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UK Government Consults on Taxation of Carried Interest

Tax Talks on **July 30, 2024**

The newly elected UK Labour government published its call for evidence (see link here) on the taxation of carried interest on Monday 29 July 2024. This consultation by HM Treasury, cautiously anticipated following statements made during Labour's election campaign, will remain open until 30 August 2024 during which time the government has committed to discussing the points raised with interested parties.

As expected, in this call to evidence the government reiterates its commitment to taking action on the taxation of carried interest, noting that "this will be an impactful change". The key question is what form that action and change will take. In this consultation, HM Treasury is seeking input from industry, professionals, academics and other stakeholders on matters they consider relevant, with a particular focus on the following three questions:

- How can the tax treatment of carried interest most appropriately reflect its economic characteristics?
- What are the different structures and market practices with respect to carried interest?
- Are there lessons that can be learned from approaches taken in other countries?

While the call for evidence includes an express assertion from the government that "the current [UK] tax regime does not appropriately reflect the economic characteristics of carried interest and the level of risk assumed by fund managers in receipt of it", the consultation also states that the government will "seek to protect the UK's position as a world-leading asset management hub, recognising that the sector channels vital investment across the UK, and will play an important role in this government's mission to boost economic growth".

The government's belief that "there are a range of circumstances in which carried interest is received, and that the characteristics of the reward will not be the same in all cases" is also expressly noted in connection with the first of the questions for consultation.

Where this call for evidence will lead – whether to a regime similar to the carried interest regimes of France and Italy with a specific requirement for capital at risk or something else – is not yet clear. Those interested in the outcome of this consultation will have to wait until 30 October 2024, when the first Budget from the new government will be delivered, for a further announcement.

View original.

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