

NEWSFLASH

CARRIED INTEREST TAX REGIME IN LUXEMBOURG
THE LUXEMBOURG PARLIAMENT HAS ADOPTED BILL



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The Luxembourg Parliament has adopted Bill n°8590, enacting a significant and positive reform of the carried interest tax regime. This new law was voted on 22 January 2026 and introduces a modernised framework for taxing carried interest, with the aim of enhancing Luxembourg's competitiveness as a European fund centre and attracting active fund management and front-office talent to the Grand Duchy.

Here's what's important about the reform:

BROADER AND CLEARER REGIME

Wider scope of beneficiaries: The reform expands eligibility beyond traditional employees of alternative investment fund managers to include a broader set of professionals — such as directors, partners, shareholders of management companies and other individuals involved in fund management roles — broadening who can benefit from the preferential treatment.

TWO KEY TAX TREATMENTS

The new regime introduces a dual-category system with attractive tax outcomes depending on the type of carried interest:

1. Contractual carried interest:

- Carried interest that is not linked to a direct equity participation is treated as extraordinary miscellaneous income and is taxed at a reduced effective rate (historically around a quarter of the global tax rate – 11.45% (plus any social contributions)).

2. Participation-linked carried interest:

- If linked to an investment in the fund, gains may be tax-exempt under certain conditions (e.g., held for more than six months and not exceeding a specified ownership threshold).

GREATER CLARITY AND FLEXIBILITY

- Deal-by-deal carry: The reform removes the previous requirement that investors must first recover capital across the whole fund before carry can be taxed, enabling genuine deal-by-deal waterfalls.

- Legal certainty: The law clarifies definitions and structuring possibilities for carried interest arrangements, aligning Luxembourg more closely with common market practices.

EFFECTIVE DATE

- The new regime applies for the 2026 tax year onwards, providing a modern and competitive tax environment for carried interest in Luxembourg.

In summary, Bill n°8590 represents a major and positive modernization of Luxembourg's carried interest tax regime — broadening eligibility, simplifying the tax treatment, and offering attractive tax outcomes that support the country's strategy to be a top destination for alternative investment fund activity.

For any further clarification, Engelwood teams are available for assisting.

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