

Carried Interest Tax Reform

On 24 July 2025, the Luxembourg Government submitted to the Parliament bill of law n°8590 (the "Bill") which aims to modernize, expand and reform the carried interest tax regime.

If enacted, this new regime will strengthen the Luxembourg's attractiveness for alternative investment fund managers and, more generally, the competitiveness of the jurisdiction in the fund industry.

The main proposals are as follows:

Expansion of the scope of beneficiaries

The Bill provides for the expansion of the scope of the beneficiaries to individuals who are involved in the management of an alternative investment fund ("AIF"). The carried interest tax regime would therefore apply to:

- employees of alternative investment fund managers ("AIFM") or employees of the management company of an AIF (as under the previous regime);
- employees of another entity (such as an advisory company); and
- non employees (such as independent members of the board of directors of an AIF or the shareholders of an AIFM or of a management company).

Definition of carried interest

The Bill defines the carried interest as the participation in the outperformance achieved by an AIF, received on the basis of a participation right granting specific entitlements to the net assets and income of that AIF.

According to the comments to the Bill, the outperformance is the remuneration exceeding the hurdle (i.e. an agreed minimum return) negotiated with investors. The hurdle shall not be abnormally low otherwise the carried interest regime could be challenged on the basis of the abuse of law theory.

Equity-linked carried interest

When the carried interest is linked to a direct or indirect participation in an AIF, it would be exempt from income taxation if (i) the direct or indirect participation in the AIF is of less than 10% and (ii) such participation is held for at least 6 months.

This provision applies regardless of the legal form or tax status of the AIF. It applies even in case of participation in a tax transparent AIF (such as a FCP – *Fond Commun de Placement* - or a SCS / SCSp - *Société en Commandite Simple / Société en Commandite Spéciale*) the underlying income of which would not affect the qualification as carried interest at the level of the beneficiaries.

Contractual carried interest

For beneficiaries who do not hold a participation in an AIF but benefit from a carried interest plan based on a contractual arrangement (for instance in the partnership agreement): income would be taxable at the quarter of the global income tax rate, i.e. approximately 11.5%.

Deal-by-deal carried interest

The previous carried interest regime provided that investors should have fully recovered their initial investments before any carry could be paid. This condition is removed by the Bill, meaning that deal-by-deal carried interest payments could benefit from the preferential tax regime.

Application

If adopted by the Parliament, the new carried interest tax regime should be applied as of tax year 2026.

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