

March 2026

Follow us on [LinkedIn](#)

## Legislative Update

# New UK Carried Interest Tax Regime to Take Effect 6 April 2026

By [Alicia Osei](#)

The UK Finance Bill 2026, which (amongst other things) overhauls the UK carried interest tax regime, has now received royal assent. The Bill changes not only the rate of which carried interest will be taxed, but the charging framework within which it operates, as well as its territorial scope.

### **From 6 April 2026, all carried interest will be treated as trading profits for UK tax purposes.**

- Prior to 6 April 2026, the tax treatment of carried interest received by employees was determined by the underlying source of the carried interest returns, whereas for self-employed individuals, their carried interest was only determined by reference to the underlying source of the carried interest if the fund's average investment holding period (AHP) exceeded 40 months. Otherwise, it was treated as trading profits under the UK disguised investment management fee rules.
- From 6 April 2026, all carried interest will be treated as trading profits for UK tax purposes irrespective of the fund's AHP or the executive's tax status as an employee or self-employed individual.
- This change represents a fundamental shift in how carried interest has previously been taxed, which goes further than a mere rate change. In particular, from 6 April 2026, carried interest returns will need to be factored into an individual's payments on account as part of their UK tax self-assessment obligations, effectively requiring individuals to prepay a portion of their tax liability in respect of future carried interest receipts based on previous carried interest distributions.

### **The concept of "income-based carried interest" has been replaced by "qualifying carried interest".**

- From 6 April 2026, carried interest will either be "qualifying" or "non-qualifying" — with qualifying carried interest benefitting from an effective tax rate of 34.1% and non-qualifying carried interest being taxable at 47% for individuals paying tax at the highest marginal rates.
- The concept of "qualifying" carried interest hinges around a fund's AHP, similar to the income-based carried interest regime. However, some of the shortcomings in the previous AHP rules have been fixed, particularly with respect to how those rules are applied to credit funds and debt investments more generally, making it easier in many respects for funds making debt investments

to produce “qualifying carried interest”. It should, however, be noted that whilst many of these changes are welcome, the rules are still complex and asset managers will need to give careful consideration to how those rules will apply to their funds.

**From 6 April 2026, UK carried interest rules will potentially be relevant to asset managers worldwide.**

- Prior to 6 April 2026, non-income-based carried interest was generally subject to UK tax only when it arose to a UK resident individual.
- Under the new carried interest rules, non-UK resident individuals may also be subject to UK tax on their carried interest to the extent their carried interest is treated as attributable to any “UK workdays” (broadly any day in which an individual spends three or more hours working in the UK). Internationally mobile executives will therefore need to keep records of their travel to the UK and any work undertaken whilst there. Although some provisions ease the extraterritorial scope of the rules in respect of “qualifying” carried interest, they do not apply to “non-qualifying” carried interest. Determining whether a fund generates qualifying carried interest therefore will become all the more significant.

***What does this all mean?***

The new UK carried interest regime remains complex and the changes to its scope mean that UK and non-UK based asset managers that may not have previously considered the application of the predecessor rules will now need to get to grips with the new regime.

Paul Hastings’ London Tax practice regularly advises clients on the operation of these rules for both UK based and non-UK based asset managers alike. Please do not hesitate to contact us if you have any questions on how these rules may impact you.



*If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings lawyers:*

Alicia Osei  
+44-20-3023-5102  
[aliciaosei@paulhastings.com](mailto:aliciaosei@paulhastings.com)

Paul Hastings LLP

Stay Current is published solely for the interests of friends and clients of Paul Hastings LLP and should in no way be relied upon or construed as legal advice. The views expressed in this publication reflect those of the authors and not necessarily the views of Paul Hastings. For specific information on recent developments or particular factual situations, the opinion of legal counsel should be sought. These materials may be considered ATTORNEY ADVERTISING in some jurisdictions. Paul Hastings is a limited liability partnership.  
Copyright © 2026 Paul Hastings LLP.