



# UK Carried Interest Tax Reform: Major Changes Coming in 2026

Swipe to learn how the new 34.1% tax rate will affect fund managers and what you can do to prepare.



## Key Changes from April 2026

- Trading Income Classification**  
All carried interest will be taxed as trading income in the UK.
- New Effective Rate**  
"Qualifying" carried interest will be taxed at 34.1% (vs 47% maximum).
- Draft Legislation Timeline**  
Expected before 22 July 2025 Parliamentary Summer Recess.



## Qualifying Carried Interest

### **No Co-investment Threshold**

Previous requirements removed.

### **No Mandatory Holding Period**

Greater flexibility for fund managers.

### **Only Exclusion: IBCI**

Income-Based Carried Interest = funds with <40-month average holding period.



Secure Your Future

## IBCI Reforms



### **Private Credit**

Rules rewritten for commercial realism.



### **Funds of Funds & Secondaries**

Unified treatment with streamlined testing.



### **Continuation Vehicles**

Not yet addressed - developments expected.

## International Executive Relief

1

### **Pre-October 2024 Services**

Services before 30 October 2024 will be ignored.

2

### **UK Workday Exemption**

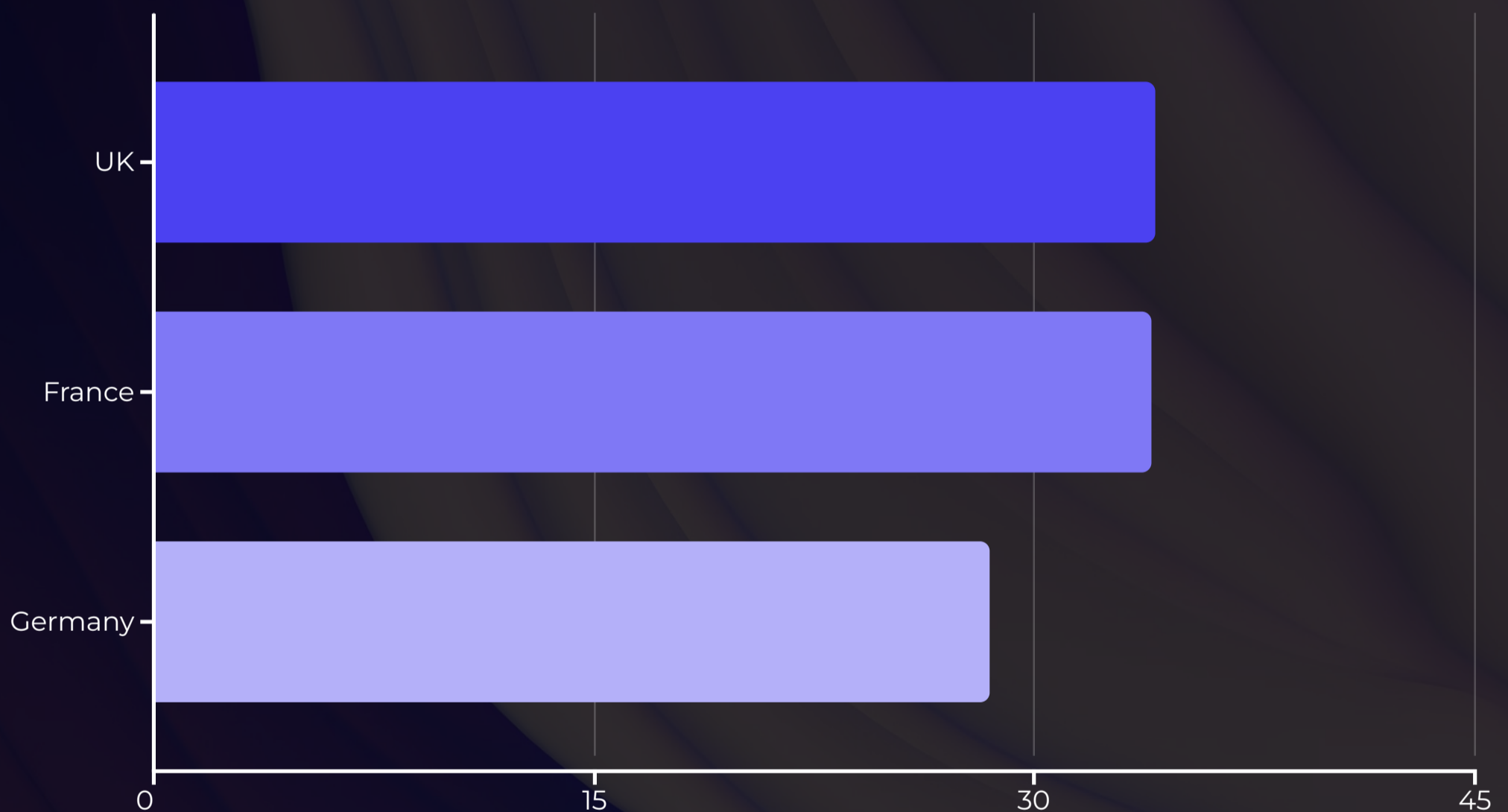
Less than 60 UK workdays per year = no UK charge.

3

### **3-Year "Tail" Cap**

Limited post-departure UK tax exposure.

# Comparing European Tax Rates



The UK will have the highest effective carried interest tax rate in Europe, though it remains competitive overall.



## Remaining Concerns



### **Double Tax Risk**

UK residents may face different tax treatment overseas.



### **Payment on Account Rules**

Unpredictable income creates cash flow and penalty risks.



### **Competitive Position**

UK remains competitive, but margin is narrowing.



## Next Steps

Draft legislation expected by 22 July 2025, with final rules taking effect 6 April 2026.

### 1 **Review fund holding periods**

to confirm “qualifying” status.

1

2

### 2 **Map expected carry timing vs your residency plans**

### 3 **Audit carry vehicle terms**

Are they aligned with HMRC’s trading income tests?

3

4

### 4 **Scenario model tax liabilities**

under both 34.1% and 47% outcomes.

### 5 **Consider restructuring distributions**

if approaching liquidity events.

5

Contact Charlotte your HHG advisor at [charlotte@hhgfinancial.com](mailto:charlotte@hhgfinancial.com) for client-specific impact assessments and guidance on tax-efficient structures.

Tag a fund manager who needs to know about these changes or share this post with your financial team.