

GES Tax Newsflash

Carried Interest Tax Concession Enhancements Proposed – What Employers and Employees Should Know

Hong Kong | Global Employer Service | 23 June 2026

Overview

[The Inland Revenue \(Amendment\) \(Preferential Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest Bill\) 2026](#) (the Bill) was published in the Hong Kong SAR Government Gazette on 12 June 2026¹.

The Bill introduces several enhancements to Hong Kong's existing tax concession regime for carried interest, considerably simplifying the regime through the removal of onerous conditions and enabling more taxpayers to benefit from the exemption. Once enacted, the changes will apply retroactively from the 2025/26 year of assessment.

Subject to meeting the relevant conditions, eligible carried interest will continue to be 100% exempt from Hong Kong salaries tax.

Below are frequently asked questions from an employer and employee perspective for consideration.

Q1. Does the employee need to be employed by the investment manager / advisor?

No. The Bill expands the definition of a “qualifying employee”. A qualifying employee can now be employed by a qualifying person (such as an investment manager/advisor); or by an entity within the same group of the qualifying person. The employee must also provide investment management services in Hong Kong for, and on behalf of the investment manager/advisor for the fund.

A qualifying person includes a corporation licensed or a financial institution registered under the relevant rules of the Securities and Futures Ordinance which carry out investment management services in Hong Kong for the fund. The Bill also proposes to include non-licensed fund managers of excepted funds² under the unified fund exemption regime.

¹ For the enhancements of the tax concession regimes for funds and family office, please refer to our [Tax Newsflash Issue 271](#).

² Including sovereign wealth funds, pension funds, endowment funds and funds-of-one subject to certain conditions.

Q2. What income is exempt under the tax concession?

Carried interest and performance fee may be fully exempt from Hong Kong salaries tax, provided all conditions under the regime are met.

Under the Bill, “eligible carried interest” refers to profit-related returns received by, or accrued to, a qualifying employee for investment management services provided in Hong Kong for, and on behalf of the investment manager/advisor for the fund. This must arise from a specified right held directly or indirectly in respect of the profits of a fund³.

Q3. What is a specified right?

A qualifying person or a qualifying employee is regarded as holding a specified right in respect of the profits of a fund or a specified entity if the right entitles them to a share of profits, provided that such entitlement is determined in accordance with an agreement governing the operation of the fund or any other agreement in relation to the provision of investment management services for the fund, and the entitlement is neither attributable to capital contribution nor discretionary.

Q4. What is profit-related return?

A payment⁴ is considered a profit-related return if it is made after investors have received a payment or accrual of a return that comes from profits for the period on the investment or from the disposal of an investment. The amount of that payment⁴ should vary by reference to those profits and the returns to external investors are also determined by reference to those profits. The arrangement must be governed by an agreement in place that regulates the operation of the fund, or any other agreement in relation to the provision of investment management services for the fund.

Q5. What kind of funds are covered?

The current carried interest regime only applies to private equity funds. The Bill proposes to extend the coverage to different types of funds, aligning with the unified fund exemption regime, including hedge funds, credit funds etc.

Q6. Is certification from the Hong Kong Monetary Authority required?

No. Under the current regime, a fund is required to obtain certification from the Hong Kong Monetary Authority in order to become a qualifying payer. The Bill proposes to remove this certification requirement.

Q7. Does the fund still need to meet hurdle rates?

No. Under the current regime, the fund must meet the hurdle rate stipulated in the agreement governing the operation of the fund to qualify for carried interest exemption. The Bill proposes to remove this requirement.

Q8. Can carried interest be paid through another entity?

Yes. The Bill introduces more flexibility in how carried interest can be distributed. Instead of being paid through the qualifying person (generally the investment manager / advisor) to qualifying employees under the current regime, employees may now receive the carried interest directly from the fund or its carry vehicle (if it is a closely related entity of the fund).

³ A fund is generally a collective investment scheme under the Securities and Futures Ordinance, and is proposed to be expanded to cover pension funds, endowment funds and funds-of-one (subject to certain conditions).

⁴ Payment refers to a sum received by, or accrued to a qualifying employee.

Q9. Can an employee set up a company to receive the carried interest?

Yes, carried interest can be received by a personal investment entity on behalf of the qualifying employee. The entity should be partly or wholly owned by the employee.

Q10. Is the tax concession automatically granted?

If an employee is eligible to the tax concession, the employer should complete the relevant form⁵ specified by the Inland Revenue Department (IRD) to provide the relevant details including name and business registration number of the fund, amount and date of accrual of the carried interest etc. In the meantime, employee must make the claim on the individual tax return and also complete the relevant form⁶ as required by the IRD.

Q11. What can be done if the employee has already filed the 2025/26 individual tax return?

As a transitional administrative measure, the IRD agrees that taxpayers who are eligible for the tax concession proposed under the Bill may submit their claim on that basis in their 2025/26 tax return. Those who have already filed their 2025/26 tax returns can notify the IRD in writing if any revision to their previously submitted tax returns is required.

Q12. What are the employer's documentation requirements?

There are requirements to be met under the Bill to make the carried interest eligible for tax concessions, including agreements reflecting that the carried interest is a profit-related return. Contemporaneous documentation should be prepared and maintained.

Q13. Are there other considerations?

Yes. Employers should also consider the following:

- **Substantial business requirement**

The employer should check whether the qualifying person (generally the investment manager/advisor) meets the substantial business requirement, including not less than 2 full-time employees and HKD 2 million annual operating expenditure in Hong Kong.

- **Anti-avoidance provisions**

Anti-avoidance rules will apply if the IRD considers that the main purpose (or one of the main purposes) of the arrangement is to obtain a tax benefit.

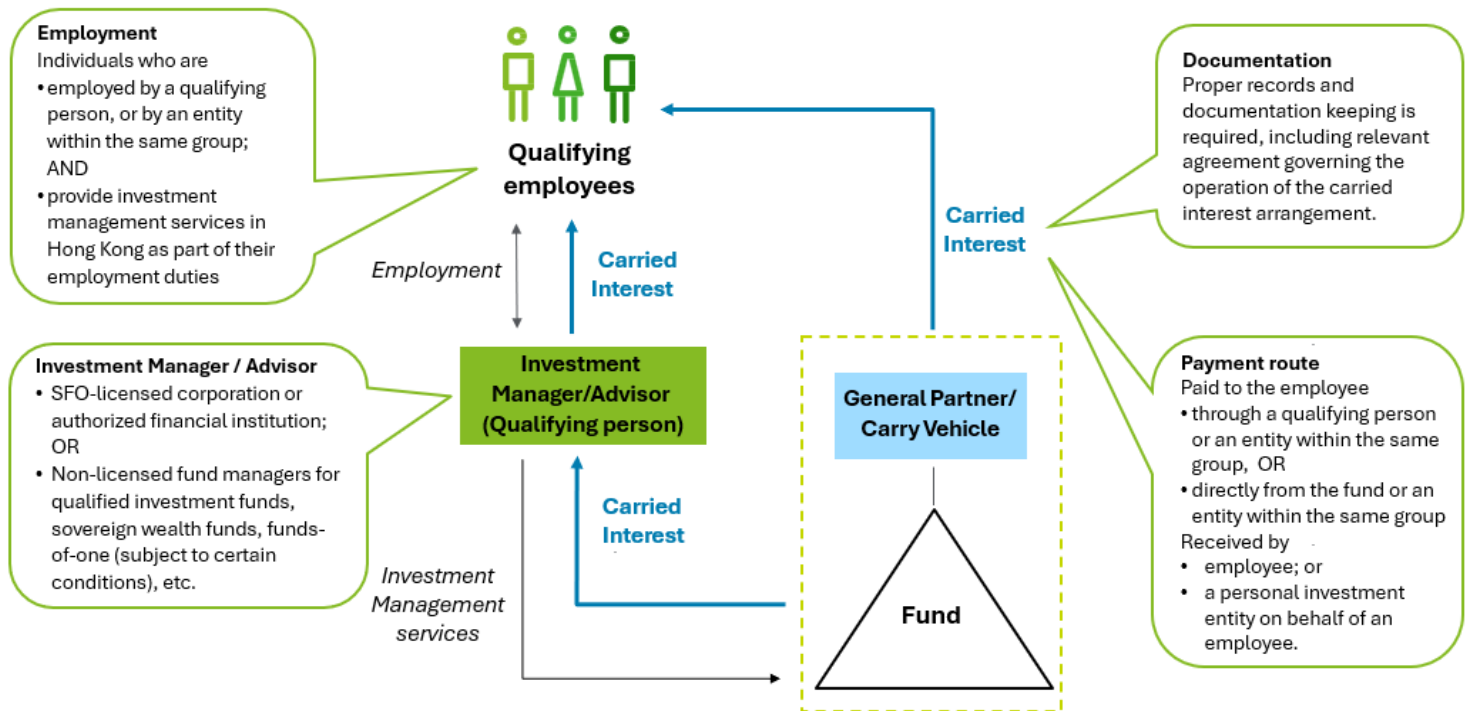
- **Recording-keeping requirements**

Qualifying persons and qualifying payers must keep and retain records of relevant information for at least 7 years.

⁵ Form IR6177 – Notification of Accrual of Carried Interest for Claiming Salaries Tax Concessions

⁶ Supplementary Form SP4

For simple illustration:



Our observation

We welcome the proposed enhancements to the Hong Kong carried interest tax concession regime with the removal of onerous conditions under the current regime and the expansion of the regime to additional funds, including hedge funds.

As a result, the Bill should enable more taxpayers in receipt of carried interest to benefit from full tax exemption. These changes are expected to further strengthen Hong Kong's attractiveness as a global hub for investors and talents and may attract more senior executives in the fund industry to relocate to Hong Kong.

Even before the Bill is enacted, employers should carefully assess a number of practical considerations and undertake to:

- Review employment arrangements. This requires determining whether employees may qualify for the exemption by confirming the employing entity as well as the employees' responsibilities. This includes assessing the services performed and the location where these services are performed.
- Review existing documentation, including carried interest agreements and related documentation to determine whether the documentation is sufficient to meet the requirements or should be enhanced.
- Review carried interest distribution processes and ensure that accurate details of the distributions are captured for tax reporting and record keeping purposes.
- Prepare to provide relevant information to the IRD where any carried interest paid during 2025/26 year of assessment may be eligible for tax concession and communicate the tax reporting position to affected employees.

A more detailed analysis will be required if the affected employees are frequent travelers whose duties cover multiple funds.

Professional advice should be sought to review existing eligibility and to plan any arrangements needed.

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