

Luxembourg new carried interest regime - Update following draft law amendments

In our previous [Tax Alert](#), we had shared that the Luxembourg tax framework applicable to carried interest was evolving.

As part of the legislative process, certain adjustments, adopted on 14 November, are proposed to be introduced. It is confirmed that this new regime is expected to apply from 1 January 2026 onwards.

Key highlights

The key elements of the proposed new law are unchanged and include the following:

- ▶ Confirmation of the introduction of a differentiation between two types of carried interest:
 - **Purely contractual carried interest, i.e. not linked to any form of investment:**
Such carried interest, which is so far taxed at a rate of up to 45.78% (+1.4% dependence insurance contribution) will in the future be taxed at $\frac{1}{4}$ of the beneficiary's global tax rate, i.e. a maximum of 11.45% (+1.4% dependence insurance contribution).
 - **Carried interest linked to an investment:**
This carried interest will be taxed according to regular capital gains rules, i.e. not taxable if held for more than 6 months and the beneficiary does not hold a substantial participation (more than 10% of the shares/quota of the underlying vehicle).
- ▶ Inclusion of a wider scope of AIF such as debt funds. It also no longer requires investors to be repaid first and will thus include deal-by-deal arrangements.
- ▶ Extension of the scope of beneficiaries that is no longer restricted to employees of the AIFM or management company, but can include external individuals, such as directors, advisors or employees of related entities. **The recent amendment aims at bringing further clarification and details with respect to eligible beneficiaries.**

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Detailed Discussion

As part of the legislative process, the review of the State Council is a mandatory step. While the State Council generally did not raise comments on this draft law, there was one point that was considered as insufficiently precise, which in the opinion of the State Council, could have given rise to uncertainty.

This comment is linked to the scope of individuals entitled to the beneficial tax treatment applicable to contractual carried interest, i.e. taxation at $\frac{1}{4}$ of the beneficiary's global tax rate.

The initial version of the draft law indicated that an eligible beneficiary could be any natural person managing AIFs or, directly or indirectly, performing services to the benefit of an AIFM, a management company of an AIF, or a related entity, whatever their capacity (employee, non-executive director, independent advisor,...).

Such concept of "performing services to the benefit of" was considered insufficiently precise, so that the State Council asked the text to be revised to include a more specific definition of eligible beneficiaries.

The amendment was adopted on 14 November and communicated on 17 November. According to the proposed revised wording, individuals entitled to the beneficial tax treatment applicable to contractual carried interest are now defined as follows:

- ▶ Individuals performing management functions as employees, partners, managers or directors of AIFMs, Management Companies or AIFs.
- ▶ Individuals having a role in the management of an AIF performed in the context of a service agreement. It is irrelevant whether the agreement is entered into directly between the individual and the AIF, or through one or more entities.

Next steps

The amendments will undergo another review process by the relevant bodies. Assuming these amendments are considered satisfactory by the State Council, the updated draft law will then proceed to Parliament for a vote. The new law is still expected to enter into force on 1 January 2026.

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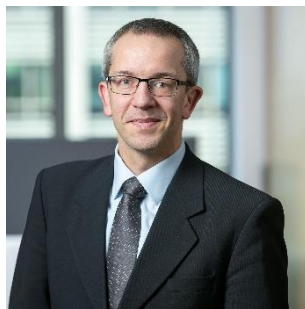


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