

1 Tax treatment of carried interest

- (1) ITTOIA 2005 is amended in accordance with subsections (2) to (4).
- (2) After section 23H (double taxation) insert—

“Carried interest

23I Tax treatment of carried interest

- (1) This section applies where—
 - (a) an individual performs investment management services in any tax year directly or indirectly in respect of an investment scheme under any arrangements, and
 - (b) under the arrangements, a sum of carried interest arises to the individual from an investment scheme in a tax year.
- (2) For income tax purposes—
 - (a) the individual is treated as carrying on a trade for the tax year referred to in subsection (1)(b),
 - (b) the amount to be treated as the profits of the trade for that tax year is the sum of the non-qualifying profits of the trade and 72.5% of the qualifying profits of the trade (see subsection (3)), and
 - (c) the individual is treated as the person receiving or entitled to those profits.
- (3) In subsection (2)(b)—
 - (a) the amount of the non-qualifying profits of the trade is the amount of the carried interest that is not qualifying carried interest minus the proportion of any permitted deduction (see section 23M) that is the same as the proportion of the carried interest that is not qualifying carried interest;
 - (b) the amount of the qualifying profits of the trade is the amount of the qualifying carried interest minus the proportion of any permitted deduction that is the same as the proportion of carried interest that is qualifying carried interest.
- (4) In Schedule A1—
 - (a) Part 1 explains what it means for a sum arising from an investment scheme under arrangements to be “carried interest” for the purposes of this group of sections and that Schedule;
 - (b) Part 2 sets out certain circumstances in which a sum arising to another person is treated as arising to the individual;
 - (c) Part 3 sets out how to determine the extent to which carried interest is qualifying carried interest;
 - (d) Part 4 allows for an election to be made to treat carried interest as arising at an earlier time.

23J Location of trade treated as carried on under section 23I etc

- (1) An individual who is treated as carrying on a trade for a tax year under section 23I is treated as carrying on the trade—
 - (a) wholly in the United Kingdom, if all of the applicable workdays are UK workdays;
 - (b) wholly outside the United Kingdom, if all of the applicable workdays are not UK workdays;
 - (c) otherwise, partly in the United Kingdom and partly outside the United Kingdom.
- (2) Where the trade is treated as carried on partly in the United Kingdom and partly outside the United Kingdom, the amount to be treated as the profits arising from the part of the trade treated as carried on in the United Kingdom is the sum of the non-qualifying profits of that part of the trade and 72.5% of the qualifying profits of that part of the trade.
- (3) In subsection (2)—
 - (a) the amount of the non-qualifying profits of the part of the trade treated as carried on in the United Kingdom is the proportion of the non-qualifying profits of the trade (determined in accordance with section 23I(3)(a)) that is the same as the proportion of the applicable workdays that are UK workdays;
 - (b) the amount of the qualifying profits of the part of the trade treated as carried on in the United Kingdom is the proportion of the qualifying profits of the trade (determined in accordance with section 23I(3)(b)) that is the same as the proportion of the applicable workdays that are UK workdays (but see subsection (4)).
- (4) For the purposes of subsection (3)(b) in a case where the individual is a non-UK resident for the tax year, the following days are not to be treated as UK workdays (but remain applicable workdays) —
 - (a) any UK workday prior to 30 October 2024;
 - (b) any UK workday in a non-UK tax year;
 - (c) any UK workday prior to a period of 3 or more non-UK tax years.
- (5) For the purposes of this section—
 - (a) a day is an “applicable workday” if it is a day in the relevant period on which the individual performs any investment management services (whether or not under the arrangements mentioned in section 23I(1)(a));
 - (b) a day is a “UK workday” if it is a day in the relevant period on which the individual spends more than 3 hours performing any investment management services (whether or not under those arrangements) in the United Kingdom;

- (c) a year is a “non-UK tax year” if the individual is a non-UK resident for the tax year and there are fewer than 60 UK workdays in the year.
- (d) the “relevant period” is the period –
 - (i) beginning with the first day on which the arrangements mentioned in section 23I(1)(a) contained provision that contemplated that the carried interest mentioned in paragraph (b) of section 23I(1) may arise from the scheme mentioned in that paragraph, and
 - (ii) ending with the last day on which a sum of carried interest arose to the individual from that scheme under the arrangements in the tax year for which the individual was treated as carrying on the trade under section 23I.
- (6) For the purposes of subsection (5) –
 - (a) investment management services performed by an individual in the course of travelling to or from the United Kingdom by air or sea or via a tunnel under the sea are assumed to be performed overseas even during the part of the journey in or over the United Kingdom, and
 - (b) travelling to or from the United Kingdom is taken to –
 - (i) begin when the individual boards the aircraft, ship or train that is bound for a destination in the United Kingdom or (as the case may be) overseas, and
 - (ii) end when the individual disembarks from that aircraft, ship or train.

23K Carried interest arising where individual deceased

- (1) This section applies where –
 - (a) the individual referred to in section 23I(1)(a) has died, and
 - (b) as a result, a sum that would have been a sum of carried interest arising to the individual from an investment scheme under the arrangements arises instead to another person in a tax year.
- (2) For the purposes of section 23I and section 23J –
 - (a) the sum is treated as if it had arisen to the individual in the tax year in which it arose to the other person,
 - (b) the other person is treated as carrying on the trade under section 23I (instead of the individual), and
 - (c) the other person is treated as the person receiving or entitled to the profits of that trade.

23L Temporary non-UK residents: tax treatment of accrued carried interest gains

- (1) This section applies where, on the disposal of an asset by an individual who was temporarily non-resident in tax year 2025-26 or earlier –
 - (a) a gain accrued to the individual in the temporary period of non-residence, and
 - (b) the gain accrued as a result of carried interest arising to the individual –
 - (i) from an investment scheme, and
 - (ii) under arrangements under which the individual performed investment management services directly or indirectly in respect of an investment scheme.
- (2) For income tax purposes –
 - (a) the individual is treated as carrying on a trade for the period of return,
 - (b) the amount to be treated as the profits of the trade for the period of return is 72.5% of the amount of the gain which accrued to the individual in the temporary period of non-residence, and
 - (c) the individual is treated as the person receiving or entitled to those profits.
- (3) For the purposes of this section, “the period of return”, “temporarily non-residence” and “the temporary period of non-residence” have the meanings given by Part 4 of Schedule 45 to the Finance Act 2013 (statutory residence test: anti-avoidance).

23M Permitted deduction etc

- (1) For the purpose of section 23I the amount of any “permitted deduction”, in relation to carried interest arising to an individual in a tax year from a scheme under the arrangements, is –
 - (a) the amount of any consideration in money given by or on behalf of the individual wholly and exclusively for the entitlement to carried interest arising from the scheme under the arrangements referred to in section 23I(1)(b), minus
 - (b) the amount of any such consideration deducted in calculating the profits of a trade that the individual is treated as carrying on under section 23I for an earlier tax year by virtue of those arrangements.
- (2) For the purposes of this Act no other deduction may be made from the amount treated as the profits of the trade under section 23I.

23N Carried interest: anti-avoidance

- (1) In determining whether section 23I applies in relation to an individual, no regard is to be had to any arrangements the main purpose, or one

of the main purposes, of which is to secure that that section does not to any extent apply in relation to—

- (a) the individual, or
 - (b) the individual and one or more other individuals.
- (2) In determining whether an individual falls within paragraph (a) of section 23I(1), no regard is to be had to any arrangements the main purpose, or one of the main purposes, of which is to secure that the individual falls within the paragraph.

23P Carried interest: avoidance of double taxation

- (1) Where section 23I applies in relation to carried interest arising to an individual, the carried interest is not chargeable to income tax on the individual under any other provision other than where it is chargeable by virtue of section 62 (earnings) or Part 7 of ITEPA 2003 (employment income relating to securities).
- (2) Subsection (3) applies where—
- (a) an individual is chargeable to income tax by virtue of section 23I in respect of any carried interest arising to the individual, and
 - (b) at any time—
 - (i) UK tax charged on another person in relation to the carried interest has been paid by that other person (and has not been repaid), or
 - (ii) income tax charged on the individual in respect of the individual's entitlement to the carried interest (including income tax charged by virtue of section 62 or Part 7 of ITEPA 2003) has been paid and not repaid by the individual.
- (3) In order to avoid a double charge to tax, the individual may make a claim for one or more consequential adjustments to be made in respect of the income tax charged as mentioned in subsection (2)(a).
- (4) On a claim under this section an officer of Revenue and Customs must make such of the consequential adjustments claimed (if any) as are just and reasonable.
- (5) The value of any consequential adjustments made must not exceed the lesser of—
- (a) the income tax charged as mentioned in subsection (2)(a), and
 - (b) the UK tax charged as mentioned in subsection (2)(b)(i) or income tax charged as mentioned in subsection (2)(b)(ii).
- (6) Consequential adjustments may be made—
- (a) in respect of any period,
 - (b) by way of an assessment, the modification of an assessment, the amendment of a claim, or otherwise, and
 - (c) despite any time limit imposed by or under an enactment.

- (7) In this section “UK tax” means income tax, corporation tax or capital gains tax.

23Q Definitions

- (1) In this group of sections and Schedule A1—
- “AIF” has the meaning given by regulation 3 of the Alternative Investment Fund Managers Regulations 2013 and includes—
- (a) arrangements which permit an external investor to participate in investments acquired by the AIF without participating in the AIF itself, and
 - (b) arrangements under which sums arise to an individual performing investment management services in respect of the AIF without those sums arising from the AIF itself;
- “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable);
- “collective investment scheme” has the meaning given by section 235 of FISMA 2000 and includes—
- (a) arrangements which permit an external investor to participate in investments acquired by the collective investment scheme without participating in the scheme itself, and
 - (b) arrangements under which sums arise to an individual performing investment management services in respect of the collective investment scheme without those sums arising from the scheme itself;
- “external investor”, in relation to an investment scheme and any arrangements, means a participant in the scheme other than—
- (a) an individual who at any time performs or is to perform investment management services directly or indirectly in respect of the scheme, or
 - (b) a person through whom sums are to, or may, arise directly or indirectly to such an individual from the scheme under the arrangements;
- “investment management services”, in relation to an investment scheme, includes—
- (a) the provision of investment advice,
 - (b) seeking funds for the purposes of the scheme from participants or potential participants,
 - (c) researching potential investments to be made for the purposes of the scheme,
 - (d) acquiring, managing or disposing of property for the purposes of the scheme,
 - (e) acting for the purposes of the scheme with a view to assisting a body in which the scheme has made an investment to raise funds, and

- (f) any activity incidental or ancillary to any activity mentioned in paragraphs (a) to (e);

“investment scheme” means –

- (a) an AIF, or
- (b) a collective investment scheme;

“participant”, in relation to an investment scheme, means a person taking part in the scheme, whether by becoming the owner of, or of any part of, the property that is the subject of the scheme or otherwise;

“sum” includes any money or money's worth (and other expressions are to be construed accordingly).”

- (3) In section 7 (income charged), in subsection (1), after “section 23E(1)” insert “, section 23I or section 23L”.
- (4) In section 845H (qualifying foreign income) –
 - (a) in row 1 of the table at the end insert “other than profits of such a trade treated as carried on under section 23I”;
 - (b) after row 1 of the table insert –

“1A 72.5% of the amount of the qualifying profits (within the meaning of section 23I) of a trade treated as carried on under section 23I that do not arise from the part of a trade treated as carried on in the United Kingdom (see section 23J).

1B The foreign pre-arrival proportion of the non-qualifying profits (within the meaning of section 23I) of a trade treated as carried on under section 23I.
 The foreign pre-arrival proportion is the proportion of the applicable workdays (within the meaning of section 23J) that fall within the pre-arrival period and are not UK workdays (within the meaning of section 23J).
 The pre-arrival period is the period ending immediately before the individual became a qualifying new resident that consists only of tax years for which the individual was non-UK resident.”

- (5) In Schedule 1 –
 - (a) Part 1 inserts Schedule A1 to ITTOIA 2005 (Carried interest: interpretation etc.);
 - (b) Part 2 contains consequential and connected amendments.
- (6) The amendments made by this section and that Schedule have effect in relation to carried interest arising on or after 6 April 2026.

SCHEDULE 1

Section 1

TAX TREATMENT OF CARRIED INTEREST

PART 1

CARRIED INTEREST: INTERPRETATION OF KEY TERMS

1 Before Schedule 1 to ITTOIA 2005 insert –

“SCHEDULE A1

Section 23I

CARRIED INTEREST: INTERPRETATION OF KEY TERMS

PART 1

MEANING OF CARRIED INTEREST

Meaning of “carried interest”

- 1 (1) A sum (including a sum in the form of a loan or advance or an allocation of profits) which arises to an individual from an investment scheme under arrangements is “carried interest” if it arises by way of profit-related return.
- (2) A sum which arises to an individual from an investment scheme under arrangements does so by way of “profit-related return” if under the arrangements –
 - (a) the sum is to, or may, arise only if –
 - (i) there are profits for a period on the investments, or on particular investments, made for the purposes of the scheme, or
 - (ii) there are profits arising from a disposal of the investments, or of particular investments, made for those purposes,
 - (b) the amount of the sum which is to, or may, arise is variable, to a substantial extent, by reference to those profits, and
 - (c) returns to external investors are also determined by reference to those profits;

but where any part of the sum does not meet these conditions, that part is not to be regarded as arising by way of “profit-related return”.
- (3) But where –
 - (a) one or more sums (“actual sums”) arise to the individual from an investment scheme under the arrangements by way of profit-related return in a tax year, and

- (b) there was no significant risk that a sum of at least a certain amount (“the minimum amount”) would not arise to the individual from that scheme,
so much of the actual sum, or of the aggregate of the actual sums, as is equal to the minimum amount is not “carried interest”.
(See sub-paragraphs (7) and (8) as to how the minimum amount is to be apportioned between the actual sums where more than one actual sum arises in the tax year.)
- (4) For the purposes of sub-paragraph (3)(b) assess the risk both—
 - (a) in relation to each actual sum (and the investments to which it relates) individually, taking into account also any other sums that might have arisen to the individual from that scheme under the arrangements instead of that sum, and
 - (b) in relation to the actual sum or sums and any other sums that might have arisen to the individual from that scheme under the arrangements by way of profit-related return in the tax year (and the investments to which all those sums relate) taken as a whole;

(so that, in a particular case, some of the minimum amount may arise by assessing the risk in accordance with paragraph (a) and some by assessing it in accordance with paragraph (b)).
- (5) For the purposes of sub-paragraph (3)(b) assess the risk as at the latest of—
 - (a) the time when the individual becomes party to the arrangements,
 - (b) the time when the individual begins to perform investment management services directly or indirectly in respect of an investment scheme under the arrangements, and
 - (c) the time when a material change is made to the arrangements so far as relating to the sums which are to, or may, arise to the individual.
- (6) For the purposes of sub-paragraph (3)(b) ignore any risk that a sum is prevented from arising to the individual (by reason of insolvency or otherwise).
- (7) Where more than one actual sum arises in the tax year, the minimum amount is to be apportioned between the actual sums as follows for the purposes of sub-paragraph (3)—
 - (a) so much of the minimum amount as is attributable to a particular actual sum is to be apportioned to that actual sum, and
 - (b) so much of the minimum amount as is not attributable to any particular actual sum is to be apportioned between the actual sums on a just and reasonable basis.

- (8) For the purpose of sub-paragraph (7) any part of the minimum amount is attributable to a particular actual sum to the extent that there was no significant risk that that part would not arise to the individual in relation to that actual sum, assessing the risk in accordance with sub-paragraph (4)(a).
- (9) See also paragraphs 2 to 5 which set out when certain sums are to be treated and not treated as carried interest.

Sums treated as “carried interest”

- 2 (1) A sum arising to an individual from an investment scheme under arrangements which falls within sub-paragraph (2) or (3) –
 - (a) is to be assumed to meet the conditions in paragraph 1(2), and
 - (b) accordingly, is to be treated as constituting “carried interest”.
- (2) A sum falls within this sub-paragraph if, under the arrangements, it is to, or may, arise to the individual out of profits on the investments made for the purposes of the scheme, but only after –
 - (a) all, or substantially all, of the investments in the scheme made by the participants have been repaid to the participants, and
 - (b) each external investor has received a preferred return on all, or substantially all, of the investor's investments in the scheme.
- (3) A sum falls within this sub-paragraph if, under the arrangements, it is to, or may, arise to the individual out of profits on a particular investment made for the purposes of the scheme, but only after –
 - (a) all, or substantially all, of the relevant investments made by participants have been repaid to those participants, and
 - (b) each of those participants who is an external investor has received a preferred return on all, or substantially all, of the investor's relevant investments;

and for this purpose “relevant investments” means those investments in the scheme to which the particular investment made for the purposes of the scheme is attributable.
- (4) In this paragraph “preferred return” means a return of not less than the amount that would be payable on the investment by way of interest if –
 - (a) compound interest were payable on the investment for the whole of the period during which it was invested in the scheme, and

- (b) the interest were calculated at a rate of 6% per annum, with annual rests.

Consideration for right to sum of carried interest treated as “carried interest”

- 3 (1) Sub-paragraph (2) applies to consideration that is received or receivable—
 - (a) by an individual for the disposal, variation, loss or cancellation of the individual’s right to a sum arising from an investment scheme under arrangements by way of profit-related return, or
 - (b) by a person who is a relevant person in relation to the individual, for the disposal, variation, loss or cancellation of the relevant person’s right to a sum arising from an investment scheme under arrangements by way of profit-related return.
- (2) The consideration, to the extent that it is not a disguised fee arising to the individual for the purposes of section 809EZA of ITA 2007—
 - (a) is to be treated as a sum which arises to the individual from the scheme under the arrangements by way of profit-related return at the time of the disposal, variation, loss or cancellation, and
 - (b) accordingly, is to be treated as constituting “carried interest”.
- (3) For the purposes of sub-paragraph (1), a person is a “relevant person” in relation to an individual if carried interest arising to that person would be treated as arising to the individual for the purposes of section 23I (see paragraph 7 and paragraph 8 of this Schedule).

Tax distribution treated as “carried interest”

- 4 (1) A tax distribution arising to an individual from an investment scheme under arrangements is to be treated as constituting “carried interest”.
- (2) A sum which arises to an individual from an investment scheme under arrangements is a “tax distribution” if—
 - (a) under the arrangements the sum is to, or may, arise only if tax becomes payable as a result of the individual’s entitlement to carried interest, and
 - (b) the sum arising to the individual results in a corresponding deduction in the individual’s entitlement to carried interest.

Co-investment returns not “carried interest”

- 5 (1) A sum which arises to the individual from an investment scheme under arrangements by way of profit-related return is not to be treated as “carried interest” to the extent that it constitutes a co-investment repayment or return.
- (2) In sub-paragraph (1) –
 - “co-investment”, in relation to the individual and the scheme, means an investment made directly or indirectly by the individual in the scheme, where there is no return on the investment which is not an arm's length return within the meaning of section 809EZB(2) of ITA 2007;
 - “co-investment repayment or return” means a repayment in whole or in part of, or a return on, a co-investment.

Definitions

- 6 (1) In this Part of this Schedule, “profits”, in relation to an investment made for the purposes of an investment scheme, means profits (including unrealised profits) arising from the acquisition, holding, management or disposal of the investment (taking into account items of a revenue nature and items of a capital nature).
- (2) In this Part of this Schedule a reference to an investment made by a person in an investment scheme is a reference to a contribution by the person (whether by way of capital, loan or otherwise) towards the property subject to the scheme (but does not include a sum committed but not yet invested).
- (3) For the purposes of sub-paragraph (2) a person who holds a direct or indirect interest in an investment scheme and who acquired the interest from a person other than the scheme is to be taken to have made a contribution towards the property subject to the scheme equal to –
 - (a) the consideration given by the person for the acquisition of the interest, or
 - (b) if less, the market value within the meaning of the TCGA 1992 (see sections 272 and 273 of that Act) of the interest at the time of the acquisition.
- (4) In this Part of this Schedule, in relation to an investment scheme which is a company limited by shares –
 - (a) references to a repayment of, or a return on, an investment in the scheme include a repayment of, or a return on, an investment represented by a share in the scheme resulting from –
 - (i) the purchase of the share by the scheme,
 - (ii) the redemption of the share by the scheme,

- (iii) the distribution of assets in respect of the share on the winding up of the scheme, or
- (iv) any similar process;
- (b) references to a return on an investment in the scheme include a dividend or similar distribution in respect of a share in the scheme representing the investment.

PART 2

SUMS ARISING TO OTHER PERSONS TREATED AS ARISING TO THE INDIVIDUAL

Sums arising to connected persons other than companies

- 7 (1) This paragraph applies in relation to an individual (“A”) if—
- (a) a sum arises to a person (“B”) who is connected with A,
 - (b) B is not a company,
 - (c) income tax is not charged on B in respect of the sum by virtue of section 23I,
 - (d) the sum does not arise to A apart from this paragraph.
- (2) The sum referred to in sub-paragraph (1)(a) arises to A for the purposes of section 23I.
- (3) Where a sum arises to A by virtue of this paragraph, it arises to A at the time the sum referred to in sub-paragraph (1)(a) arises to B.
- (4) Section 993 of ITA 2007 (meaning of “connected”) applies for the purposes of this paragraph but as if—
- (a) subsection (4) of that section were omitted, and
 - (b) partners in a partnership in which A is also a partner were not “associates” of A for the purposes of sections 450 and 451 of CTA 2010 (“control”).

Sums arising to connected company or unconnected person

- 8 (1) This paragraph applies in relation to an individual (“A”) if—
- (a) a sum arises to—
 - (i) a company connected with A, or
 - (ii) a person not connected with A,
 - (b) any of the enjoyment conditions are met, and
 - (c) the sum does not arise to A apart from this paragraph.
- (2) The enjoyment conditions are—
- (a) the sum, or part of the sum, is in fact so dealt with by any person as to be calculated at some time to enure for the benefit of A or a person connected with A;

- (b) the arising of the sum operates to increase the value to A or a person connected with A of any assets which—
 - (i) A or the connected person holds, or
 - (ii) are held for the benefit of A or the connected person;
- (c) A or a person connected with A receives or is entitled to receive at any time any benefit provided or to be provided out of the sum or part of the sum;
- (d) A or a person connected with A may become entitled to the beneficial enjoyment of the sum or part of the sum if one or more powers are exercised or successively exercised (and for these purposes it does not matter who may exercise the powers or whether they are exercisable with or without the consent of another person);
- (e) A or a person connected with A is able in any manner to control directly or indirectly the application of the sum or part of the sum.

In this sub-paragraph, in a case where the sum referred to in sub-paragraph (1)(a) arises to a company connected with A, references to a person connected with A do not include that company.

- (3) There arises to A for the purposes of section 23I—
 - (a) the sum referred to in sub-paragraph (1)(a), or
 - (b) if the enjoyment condition in sub-paragraph (2)(a), (c), (d) or (e) is met in relation to part of the sum, that part of that sum, or
 - (c) if the enjoyment condition in sub-paragraph (2)(b) is met, such part of that sum as is equal to the amount by which the value of the assets referred to in that condition is increased.
- (4) Where a sum (or part of a sum) arises to A by virtue of this paragraph, it arises to A at the time it arises to the person referred to in sub-paragraph (1)(a)(i) or (ii) (whether the enjoyment condition was met at that time or at a later date).
- (5) In determining whether any of the enjoyment conditions are met in relation to a sum or part of a sum—
 - (a) regard must be had to the substantial result and effect of all the relevant circumstances, and
 - (b) all benefits which may at any time accrue to a person as a result of the sum arising as specified in sub-paragraph (1)(a) must be taken into account, irrespective of—
 - (i) the nature or form of the benefits, or
 - (ii) whether the person has legal or equitable rights in respect of the benefits.

- (6) The enjoyment condition in sub-paragraph (2)(b), (c) or (d) is to be treated as not met if it would be met only by reason of A or a person connected with A holding shares or an interest in shares in a company.
- (7) The enjoyment condition in sub-paragraph (2)(a) or (e) is to be treated as not met if the sum referred to in sub-paragraph (1)(a) arises to a company connected with A and –
 - (a) the company is liable to pay corporation tax in respect of its profits and the sum is included in the computation of those profits, or
 - (b) sub-paragraph (a) does not apply but –
 - (i) the company is a CFC and the exemption in Chapter 14 of Part 9A of TIOPA 2010 applies for the accounting period in which the sum arises, or
 - (ii) the company is not a CFC but, if it were, that exemption would apply for that period.

In this sub-paragraph “CFC” has the same meaning as in Part 9A of TIOPA 2010.

- (8) But sub-paragraphs (6) and (7) do not apply if the sum referred to in sub-paragraph (1)(a) arises to the company referred to in sub-paragraph (1)(a)(i) or the person referred to in sub-paragraph (1)(a)(ii) as part of arrangements where –
 - (a) it is reasonable to assume that in the absence of the arrangements the sum or part of the sum would have arisen to A or an individual connected with A, and
 - (b) it is reasonable to assume that the arrangements have as their main purpose, or one of their main purposes, the avoidance of a liability to pay income tax, capital gains tax, inheritance tax or corporation tax.
- (9) The condition in sub-paragraph (8)(b) is to be regarded as met in a case where the sum is applied directly or indirectly as an investment in an investment scheme.
- (10) Section 993 (meaning of “connected”) applies for the purposes of this paragraph, but as if –
 - (a) subsection (4) of that section were omitted, and
 - (b) partners in a partnership in which A is also a partner were not “associates” of A for the purposes of sections 450 and 451 of CTA 2010 (“control”).

Deferred sums

- 9 (1) But paragraph 8 does not apply in relation to a sum arising to –
 - (a) a company connected with A, or
 - (b) a person not connected with A,

for as long as the sum is a deferred sum in relation to A.

- (2) In this paragraph, “deferred sum”, in relation to A –
- (a) means a sum where the provision of the sum to A or a person connected with A is deferred (whether pending the meeting of any conditions (including conditions which may never be met) or otherwise), and
 - (b) includes A's share (as determined on a just and reasonable basis) of any sum the provision of which to A and one or more other persons, taken together, has been deferred (whether pending the meeting of any conditions (including conditions which may never be met) or otherwise).

In this sub-paragraph, in a case where the sum referred to in sub-paragraph (1) arises to a company connected with A, the reference to a person connected with A does not include that company.

- (3) Where –
- (a) paragraph 8 has been disapplied in relation to a deferred sum by virtue of sub-paragraph (1), and
 - (b) the sum ceases to be a deferred sum in relation to A,
- the sum is to be regarded as arising to the company or person mentioned in sub-paragraph (1) at the time it ceases to be a deferred sum.
- (4) Section 993 of ITA 2007 (meaning of “connected”) applies for the purposes of this paragraph but as if –
- (a) subsection (4) of that section were omitted, and
 - (b) partners in a partnership in which A is also a partner were not “associates” of A for the purposes of sections 450 and 451 of CTA 2010 (“control”).

Deferred sums: exceptions

- 10 (1) Paragraph 9 does not apply in relation to any sum in relation to which the condition in sub-paragraph (8)(b) of paragraph 8 is met by virtue of sub-paragraph (9) of that paragraph.
- (2) Paragraph 9 also does not apply if –
- (a) it is reasonable to assume that the deferral referred to in sub-paragraph (2) of paragraph 9 is not the effect of genuine commercial arrangements, or
 - (b) that deferral is the effect of such arrangements but it is reasonable to assume that the arrangements have as their main purpose, or one of their main purposes, the avoidance of a liability to pay income tax, capital gains tax, corporation tax or inheritance tax.

- (3) In sub-paragraph (2), “genuine commercial arrangements” means arrangements involving A (alone or jointly with others performing investment management services) and external investors in the investment scheme.

PART 3

QUALIFYING CARRIED INTEREST

CHAPTER 1

QUALIFYING CARRIED INTEREST

Overview

- 11 (1) This Part of this Schedule determines when carried interest arising to an individual from an investment scheme is “qualifying carried interest” for the purposes of section 23I.
- (2) Paragraph 12 contains the general rule, under which the extent to which carried interest is qualifying carried interest depends on the average holding period of the investment scheme.
- (3) Chapters 2 to 5 of this Part contain further provision relating to average holding periods.
- (4) Chapter 6 contains an exception to the general rule for carried interest which is treated as being 100% qualifying carried interest.
- (5) Chapters 7 and 8 contain supplementary and interpretative provision.
- (6) Nothing in this Part of this Schedule affects the liability to any tax of—
- (a) the investment scheme, or
 - (b) external investors in the investment scheme.

Qualifying carried interest: general rule

- 12 (1) “Qualifying carried interest” is the relevant proportion of a sum of carried interest arising to an individual from an investment scheme.
- (2) The relevant proportion is determined by reference to the investment scheme's average holding period as follows.

Average holding period	Relevant proportion
Less than 36 months	0%
At least 36 months but less than 37 months	20%

Average holding period	Relevant proportion
At least 37 months but less than 38 months	40%
At least 38 months but less than 39 months	60%
At least 39 months but less than 40 months	80%
40 months or more	100%

- (3) This paragraph is subject to the following provisions of this Part of this Schedule.

CHAPTER 2

AVERAGE HOLDING PERIOD

Average holding period

- 13 (1) The average holding period of an investment scheme, in relation to a sum of carried interest, is the average length of time for which relevant investments have been held for the purposes of the scheme.
- (2) In this paragraph, “relevant investments” means investments—
- (a) which are made for the purposes of the scheme, and
 - (b) by reference to which the carried interest is calculated.
- (3) The average holding period is calculated by reference to the time the carried interest arises.
- (4) It is calculated as follows.
- Step 1* For each relevant investment, multiply the value invested at the time the investment was made by the length of time for which the investment has been held.
- Step 2* Add together the amounts produced under *step 1* in respect of all relevant investments.
- Step 3* Divide the amount produced under *step 2* by the total value invested in all relevant investments.
- (5) Disregard intermediate holdings or intermediate holding structures (including intermediate investment schemes) by or through which investments are made or held—
- (a) when identifying, for the purpose of determining the average holding period of an investment scheme, what relevant investments are held for the purposes of an investment scheme, and

- (b) for any other purpose relating to the determination of the average holding period.

This is subject to the following provisions of this Part of this Schedule.

- (6) In this paragraph references to the length of time for which a relevant investment has been held are –
 - (a) in the case of an investment which has been disposed of before the carried interest arises, references to the time for which it was held before being disposed of, and
 - (b) in any other case, references to the time for which it has been held up to the time the carried interest arises.
- (7) For the purposes of this Part of this Schedule a sum which is a deferred sum in relation to a person within the meaning of paragraph 9 of this Schedule is to be treated as arising to that person at the time it would have arisen had it not been deferred as specified in paragraph 9(2)(a) or (b).
- (8) Chapters 3 to 5 of this Part of this Schedule apply for the purposes of determining the average holding period of an investment scheme.

CHAPTER 3

AVERAGE HOLDING PERIOD: MAKING AND DISPOSALS OF INVESTMENTS

Timing of making investments

- 14 (1) An investment made by acquiring an asset disposed of under a contract is made when the asset is acquired for the purposes of TCGA 1992 (see section 28 of that Act).
- (2) An investment in newly issued shares is made when the shares are issued.

Disposals

- 15 (1) An investment or part of an investment is disposed of where –
 - (a) there is a disposal of the investment or the part of the investment for the purposes of the investment scheme,
 - (b) there is a disposal for the purposes of the investment scheme of an intermediate holding or intermediate holding structure (including an intermediate investment scheme) by or through which the investment is held, or
 - (c) in any other case, there is a deemed disposal under sub-paragraph (2).
- (2) There is a deemed disposal of an investment or part of an investment under this sub-paragraph where –

- (a) under any arrangements –
 - (i) the scheme in substance closes its position on the investment or the part of the investment, or
 - (ii) the scheme ceases to be exposed to risks and rewards in the respect of the investment or the part of the investment, and
 - (b) it is reasonable to suppose that the arrangements were designed to secure that result.
- (3) In the case of a disposal of part of a holding of securities in a company which are of the same class, suppose for the purposes of determining which investments have been disposed of that the disposal affects the securities in the order in which they were acquired (that is, on a first in first out basis).
- (4) The references in sub-paragraph (1)(a) and (b) to a disposal are to something which is a disposal for the purposes of TCGA 1992; but for the purposes of sub-paragraph (1)(a) disregard section 116 of TCGA 1992 (which disapplies sections 127 to 130 of that Act in relation to qualifying corporate bonds).

Part disposals

- 16 (1) Where there is a disposal of part of an investment, the part disposed of and the part not disposed of are to be treated as two separate investments which were made at the same time.
- (2) The value of each of those two separate investments is the appropriate proportion of the value first invested in the whole investment.
- (3) The appropriate proportion is the proportion of the value of the part in question to the value of the whole investment at the time of the disposal.
- (4) The disposal of part of an asset includes the disposal of an interest in or right over the asset (and “part disposed of” is to be construed accordingly).

Acquisitions from associated investment schemes

- 17 (1) This paragraph applies where an investment scheme (“the acquiring scheme”) acquires an investment on its disposal by an associated investment scheme.
- (2) The investment is treated as made by the acquiring scheme when it was made by the associated investment scheme.
- (3) The disposal of the investment by the associated investment scheme is to be disregarded.

Unwanted short-term investments

- 18 (1) The making and disposal of an investment for the purposes of an investment scheme are to be disregarded to the extent that the investment is an unwanted short-term investment.
- (2) An investment is an unwanted short-term investment to the extent that –
- (a) the investment is made as part of a transaction under which one or more other investments are made for the purposes of the scheme,
 - (b) the value of the investment does not exceed that of the other investments taken together,
 - (c) it is reasonable to suppose that the investment had to be made in order for the other investments to be made,
 - (d) at the time the investment is made, managers of the scheme have a firm, settled and evidenced intention to dispose of the investment for the purposes of the scheme within 12 months,
 - (e) the investment is disposed of for the purposes of the scheme within 12 months, and
 - (f) any profit resulting from the disposal has no significant bearing on whether a sum of carried interest arises or on the amount of any sum of carried interest which does arise.
- (3) But if at any time it becomes reasonable to suppose that, when the scheme ceases to invest, 25% or more of the capital of the investment scheme will have been invested in unwanted short-term investments, sub-paragraph (1) does not apply to any investment made subsequently for the purposes of the scheme.

CHAPTER 4

AVERAGE HOLDING PERIOD: DERIVATIVES AND HEDGING

Derivatives

- 19 (1) A derivative contract entered into for the purposes of an investment scheme is an investment, subject to the following provisions of this paragraph.
- (2) The value invested in the derivative contract is –
- (a) where the contract is an option, the cost of acquiring the option (whether from the grantor or another person),
 - (b) where the contract is a future, the price specified in the contract for the underlying subject matter, or
 - (c) where the contract is a contract for differences, the notional principal of the contract.

- (3) But where entering into a derivative contract constitutes a deemed disposal of an investment or part of an investment by virtue of paragraph 15(2)(a)(ii) –
 - (a) the derivative contract is not an investment, and
 - (b) the subsequent disposal of the derivative contract without a corresponding disposal of the investment or part investment is to be regarded as the making of a new investment to the extent that the scheme becomes materially exposed to risks and rewards in respect of the investment or part investment.
- (4) For the purposes of this Part of this Schedule, references to disposal, in the case of a derivative contract, include any of the following events (to the extent that the event is not otherwise a disposal under paragraph 15(1) or (2)) –
 - (a) the expiry of the contract,
 - (b) the termination of the contract (whether or not in accordance with its terms),
 - (c) the disposal, substantial variation, loss or cancellation of the investment scheme's rights under the contract, and
 - (d) in the case of a derivative contract which is an option, the exercise of the option,
 but do not include the renewal of the contract with the same counterparty on substantially the same terms.
- (5) The substantial variation of an investment scheme's rights under a derivative contract constitutes (in addition to the disposal of the contract as originally entered into (see sub-paragraph (4)(c)) a new investment consisting of the contract as varied.

Hedging: exchange gains and losses

- 20 (1) This paragraph applies where –
 - (a) an investment scheme has a hedging relationship between a relevant instrument and a relevant investment, and
 - (b) the hedging relationship relates to exchange gains or losses.
- (2) In this paragraph –
 - “relevant instrument” means a derivative contract or a liability representing a loan relationship, and
 - “relevant investment” means –
 - (a) where the relevant instrument is a derivative contract, an investment made for the purposes of the scheme or a liability representing a loan relationship;

- (b) where the relevant instrument is a liability representing a loan relationship, an investment made for the purposes of the scheme.
- (3) An investment scheme has a hedging relationship between a relevant instrument and a relevant investment if or to the extent that—
 - (a) the instrument and the investment are designated by the scheme as a hedge, or
 - (b) in any other case, the instrument is intended to act as a hedge of exposure to—
 - (i) changes in fair value of the investment or an identified portion of the investment, or
 - (ii) variability in cash flows,where the exposure is attributable to exchange gains or losses and could affect profit or loss of the investment scheme.
- (4) Entering into the hedging relationship is not a deemed disposal of the relevant investment under paragraph 15(2).
- (5) The relevant instrument is not an investment for the purposes of the investment scheme to the extent that the conditions in sub-paragraph (3)(a) and (b) are met.
- (6) But the termination of the hedging relationship is the making of an investment constituting the relevant instrument if or to the extent that that instrument continues to subsist.

Hedging: interest rates

- 21 (1) This paragraph applies where an investment scheme has a hedging relationship between—
- (a) an interest rate contract, and
 - (b) a qualifying investment held for the purposes of the fund.
- (2) An investment scheme has a hedging relationship between an interest rate contract and a qualifying investment if or to the extent that—
- (a) the interest rate contract and the investment are designated by the scheme as a hedge, or
 - (b) in any other case, the interest rate contract is intended to act as a hedge of exposure to—
 - (i) changes in fair value of the investment or an identified portion of the investment, or
 - (ii) variability in cash flows,where the exposure is attributable to interest rates and could affect profit or loss of the investment scheme.

- (3) Entering into the hedging relationship is not a deemed disposal of the relevant investment under paragraph 15(2).
- (4) The interest rate contract is not an investment for the purposes of the investment scheme to the extent that the conditions in sub-paragraph (2)(a) and (b) are met.
- (5) But the termination of the hedging relationship is the making of an investment constituting the interest rate contract if or to the extent that the interest rate contract continues to subsist.
- (6) In this paragraph “qualifying investment” means –
 - (a) money placed at interest,
 - (b) securities (excluding shares issued by companies),
 - (c) alternative finance arrangements, and
 - (d) a liability representing a loan relationship.

CHAPTER 5

AVERAGE HOLDING PERIOD: AGGREGATION OF ACQUISITIONS AND DISPOSALS

Significant interests

- 22 (1) Where an investment scheme has a controlling interest in a trading company or the holding company of a trading group –
 - (a) any investment made for the purposes of the scheme in that company after the time when the controlling interest was acquired is to be regarded as having been made at that time, and
 - (b) any disposal for the purposes of the scheme of an investment in the company after the time the controlling interest was acquired is to be regarded as not being made until a relevant disposal is made.
- (2) In sub-paragraph (1)(b) “relevant disposal”, in relation to a company, means a disposal which (apart from sub-paragraph (1)) has the effect that the investment scheme ceases to have a 40% interest in the company.
- (3) For the purposes of this paragraph, in determining whether an investment scheme has a controlling interest or a 40% interest in a company, any share capital of the company which is held for the purposes of an associated investment scheme is to be regarded as held for the purposes of the investment scheme.

Venture capital funds

- 23 (1) Where a venture capital fund has a relevant interest in a trading company or the holding company of a trading group –

- (a) any venture capital investment made for the purposes of the scheme in the company after the time the relevant interest was acquired (and before a relevant disposal) is to be regarded as having been made at the time the relevant interest was acquired, and
 - (b) any disposal for the purposes of the scheme of a venture capital investment in the company after that time is to be regarded as not being made until—
 - (i) a relevant disposal is made, or
 - (ii) the scheme ceases to be entitled directly or indirectly to exercise relevant rights in relation to the company.
- (2) For the purposes of sub-paragraph (1) a venture capital fund has a relevant interest in a company if —
 - (a) by virtue of its venture capital investments the fund has at least a 5% interest in the company, or
 - (b) venture capital investments held for the purposes of the scheme in the company have a value of more than £1 million.
- (3) For the purposes of sub-paragraph (1) “relevant disposal” means a disposal which (apart from sub-paragraph (1)) has the effect that the venture capital fund has disposed of more than 80% of the greatest amount invested at any one time in the company for the purposes of the fund.
- (4) In this Part of this Schedule, “venture capital fund” means an investment scheme in relation to which the condition in sub-paragraph (5) is met.
- (5) The condition is that when the scheme starts to invest it is reasonable to suppose that over the investing life of the scheme—
 - (a) at least two-thirds of the total value invested for the purposes of the scheme will be invested in venture capital investments, and
 - (b) at least two-thirds of the total value invested for the purposes of the scheme will be invested in investments which are held for 40 months or more.
- (6) In determining whether sub-paragraph (5)(b) is met in relation to an investment scheme, apply the rule in sub-paragraph (1) to the scheme.
- (7) In this paragraph, “venture capital investment”, in relation to an investment scheme, means an investment in a trading company or the holding company of a trading group where—
 - (a) at the time the investment is made the company is unlisted and is likely to remain so,

- (b) at least 75% of the total value of the investment is invested in –
 - (i) newly issued shares or
 - (ii) newly issued securities convertible into shares,
 - (c) the investment is used in a trade carried on by the trading company or the trading group –
 - (i) to support its growth, or
 - (ii) for the development of new products or services, and is not used directly or indirectly to acquire shares in the company which are not newly issued,
 - (d) if the investment is the first investment made in the company for the purposes of the scheme, the trading company or group has not carried on that trade for more than 7 years, and
 - (e) the investment scheme is entitled directly or indirectly to exercise relevant rights in relation to the company.
- (8) In this Part of this Schedule, “relevant rights”, in relation to an investment scheme and a company, are rights which –
- (a) relate to the conduct of the business and affairs of the company, and
 - (b) are at least equivalent to the rights which it is reasonable to suppose a prudent investor would have obtained on making an investment in the company at arm's length of the same size and nature as that held in the company for the purposes of the investment scheme.
- (9) In determining whether the condition in sub-paragraph (2)(a) or (b) is met in relation to a venture capital fund, any share capital of a company which is held for the purposes of an associated investment scheme is to be regarded as held for the purposes of the venture capital fund.

Significant equity stake funds

- 24 (1) Where a significant equity stake fund has a significant equity stake investment in a trading company or the holding company of a trading group –
- (a) any investment made for the purposes of the fund in that company made after the time the significant equity stake investment was acquired is to be regarded as having been made at that time, and
 - (b) any disposal for the purposes of the fund of an investment in the company after that time is to be regarded as not being made until –
 - (i) a relevant disposal is made, or

- (ii) the fund ceases to be entitled directly or indirectly to exercise relevant rights in relation to the company.
- (2) In sub-paragraph (1)(b) “relevant disposal” means a disposal which (apart from sub-paragraph (1)) has the effect that the significant equity stake fund ceases to have a 15% interest in the company.
- (3) In this Part of this Schedule “significant equity stake fund” means an investment scheme –
 - (a) which is not a venture capital fund, and
 - (b) in relation to which the condition in sub-paragraph (4) is met.
- (4) The condition is that when the scheme starts to invest it is reasonable to suppose that over the investing life of the scheme –
 - (a) more than 50% of the total value invested for the purposes of the scheme will be invested in investments which are significant equity stake investments, and
 - (b) more than 50% of that value will be invested in investments which are held for 40 months or more.
- (5) In determining whether sub-paragraph (4)(b) is met in relation to an investment scheme, apply the rule in sub-paragraph (1) to the scheme.
- (6) In this paragraph, “significant equity stake investment”, in relation to an investment scheme, means an investment in a trading company or the holding company of a trading group where –
 - (a) at the time the investment is made, the company is unlisted and likely to remain so,
 - (b) by virtue of the investment (on its own or with other investments) the scheme has a 20% interest in the company, and
 - (c) the investment scheme is entitled directly or indirectly to exercise relevant rights in relation to the company.
- (7) For the purposes of this Part of this Schedule, in determining whether a significant equity stake fund has an interest of a particular percentage in a company, any share capital of the company which is held for the purposes of an associated investment scheme is to be regarded as held for the purposes of the significant equity stake fund.

Controlling equity stake funds

- 25 (1) Where a controlling equity stake fund has a 25% interest in a trading company or the holding company of a trading group –

- (a) any investment made for the purposes of the controlling equity stake fund in the company after the time the 25% interest was acquired is to be regarded as having been made at that time, and
 - (b) any disposal for the purposes of the controlling equity stake fund of an investment in the company after that time is to be regarded as not being made until a relevant disposal is made.
- (2) In sub-paragraph (1)(b), “relevant disposal”, in relation to a company, means a disposal which (apart from sub-paragraph (1)) has the effect that the controlling equity stake fund ceases to have a 25% interest in the company.
- (3) In this Part of this Schedule, “controlling equity stake fund” means an investment scheme –
 - (a) which is not a venture capital fund or significant equity stake fund, and
 - (b) in relation to which the condition in sub-paragraph (4) is met.
- (4) The condition is that when the scheme starts to invest it is reasonable to suppose that, over the investing life of the scheme –
 - (a) more than 50% of the total value invested for the purposes of the scheme will be invested in investments which are controlling interests in trading companies or holding companies of trading groups, and
 - (b) more than 50% of the total value invested for the purposes of the scheme will be invested in investments which are held for 40 months or more.
- (5) In determining whether sub-paragraph (4)(b) is met in relation to an investment scheme, apply the rule in sub-paragraph (1) to the scheme.
- (6) For the purposes of this paragraph, in determining whether a controlling equity stake fund has a controlling interest or an interest of a particular percentage in a company, any share capital of the company which is held for the purposes of an associated investment scheme is to be regarded as held for the purposes of the controlling equity stake fund.

Real estate funds

- 26 (1) Where a real estate fund has a major interest in any land –
- (a) any investment made for the purposes of the fund in that land after the time the major interest was acquired is to be regarded as having been made at that time, and

- (b) any disposal for the purposes of the fund of an investment in the land after that time is to be regarded as not being made until a relevant disposal is made.
- (2) In sub-paragraph (1)(b) “relevant disposal” means a disposal which (apart from sub-paragraph (1)) has the effect that the real estate fund has disposed of more than 50% of the greatest amount invested at any one time in the land for the purposes of the real estate fund.
- (3) Where a real estate fund has a major interest in any land (“the original land”) and subsequently acquires a major interest in any adjacent land –
 - (a) the acquisition is an investment in the original land for the purposes of sub-paragraph (1)(a), and
 - (b) after the acquisition, the adjacent land is to be regarded as part of the original land for the purposes of sub-paragraphs (1) and (2).
- (4) In this Part of this Schedule, “real estate fund” means an investment scheme –
 - (a) which is not a venture capital fund, significant equity stake fund or controlling equity stake fund, and
 - (b) in relation to which the condition in sub-paragraph (5) is met.
- (5) The condition is that when the scheme starts to invest it is reasonable to suppose that over the investing life of the scheme –
 - (a) more than 50% of the total value invested for the purposes of the scheme will be invested in land, and
 - (b) more than 50% of the total value invested for the purposes of the scheme will be invested in investments which are held for 40 months or more.
- (6) In determining whether sub-paragraph (5)(b) is met in relation to an investment scheme, apply the rule in sub-paragraph (1) to the scheme.

Credit funds

- 27 (1) Where a credit fund has a significant debt investment –
- (a) any debt or equity investment made for the purposes of the fund after the time the significant debt investment was made that is associated with the significant debt investment is to be regarded as having been made at that time, and
 - (b) any disposal for the purposes of the fund of the significant debt investment or any debt or equity investment associated with the significant debt investment (all

together, “associated investments”) after that time is to be regarded as not being made until a relevant disposal is made.

- (2) In sub-paragraph (1)(b) “relevant disposal” means a disposal which (apart from sub-paragraph (1)) has the effect that—
 - (a) the credit fund has (by virtue of disposals of associated investments) disposed of at least 50% of the greatest amount invested for its purposes at any one time in associated investments, or
 - (b) the credit fund's investment in associated investments is worth less than whichever is the greater of—
 - (i) £1 million, or
 - (ii) 5% of the total value invested immediately before the disposal for the purposes of the credit fund in associated investments.
- (3) In this Part of this Schedule, “credit fund” means an investment scheme—
 - (a) which is not a venture capital fund, significant equity stake fund, controlling equity stake fund, or real estate fund, and
 - (b) in relation to which the condition in sub-paragraph (4) is met.
- (4) The condition is that when the scheme starts to invest it is reasonable to suppose that over the investing life of the scheme—
 - (a) more than 50% of the total value invested for the purposes of the scheme will be invested in debt investments, and
 - (b) more than 50% of the total value invested for the purposes of the scheme will be invested in investments which are held for 40 months or more.
- (5) In determining whether sub-paragraph (4)(b) is met in relation to an investment scheme, apply the rule in sub-paragraph (1) to the scheme.
- (6) For the purposes of this paragraph and paragraph 28—
 - (a) a “debt investment” is made for the purposes of a credit fund where—
 - (i) there is an unconditional obligation to advance money by virtue of which the fund would stand in the position of creditor as respects a money debt under a loan relationship,
 - (ii) an investment is acquired by virtue of which the fund stands in the position of creditor as respects a money debt under a loan relationship, or

- (iii) an investment is made or acquired by virtue of which the fund stands in the position of creditor as respects a money debt under a relevant non-lending relationship;
 - (b) “money debt” means a debt which is a money debt for the purposes of that Part 5 of CTA 2009 (see section 303(1) of that Act) or Chapter 2 of Part 6 of that Act (see section 478(3) of that Act);
 - (c) “relevant non-lending relationship” has the same meaning as in Chapter 2 of Part 6 of that Act (see section 478(2) of that Act);
 - (d) the “debtor” of a debt investment means the person standing in the position of debtor as respects the money debt arising by virtue of the debt investment.
- (7) For the purposes of this paragraph—
 - (a) a “significant debt investment”, in relation to a credit fund, means a debt investment of at least £1 million or at least 5% of the total amounts raised or to be raised from external investors in the fund;
 - (b) an “equity investment” means an investment in shares (within the meaning of paragraph 53(2) of Schedule 2 to FA 2022);
 - (c) a debt investment is “associated” with a significant debt investment if the debtor of the debt investment is—
 - (i) also the debtor of the significant debt investment, or
 - (ii) a member of the same group of companies (within the meaning of section 152 of CTA 2010) as the debtor of the significant debt investment;
 - (d) an equity investment is “associated” with a significant debt investment if the shares are in—
 - (i) the debtor of the significant debt investment, or
 - (ii) a member of the same group of companies (within the meaning of section 152 of CTA 2010) as the debtor of the significant debt investment.

Disposals of debt investments

- 28 (1) For the purposes of paragraph 27 references to a “disposal”, in the case of a debt investment held by a credit fund, do not include—
 - (a) any event that is part of a transaction which extends the period for which the loan relationship or relevant non-lending relationship is to subsist on substantially the same terms;

- (b) any event that is part of a transaction falling within sub-paragraph (2).
- (2) A transaction falls within this sub-paragraph if—
 - (a) if it is undertaken for commercial purposes, and
 - (b) before and after the transaction the credit fund is exposed to substantially the same risks and rewards in respect of the debtor’s group.
- (3) In sub-paragraph (2), the “debtor’s group” means the debtor of the debt investment and each member of the same group of companies (within the meaning of section 152 of CTA 2010) as the debtor.
- (4) For the purposes of paragraph 27—
 - (a) any assets acquired as part of a transaction falling within sub-paragraph (2) are to be treated as a single investment with the debt investment, and
 - (b) the value invested in that single investment is the value that was invested in the debt investment.
- (5) For the purposes of determining the average holding period of a credit fund, where—
 - (a) the money debt under a qualifying debt investment is repaid by the debtor to any extent before the end of 40 months from the time the debt investment is made, and
 - (b) it is reasonable to suppose that the debtor’s decision to repay the money debt was not affected by considerations relating to the application of this Part of this Schedule,
 the debt investment is, to that extent, to be treated as held for 40 months.
- (6) For the purposes of sub-paragraph (5) a debt investment made for the purposes of the scheme is a “qualifying debt investment” if, when it was made—
 - (a) the loan relationship or relevant non-lending relationship had a repayment date that was at least 40 months after that time,
 - (b) the scheme had the positive intention and ability to hold the debt investment until the repayment date.

Funds of funds

- 29 (1) Paragraph 13(5) (disregard of intermediate holdings and holding structures) does not apply to an investment made for the purposes of a fund of funds in an investment scheme (and, accordingly, such an investment is regarded as an investment in the investment scheme itself).

- (2) Sub-paragraph (1) does not apply in relation to a fund of funds in relation to an investment scheme if it is reasonable to suppose that the main purpose or one of the main purposes of the making of any investment in any investment scheme for the purposes of the fund of funds is to increase the proportion of carried interest arising to any person which is qualifying carried interest.
- (3) Where by virtue of sub-paragraph (1) a fund of funds has a significant investment in an investment scheme (“the underlying scheme”) –
 - (a) any qualifying investment made for the purposes of the fund in the underlying scheme after the time the significant investment was made is to be regarded as having been made at that time, and
 - (b) any disposal for the purposes of the fund of a qualifying investment in the underlying scheme after that time is to be regarded as not being made until a relevant disposal is made.
- (4) In sub-paragraph (3)(b) “relevant disposal”, in relation to an underlying scheme, means a disposal which (apart from sub-paragraph (3)) has the effect that the fund of fund's investment in the underlying scheme is worth less than whichever is the greater of –
 - (a) £1 million, or
 - (b) 5% of the total value of the investments made before the disposal for the purposes of the fund of funds in the underlying scheme.
- (5) In this Part of this Schedule, “fund of funds” means an investment scheme in relation to which the condition in sub-paragraph (6) is met.
- (6) The condition is that when the scheme starts to invest it is reasonable to suppose that over the investing life of the scheme –
 - (a) at least 80% of the total value invested for the purposes of the scheme will be invested in investment schemes or in the acquisition of portfolios of investments from unconnected investments schemes,
 - (b) more than 50% of the total value invested for the purposes of the scheme will be invested in investments which are held for 40 months or more, and
 - (c) the scheme will be a qualifying fund within the meaning of paragraph 9 of Schedule 2 to FA 2002.
- (7) In determining whether sub-paragraph (6)(b) is met in relation to an investment scheme, apply the rule in sub-paragraph (3) to the scheme.
- (8) In this paragraph –

- (a) “significant investment”, in relation to an investment scheme means—
 - (i) an investment of a least £1 million in the scheme, or
 - (ii) an investment of at least 5% of the total amounts raised or to be raised from external investors in the scheme;
 - (b) “qualifying investment” means an investment made for the purposes of a fund of funds in an investment scheme (“the underlying scheme”) where it is reasonable to suppose that—
 - (i) the investment is held on substantially the same terms as other investments made by external investors in the underlying scheme,
 - (ii) the underlying scheme has not made an investment in the fund of funds,
 - (iii) no person providing investment management services to the underlying scheme provides investment management services to the fund of funds, and
 - (iv) the investment in the underlying scheme is not part of arrangements the main purpose or one of the main purposes of which is to reward any person involved in providing investment management services to the underlying scheme or a scheme connected with that underlying scheme.
- (9) For the purposes of this paragraph—
- (a) an investment in an investment scheme is made—
 - (i) when the investment is made or acquired, or
 - (ii) if earlier, when there is an unconditional obligation to subscribe for an interest in the investment scheme;
 - (b) an investment made for the purposes of a fund of funds in an investment scheme includes an investment in an entity that, when the fund makes the investment, it is reasonable to suppose is an investment scheme;
 - (c) an investment or part of an investment in an investment scheme is disposed of where the investment or part of the investment would be disposed of by virtue of paragraph 15 if the investment were an asset for the purposes of TCGA 1992.

CHAPTER 6

CARRIED INTEREST TREATED AS 100% QUALIFYING CARRIED INTEREST

Carried interest treated as 100% qualifying carried interest

- 30 (1) Carried interest—
- (a) which arises to an individual from an investment scheme,
 - (b) which is not 100% qualifying carried interest, and
 - (c) to which this paragraph applies,
- is to be treated as if it is 100% qualifying carried interest.
- (2) This paragraph applies to carried interest if Conditions A to C are met.
- (3) Condition A is that the carried interest arises to the individual in the period of—
- (a) four years beginning with the day on which the scheme starts to invest, or
 - (b) ten years beginning with that day if the carried interest is calculated on the realisation model.
- (4) Condition B is that it is reasonable to suppose that, were the carried interest to arise to the individual at the relevant time (but by reference to the same relevant investments), it would be 100% qualifying carried interest.
- (5) The “relevant time” is whichever is the earliest of—
- (a) the time when it is reasonable to suppose that the investment scheme will be wound up;
 - (b) the end of the period of four years beginning with the time when it is reasonable to suppose that the scheme will cease to invest;
 - (c) the end of the period of—
 - (i) four years beginning with the day on which the sum of carried interest arises to the individual, or
 - (ii) ten years beginning with that day if the carried interest was calculated on the realisation model;
 - (d) the end of the period of four years beginning with the end of the period by reference to which the amount of the carried interest was determined.
- (6) Sub-paragraph (4) does not affect what would otherwise be the time at which an investment is disposed of for the purposes of this Part of this Schedule.
- (7) Condition C is that the individual makes a claim under this paragraph for this paragraph to apply to the carried interest.

Carried interest which ceases to be treated as 100% qualifying carried interest

- 31 (1) Paragraph 30 ceases to apply to carried interest at whichever is the earliest of –
- (a) the time when the investment scheme is wound up;
 - (b) the end of the period of four years beginning with the time the scheme ceases to invest;
 - (c) the end of the period of –
 - (i) four years beginning with the day on which the sum of carried interest arises to the individual, or
 - (ii) ten years beginning with that day if the carried interest was calculated on the realisation model;
 - (d) the end of the period of four years beginning with the end of the period by reference to which the amount of the carried interest is determined;
 - (e) the time at which Condition B in paragraph 30(4) ceases to be met.
- (2) Carried interest to which paragraph 30 ceases to apply is to be treated as having been qualifying carried interest at the time it arose to the individual to the extent that, had it arisen to the individual at the time paragraph 30 ceased to apply (but in relation to the same relevant investments) it would have been qualifying carried interest.
- (3) An officer of Revenue and Customs must make all such assessments and adjustments of assessments as are necessary to give effect to sub-paragraph (2).
- (4) Any amount paid by way of income tax in respect of carried interest to which paragraph 30 applies is to be treated as if it had been paid in respect of any income tax liability arising under sub-paragraph (2).

CHAPTER 7

SUPPLEMENTARY

Anti-avoidance

- 32 (1) For the purposes mentioned in sub-paragraph (2), no regard is to be had to any arrangements the main purpose of which, or one of the main purposes of which, is to increase the proportion of carried interest which is qualifying carried interest.
- (2) The purposes referred to in sub-paragraph (1) are –
- (a) determining the average holding period, or
 - (b) determining whether an investment scheme is a venture capital fund, significant equity stake fund, controlling

equity stake fund, real estate fund, credit funds or fund of funds.

Treasury regulations

- 33 (1) The Treasury may by regulations make provision relating to the calculation of the average holding period in some or all cases.
- (2) The provision referred to in sub-paragraph (1) includes in particular –
- (a) provision for a method of calculating that period which is different from that in paragraph 13;
 - (b) provision as to what is and is not to be regarded as an investment;
 - (c) provision as to when an investment is to be regarded as made or disposed of;
 - (d) anti-avoidance provision.
- (3) Regulations under this section may –
- (a) amend this Part of this Schedule;
 - (b) make different provision for different purposes;
 - (c) contain incidental, supplemental, consequential and transitional provision and savings.

“Reasonable to suppose”

- 34 (1) For the purposes of this Part of this Schedule, in determining what it is reasonable to suppose in relation to an investment scheme, regard is to be had to all the circumstances.
- (2) Those circumstances include in particular any prospectus or other document which –
- (a) is made available to external investors in the investment scheme, and
 - (b) on which external investors may reasonably be supposed to have relied or been able to rely.

CHAPTER 8

INTERPRETATION

Interpretation of Part 3

- 35 (1) In this Part of this Schedule –
- “5% interest”, “15% interest”, “20% interest”, “25% interest” and “40% interest” are to be construed in accordance with sub-paragraph (4);
 - “act together”: two or more investment schemes act together in relation to a company if –

- (a) they enter into contractual arrangements (with or without other persons) in relation to the conduct of the company's affairs,
- (b) the arrangements are negotiated on arm's length terms, and
- (c) the investment schemes act together to secure greater control or influence over the company's affairs than they would be able to secure individually;

“alternative finance arrangements” has the same meaning as in Part 6 of CTA 2009 (see section 501(2) of that Act);

“associated”: two or more investment schemes are “associated” if, under arrangements including those investment schemes, an investor in one of those schemes would reasonably regard that investment as an investment in the arrangements as a whole rather than exclusively in any particular scheme;

“connected” and “unconnected” are to be construed in accordance with sub-paragraphs (6) and (7);

“contract for differences” has the same meaning as in Part 7 of CTA 2009 (see section 582 of that Act);

“controlling equity stake fund” has the meaning given in paragraph 25;

“controlling interest” has the meaning given in sub-paragraph (3);

“credit fund” has the meaning given in paragraph 27;

“derivative contract” has the same meaning as in Part 7 of CTA 2009 (but see sub-paragraph (8));

“designated” has the same meaning as for accounting purposes;

“exchange gain or loss” is to be construed in accordance with section 475 of CTA 2009;

“fund of funds” has the meaning given in paragraph 29;

“future” has the same meaning as in Part 7 of CTA 2009 (see section 581 of that Act);

“interest rate contract” means –

- (a) a derivative contract whose underlying subject-matter is, or includes, interest rates, or
- (b) a swap contract in which payments fall to be made by reference to a rate of interest;

“investing life” is to be construed in accordance with sub-paragraph (2);

“investment” does not include –

- (a) cash awaiting investment, or

- (b) cash representing the proceeds of the disposal of an investment, where the cash is to be distributed as soon as reasonably practicable to investors in the scheme;

“loan relationship” has the meaning given by section 302 of CTA 2009 (but see sub-paragraph (9));

“major interest”, in relation to land, means—

- (a) in relation to land in England and Wales, an estate in fee simple absolute (whether subsisting at law or in equity);
- (b) in relation to land in Scotland, the interest of an owner of land;
- (c) in relation to land in Northern Ireland, any freehold estate (whether subsisting at law or in equity);
- (d) in relation to land in a territory outside the United Kingdom, any equivalent interest under the law of that territory;

“option” has the same meaning as in Part 7 of CTA 2009, disregarding section 580(2) of that Act;

“real estate fund” has the meaning given by paragraph 26;

“realisation model”: a sum of carried interest is calculated on the “realisation model” if—

- (a) it falls within paragraph 2(2) or (3) (disregarding paragraph 2(2)(b) and (3)(b)), or
- (b) in the case of a tax distribution treated as a sum of carried interest as a result of paragraph 4, if the carried interest to which the tax distribution relates were to arise, it would fall within paragraph 2(2) or (3) (disregarding paragraph 2(2)(b) and (3)(b));

“relevant rights” has the meaning given by paragraph 23;

“significant equity stake fund” has the meaning given by paragraph 24;

“sum” has the same meaning as in Part 1 of this Schedule;

“trading company” and “trading group” have the meanings given by paragraphs 20 and 21 of Schedule 7AC to TCGA 1992;

“underlying subject matter” has the same meaning as in Part 7 of CTA 2009;

“unlisted”: a company is unlisted if—

- (a) no shares of any class issued by the company are listed on any stock exchange, and
- (b) there are no other trading arrangements in place in respect of shares of any class issued by the company;

“venture capital fund” has the meaning given by paragraph 23.

- (2) In this Part of this Schedule –
 - (a) references to when a scheme starts or ceases to invest are to the time when investments start or cease to be made for the purposes of the scheme, and
 - (b) references to the investing life of the scheme are to the time between when a scheme starts and ceases to invest.
- (3) For the purposes of this Part of this Schedule, an investment scheme has a controlling interest in a company if share capital of the company is held for the purposes of the scheme which –
 - (a) amounts to more than 50% of the ordinary share capital of the company, and
 - (b) carries an entitlement to more than 50% of –
 - (i) voting rights in the company,
 - (ii) profits available for distribution to shareholders, and
 - (iii) assets of the company available for distribution to shareholders in a winding-up.
- (4) For the purposes of this Part of this Schedule, an investment scheme has an interest of a particular percentage in a company (for example, a 40% interest) if share capital of the company is held for the purposes of the scheme which –
 - (a) amounts to at least that percentage of the ordinary share capital of the company, and
 - (b) carries an entitlement to at least that percentage of –
 - (i) voting rights in the company,
 - (ii) profits available for distribution to shareholders, and
 - (iii) assets of the company available for distribution to shareholders in a winding-up.
- (5) For the purposes of sub-paragraphs (3) and (4) any share capital held by a company controlled by an investment scheme is to be regarded as held for the purposes of the investment scheme.
- (6) For the purposes of this Part of this Schedule, an investment scheme (A) is connected with another investment scheme or person (B) if –
 - (a) A directly or indirectly has control of B, or
 - (b) the same person, directly or indirectly, has control of A and B.
- (7) For the purposes of sub-paragraph (6) “control” –
 - (a) in the case of control of a company, is to be read in accordance with sections 450 and 451 of CTA 2010;

- (b) in the case of control of a partnership, has the meaning given in section 995(3) of ITA 2007;
 - (c) in the case of control of an investment scheme which is not a company or partnership, or of any other person which is not a company or partnership, means the ability to secure that the affairs of that scheme or other person are conducted in accordance with one's wishes.
- (8) For the purposes of the definition of “derivative contract”, read Part 7 of CTA 2009 as if—
 - (a) references to a company were references to an investment scheme, and
 - (b) references to a contract of a company were references to a contract for the purposes of an investment scheme.
- (9) For the purposes of the definition of “loan relationship”, read Part 5 of CTA 2009 as if—
 - (a) references to a company were references to an investment scheme, and
 - (b) references to a loan relationship of a company were references to a loan relationship for the purposes of an investment scheme.

PART 4

CARRIED INTEREST ELECTIONS

Election for carried interest to be chargeable as scheme profits arise

- 36 (1) An individual (“A”) who performs investment management services under arrangements mentioned in section 23I(1)(a) may make an election under this paragraph in respect of an investment scheme (“the relevant scheme”) if—
- (a) a sum of carried interest arises to A from the scheme under the arrangements for the purposes of section 23I(1)(b), or
 - (b) it is reasonable to expect that such a sum will arise to A.
- (2) Sub-paragraph (3) applies for a tax year (“the relevant tax year”) where an election made under this Part of this Schedule has effect for that tax year.
- (3) The amount determined in accordance with sub-paragraph (4) is to be treated for the purposes of section 23I as a sum of carried interest arising to A from the relevant scheme under the arrangements in the relevant tax year.
- (4) The amount determined in accordance with this sub-paragraph is the amount given by reducing—

- (a) the amount of carried interest that would arise to A from the relevant scheme under the arrangements for the purposes of section 23I(1)(b) in the relevant tax year in the circumstances mentioned in sub-paragraph (5), by
 - (b) the sum of—
 - (i) the amounts treated under this paragraph as sums of carried interest arising to A from the relevant scheme under the arrangements in previous tax years, and
 - (ii) chargeable gains deemed to arise to the individual under section 103KFA of TCGA 1992 (election for carried interest gains to be chargeable as scheme profits arise) in respect of the relevant scheme in previous tax years.
- (5) Those circumstances are that—
 - (a) all of the investments held by the relevant scheme in the relevant tax year, and previously held by the scheme, whose disposal would be relevant to A's entitlement to carried interest, were disposed of in the relevant tax year,
 - (b) the amount realised on the disposal of each investment that was not actually disposed of in, or before, the relevant tax year were the amount of the costs to the relevant scheme in acquiring that investment,
 - (c) all income that was received by the scheme (whether before or during the relevant tax year) and that would be relevant to A's entitlement to carried interest, were received in the relevant tax year, and
 - (d) all profits realised by the scheme as a result of those disposals and the receipt of that income were distributed to its investors in the relevant tax year.
- (6) Where—
 - (a) distributions were made by the scheme to external investors before the relevant tax year, and
 - (b) the timing of those distributions affects the amount of carried interest that actually arises to A,the amount of carried interest to be presumed to arise in the circumstances mentioned in sub-paragraph (5) is to reflect the fact those distributions were made before the relevant tax year.
- (7) But if reflecting that fact would lead to a presumption that an amount of carried interest had arisen before the relevant tax year, any such amount is to be presumed to arise in the relevant tax year.
- (8) An election under this paragraph—

- (a) must be made by notice given to an officer of Revenue and Customs, and
 - (b) may not be revoked.
- (9) A notice making an election –
 - (a) must state the first tax year for which it is to have effect, and
 - (b) may not be given after 31 January following the end of that tax year.
- (10) An election made under section 103KFA of TCGA 1992 in respect of a scheme (election for carried interest gains to be chargeable as scheme profits arise) is to be treated as if it were an election made under this Part of this Schedule.

Election in relation to scheme to apply to associated schemes

- 37 (1) Where an election has been made under paragraph 36 in relation to an investment scheme (“S”) that is associated with another investment scheme, the election applies in respect of the other scheme (whether or not the conditions for an election to be made in respect of the other scheme were met at that time).
- (2) “Associated”, in relation to two or more investments schemes, has the same meaning as in Part 3 of this Schedule.

Interaction with other charges

- 38 (1) The treatment of an amount under paragraph 36(3) as a sum of carried interest arising to an individual does not prevent the individual or any other person being charged to income tax as a result of section 23I in relation to carried interest that arises to the individual from the relevant scheme.
- (2) But sub-paragraph (3) applies where –
 - (a) the individual has made an election under paragraph 36,
 - (b) an amount is to be treated as a sum of carried interest arising to the individual from the relevant scheme under paragraph 36(3),
 - (c) the individual has paid (and has not been repaid) an amount of income tax that is attributable to that amount, and
 - (d) the individual is charged to income tax as a result of section 23I in relation to carried interest that –
 - (i) arises to the individual from the relevant scheme under the arrangements mentioned in section 23I(1)(a), and
 - (ii) arises in or after the tax year for which an amount was first treated as a sum of carried interest arising

to the individual from the scheme under paragraph 36(3).

- (3) The individual may make a claim for one or more consequential adjustments to be made reducing the tax mentioned in sub-paragraph (2)(d).
- (4) On a claim under sub-paragraph (3) an officer of Revenue and Customs must make such of the consequential adjustments claimed (if any) as are just and reasonable.
- (5) The value of any consequential adjustments made must not exceed the lesser of—
 - (a) the amount of income tax paid as mentioned in sub-paragraph (2)(c), and
 - (b) the tax charged as mentioned in sub-paragraph (2)(d).
- (6) Consequential adjustments may be made—
 - (a) in respect of any period, and
 - (b) by way of an assessment, the modification of an assessment, the amendment of a claim, or otherwise.
- (7) No claim may be made under section 23P (carried interest: avoidance of double taxation) in respect of tax charged as a result of an amount being treated as a sum of carried interest under paragraph 36(3).

Deemed trade losses where carried interest never arises

- 39 (1) Sub-paragraph (3) applies where—
- (a) an individual has made an election under paragraph 36,
 - (b) an amount is treated under paragraph 36(3) as a sum of carried interest arising to the individual from the relevant scheme under the arrangements mentioned in section 23I(1)(a), and
 - (c) the conditions in sub-paragraph (2) are met.
- (2) Those conditions are that—
- (a) all, or substantially all, of the investments of the relevant scheme have been disposed of,
 - (b) the amount of carried interest that has actually arisen to the individual from the relevant scheme under the arrangements since the beginning of the first tax year in which an amount was treated under paragraph 36(3) as a sum of carried interest arising to the individual is less than the sum of the amounts treated as carried interest under that paragraph, and
 - (c) no further amount of carried interest can reasonably be expected to arise to the individual from the relevant scheme under those arrangements.

- (3) The amount determined in accordance with sub-paragraph (4) is to be treated for income tax purposes as a loss of the trade treated as carried on by the individual under section 23I for the tax year in which the conditions in sub-paragraph (2) are first met.
- (4) The amount of that loss is the amount given by subtracting—
 - (a) the amount treated as the profits of a trade carried on by the individual under section 23I by virtue of the carried interest that actually arose to the individual from the relevant scheme under the arrangements since the beginning of the first tax year in which an amount was treated as a sum of carried interest arising to the individual under paragraph 36(3), from
 - (b) the amount treated as the profits of a trade carried on by the individual under section 23I by virtue of the amounts being treated under paragraph 36(3) as sums of carried interest arising to the individual from the relevant scheme.
- (5) Where an amount is treated as a loss of the trade for a tax year as a result of sub-paragraph (3)—
 - (a) paragraph 36(3) does not apply (in relation to the individual and the relevant scheme) for any tax year after that tax year, and
 - (b) if carried interest arises to the individual in respect of the relevant scheme after that tax year, the individual may not make a claim under paragraph 38(3) in respect of tax charged in relation to it.

Anti-avoidance

- 40 (1) This paragraph applies where an election was made by an individual under paragraph 36 and the main purpose, or one of the main purposes, of making the election is to cause an amount to be treated as a loss of the trade under paragraph 39(3).
- (2) Any such amount that would (in the absence of this paragraph) be treated as a loss of the trade under that paragraph is to be counteracted by the making of such adjustments as are just and reasonable.
- (3) Any adjustments required to be made under this paragraph (whether or not by an officer of Revenue and Customs) may be made by way of—
 - (a) an assessment,
 - (b) the modification of an assessment, or
 - (c) amendment or disallowance of a claim, or otherwise.”

PART 2

CONSEQUENTIAL AND CONNECTED AMENDMENTS

TCGA 1992

- 2 (1) TCGA 1992 is amended as follows.
- (2) In section 1H (the main rates of CGT) –
 - (a) in subsection (3), omit “other than carried interest gains (see subsections (4B) and (9) to (11))”;
 - (b) omit subsections (4B) and (5);
 - (c) omit subsections (9) to (11).
- (3) In section 1I (income taxed at higher rates or gains exceeding unused basic rate band), omit subsection (A1).
- (4) In section 1M (temporary non-residents) –
 - (a) after subsection (1) insert –

“(1A) Subsection (1) does not apply to a gain that accrues as a result of carried interest arising to the individual under arrangements under which the individual performs investment management services directly or indirectly in respect of an investment scheme (but see section 23L of ITTOIA 2005 which charges the amount of the gain to income tax in the period of return).”;
 - (b) after subsection (6) insert –

“(6A) In this section “arrangements”, “carried interest”, “investment scheme” and “investment management services” have the same meaning as in section 23I of ITTOIA 2005 (see section 23Q of and Schedule A1 to that Act).”
- (5) For section 103KA (carried interest) substitute –

“103KA Carried interest: no chargeable gain

 - (1) This section applies where –
 - (a) an individual performs investment management services directly or indirectly in respect of an investment scheme under any arrangements, and
 - (b) the individual is entitled to carried interest under the arrangements.
 - (2) Any chargeable gain or loss accruing to the individual by virtue of the individual’s entitlement to carried interest is treated as not accruing.
 - (3) In this section “arrangements”, “carried interest”, “investment scheme” and “investment management services” have the same

meaning as in section 23I of ITTOIA 2005 (see section 23Q of and Schedule A1 to that Act).”

- (6) Omit sections 103KB to 103KE.
- (7) In section 103KF (relief for external investors on disposal of partnership asset), after subsection (2) insert—
 - “(3) In this section, “external investor” and “investment scheme” have the same meaning as in section 23I of ITTOIA 2005 (see section 23Q of that Act).”
- (8) Omit sections 103KFA to 103KH.

ITA 2007

- 3 (1) ITA 2007 is amended as follows.
- (2) In section 809EZA (disguised investment management fees: charge to income tax)—
 - (a) omit subsections (2A) to (2C);
 - (b) in subsection (6), for paragraph (b) substitute—
 - “(b) an AIF within the meaning of regulation 3 of the Alternative Investment Fund Managers Regulations 2013.”.
- (3) In section 809EZB (meaning of “management fee” in section 809EZA)—
 - (a) in subsection (1)(c), for the words from “which” to the end substitute, “(within the meaning of Schedule A1 to ITTOIA 2005)”;
 - (b) in the opening words of subsection (2), after “if” insert “(and only if)”.
- (4) Omit sections 809EZC and 809EZD.
- (5) In section 809EZDB (sums arising to connected company or unconnected person)—
 - (a) in subsection (1)(b), for “is” substitute “are”;
 - (b) in subsection (6) after “A” insert “or a person connected with A”;
 - (c) in the opening words of subsection (5) for “is” substitute “are”.
- (6) In section 809EZE (interpretation of Chapter)—
 - (a) in subsection (1), in the definition of “investment management services”—
 - (i) before paragraph (a) insert—
 - “(za) the provision of investment advice;”;
 - (ii) omit the “and” at the end of paragraph (c);
 - (iii) at the end of paragraph (d) insert “, and
 - “(e) any activity incidental or ancillary to any activity mentioned in paragraphs (za) to (d);”;

- (b) in the opening words of subsection (3), for the words from “a share” to “the share” substitute “a direct or indirect interest in an investment scheme and who acquired the interest”;
 - (c) in subsections (3)(a) and (b) for “share” substitute “interest”.
- (7) In section 809EZH (powers to amend Chapter), omit subsection (1)(a).
- (8) Omit Chapter 5F.