment (which is capital in nature) and therefore not subject to tax in Singapore.

## Other relevant considerations when structuring carry schemes:

### Confidentiality

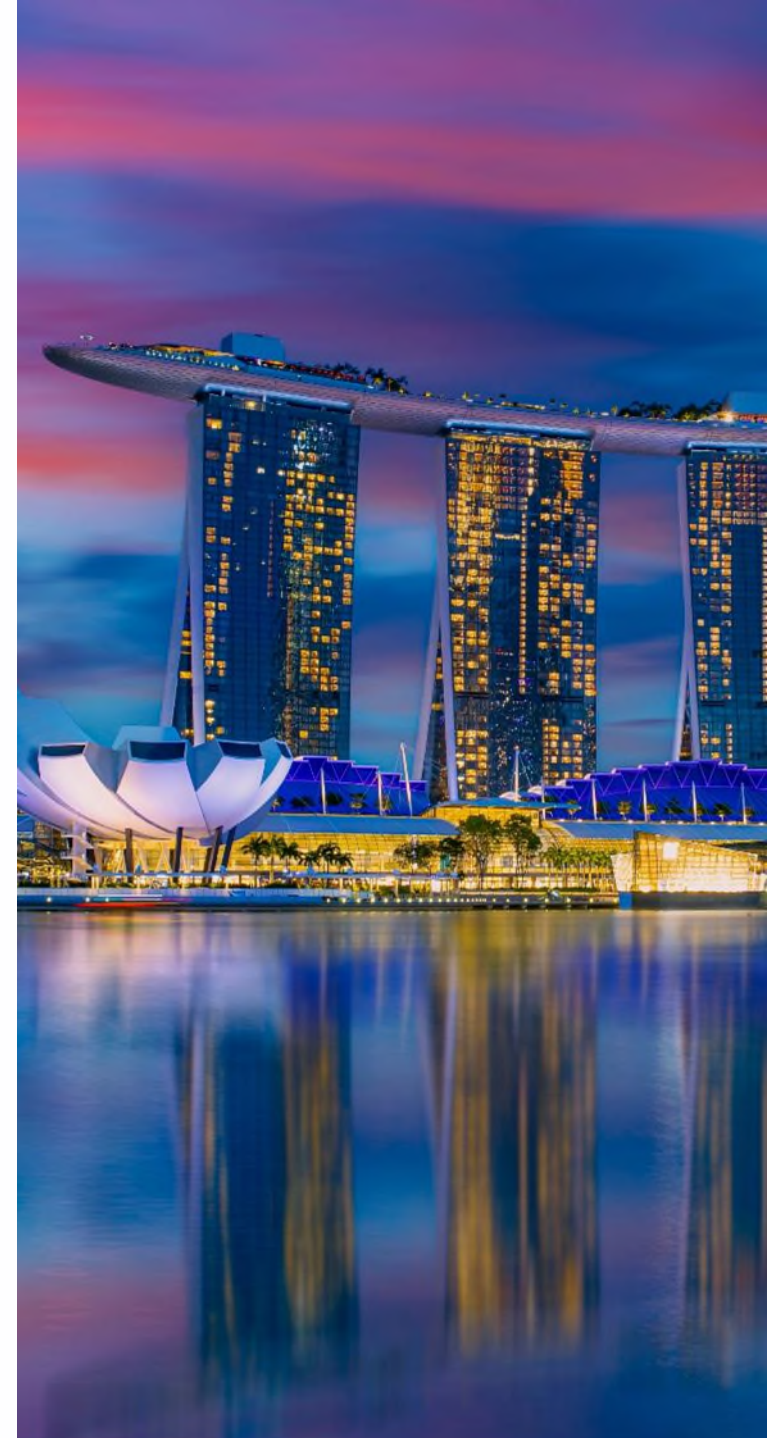
The legal form of the carry vehicle may affect whether the register of members (or equivalent) are publicly disclosed. Carry vehicles are commonly structured as Singapore limited partnerships or variable capital companies (VCC) managed by a licensed fund manager (instead of private limited companies) to maintain confidentiality of the carry scheme participants.

### Carry Scheme Participants

Singapore licensed fund managers are subject to certain regulatory obligations which restrict carry scheme participants to individuals who qualify for “accredited investor” status and/or are investment professionals (i.e. front-office staff) employed by the fund manager or another entity within the same corporate group.

### Reputational Risk

Sponsors who are sensitive to reputational risks may prefer to pay carried interest to the fund manager rather than an offshore carry vehicle to mitigate concerns associated with the use of such vehicles domiciled in tax-efficient jurisdictions.



# Hong Kong

In 2021, Hong Kong introduced a statutory Carried Interest Tax Concession Scheme which provides 0% profits tax on eligible carried interest received by qualifying persons from certified investment funds operating in Hong Kong, and 100% exclusion of eligible carried interest from assessable employment income for salaries tax purposes. Eligibility requires meeting the statutory definitions of eligible carried interest, qualifying recipients, qualifying transactions, substantial activities, and obtaining HKMA certification on an annual basis.

## Eligible Carried Interest

A sum received by or accrued to a person by way of profit-related return subject to a hurdle rate

## Qualifying Carried Interest Recipients

Licensed Hong Kong investment managers and their employees providing investment management services

## Qualifying Transactions

Transactions in shares, stock, debentures, loan stocks, funds, bonds or notes of a private company, or an investee private company, or incidental to the carrying out of such transactions

## Substantial Activities Requirements

On average at least 2 full-time employees in Hong Kong, and at least HK\$2 million of operating expenditure must be incurred in Hong

## HKMA Certification

Application submitted by annual deadline together with external auditor's report prepared by a CPA in accordance with HKSRS 4400 (Revised)

## For alternative structures (not eligible for the Carried Interest Tax Concession Scheme), carried interest may be taxed as:

**chargeable service income for profits tax** (for corporations, at the rate of 8.25% with respect to the first HK\$2 million and 16.5% thereafter, and for unincorporated business, at the rate of 7.5% with respect to the first HK\$2 million and 15% thereafter);

or

**chargeable employment income for salaries tax** (at marginal tax rates ranging from 2% to 17% with a cap at the standard rate of 15% on assessable income);

or

**capital gains**, which is not subject to tax in Hong Kong, but will generally require a sponsor commitment to be made.



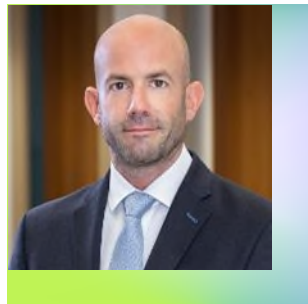
# Key contacts




**Xenia Legendre**  
Partner, France  
T +33 1 53 67 48 23 



**Heiko Gemmel**  
Partner, Germany  
T +49 211 13 68 485 




**G rard Neiens**  
Partner, Luxembourg  
T +352 26 4 26 301 



**Alexander Fortuin**  
Partner, Netherlands  
T +31 20 55 33 681 




**Juan Garciano**  
Partner, Spain  
T +34 (91) 349 82 88 



**Elliot Weston**  
Partner, UK  
T +44 20 7296 2658 



**Lauren Clarke**  
Partner, U.S.  
T +1 212 918 3926 




**Jessica Millett**  
Partner, U.S.  
T +1 212 918 8247 



**Thomas Kim**  
Partner, Singapore  
T +65 6302 2571 



**Michael Wong**  
Partner, Hong Kong  
T +852 2840 5037 



Hogan  
Lovells

**hoganlovells.com**

“Hogan Lovells” or the “firm” is an international legal practice that includes Hogan Lovells International LLP, Hogan Lovells US LLP and their affiliated businesses. Hogan Lovells (Luxembourg) LLP is registered to the Luxembourg Bar.

The word “partner” is used to describe a partner or member of Hogan Lovells International LLP, Hogan Lovells US LLP or any of their affiliated entities or any employee or consultant with equivalent standing. Certain individuals, who are designated as partners, but who are not members of Hogan Lovells International LLP, do not hold qualifications equivalent to members.

For more information about Hogan Lovells, the partners and their qualifications, see [www.hoganlovells.com](http://www.hoganlovells.com).

Where case studies are included, results achieved do not guarantee similar outcomes for other clients. Attorney advertising. Images of people may feature current or former lawyers and employees at Hogan Lovells or models not connected with the firm.

© Hogan Lovells 2026. All rights reserved.