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Nordic Tax Views

Carried interest

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INTRODUCTION

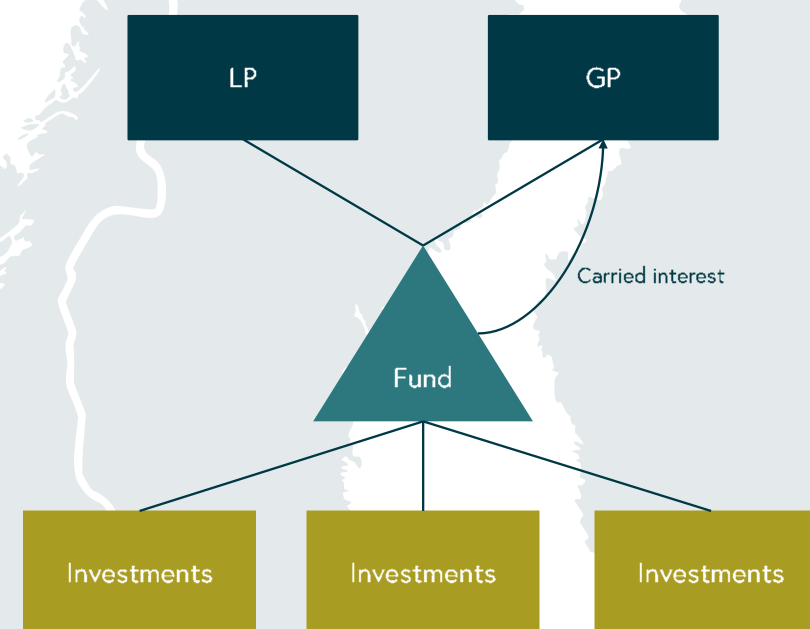
What is carried interest?
"Carried interest," also known as "carry," refers to a portion - disproportionate to the invested capital - of the profits that certain fund management teams receive as compensation for managing the fund's investments. This form of compensation is a prevalent practice in the private equity, venture capital, and hedge fund industries, and is also used in order types of funds as for example infrastructure funds.

A private equity fund typically has a limited lifespan and is designed for the acquisition, development, and sale of companies. The profits from these transactions are distributed at the end of the fund's life. Private equity funds often adopt a structure where investments are made through a limited partnership. The majority of the capital is contributed by investors, such as pension funds, while the management team contributes a smaller amount.

Upon the sale of the underlying investments, the return is distributed among investors and the management team in accordance with a so-called waterfall. The waterfall is the methodology describing how much of the fund's return each party receives, in what order of priority, and how those priorities change as thresholds or hurdle rates are achieved. A typical waterfall could be the following: first the contributions which the investors and the management team has paid into the fund are repaid pro rata on the basis of the amounts contributed to the fund. Second, an amount equivalent to a pre-determined interest on the contributions, often known as the hurdle rate, is paid to the investors and the management team (also pro rata to the amounts contributed). Third excess return is then paid to investors and the management team disproportionate to the amounts contributed to the fund, so that for example, 80 % of the excess return is paid to the investors and 20 % to the management team as carried interest.

Naturally, there are a significant number of variations in carried interest mechanisms. Carried interest is popular among investors, because it incentivises fund managers to ensure the fund's success, thereby aligning the interests of the management team and investors. Besides the carried interest, the management team typically receives a management fee for its fund management.

The tax treatment of carried interest varies by jurisdiction and the tax treatment can be complex and sometimes uncertain. The purpose of this overview is to summarise how carried interest is taxed in the Nordic countries.



Denmark

1. Special carried interest regime

Danish tax law contains special rules on taxation of carried interest. The aim of these rules is to ensure that carried interest is subject to approximately the same level of taxation as ordinary income[1] (rather than capital gains taxation)[2].

The Danish taxation rules regarding carried interest distinguish between situations where a person holds an interest directly in a fund, which entitles that person to carried interest, and situations where a person holds such interest indirectly through a company.

2. Applicable rate(s)

individuals investing directly in private equity, venture, or infrastructure funds

If an individual invests directly in a private equity, venture, or infrastructure fund, the excess return on such investments must be included in the personal income of said individual. Consequently, carried interest is subject to the general personal tax rate of the individual in question. In Denmark, income exceeding DKK 640,108[3] incl. labour market contribution (approximately EUR 85,858) is currently subject to a tax rate of approximately 56 %.

Only the individual's excess return is subject to the special rules on carried interest. Excess return is defined as a return that exceeds the standard return. The standard return constitutes the return gained by investors in the fund who does not have a right to receive carried interest.

Tax relief may be granted for foreign taxes as well as for taxes imposed on the excess return in accordance with general Danish tax legislation. However, the reduction may not exceed the part of the total Danish and foreign taxes that proportionately falls on such individual's excess return.

Individuals investing indirectly in private equity, venture, or infrastructure funds

If an individual has invested indirectly in a private equity, venture, or infrastructure fund (i.e. through a company), the carried interest tax regime will apply if the individual has direct or indirect control over the company investing in the fund. The individual is among other things considered to control the company if said individual:

- directly or indirectly, independently, or jointly with a related party, owns more than 50 % of the share capital of the company or holds more than 50 % of the voting rights in the company, or
- is a co-founder or participates or has participated in the management or operation of the fund or companies owned by the fund.[4]

With respect to indirect investments, the individual must include the company's excess return on investments made through the fund as so-called CFC income. This means that the individual is taxed on the company's excess return as if the excess return had been earned directly by the individual. The Danish tax rate on CFC income is 22 %.[5]

As in the case of direct investments, tax relief may be granted for foreign taxes as well as for taxes imposed on the excess return in accordance with general Danish tax legislation. The reduction may not exceed the part of the total Danish and foreign taxes that proportionately falls on such individual's excess return. Similarly, tax relief can be granted for the intermediary company's Danish and foreign taxes on the company's income from the indirect investments.

3. Taxation of carried interest

When does the special Danish tax regime on carried interest apply?

Three conditions must be met for the special carried interest tax regime to apply to an individual.

Firstly, it is a requirement that the individual is fully liable to tax in Denmark. On a high-level basis, an individual will become fully liable to tax in Denmark if said individual (i) stays in Denmark for six consecutive months or (ii) is resident in Denmark.[6]

Secondly, the individual must have a preferential position in the fund. Having a preferential position implies that the individual's proportionate share of the return on the investments made through the fund exceeds the individual's proportionate share of the capital provided to the fund. When measuring the capital provided to the fund, both equity and loan capital are included.

As a third condition, the fund must qualify as a private equity fund, a venture capital fund, or an infrastructure fund.

Definition of private equity, venture, and infrastructure funds

In the context of the Danish tax regime on carried interest, private equity and venture funds are investment entities that invest in shares for the purpose of acquiring, in whole or in part, one or more companies with the purpose of participating in their management and daily operation[7]. Infrastructure funds are investment entities that raise capital for the purpose of investing, directly or indirectly, in the construction or development of infrastructure assets and facilities, as well as for ownership and operation of such assets and facilities.

The legal structure of the fund is not decisive when determining whether the tax regime on carried interest applies. Thus, both funds structured as partnerships and funds structured as corporate entities may fall within the scope of the rules.

Disclosure requirement

Individuals who are subject to the special Danish tax regime on carried interest are obliged to provide information to the Danish Tax Agency explaining how the carried interest is calculated. This includes (but is not limited to):

- the identity of the individual or legal persons from which the income is derived
- how deductions for negative carried interest from previous income years are calculated
- how the income that forms the basis for the carried interest is composed
- how the standard return is calculated

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[1] The term "ordinary income" refers to the type of income that is taxed as personal income, e.g. salary.
[2] Carried interest is taxed according to the rules in the Danish Tax Assessment Act (in Danish "Ligningsloven"), section 16 I.
[3] 2024 level, adjusted annually.
[4] See the Danish Tax Assessment Act, section 16 I(6) and the Danish Tax Agency's legal guidelines, section C.D.4.2
[5] See the Danish Personal Income Tax Act, section 8(b), cf. the Danish Corporation Tax Act, section 17(1).
[6] See the Danish Tax Assessment Act, section 16 I(4)-(6) and the Danish Tax Agency's legal guidelines, section C.D.4.2
[7] See the Danish Tax Assessment Act, section 16 I(3)

Finland

1. Special carried interest regime

Finland does not have a specific tax regime for carry. As a result, carry is taxed under the general rules of the Finnish Income Tax Act (1535/1992, "ITA") on earned income and capital income. In addition, it has been considered whether carry could be viewed as work-based dividends under section 33b, paragraph 3, of the ITA and consequently taxed as earned income.

Over the past years, the Finnish Tax Administration ("FTA") has shown particular interest in carry and has challenged its taxation as capital income of the ultimate recipients. Following a two-year carried interest project, it published a report in April 2016. According to the report, carry should categorically be considered as earned income.

2. Applicable rate(s)

In a typical Finnish structure, each fund set up as a limited partnership has a separate general partner company ("GP"). The GP is usually owned by the Alternative Investment Fund Manager company ("AIFM") and the holding companies of the team members. Details of each structure varies, but typically the AIFM holds all of the voting shares meanwhile the majority of the economic rights are held by the team members' holding companies.

The GP receives carry as profit distributions from the fund. The profit distributions are not taxable, but the GP is taxed on its calculative share of the profit of the fund at the general corporate income tax rate of 20%.

The GP distributes carry as dividends, return on capital, interest, and repayment of shareholder loans to the AIFM and the holding companies. Ultimately, carry is distributed as dividends to the team members. Provided that the structure is taxed on the basis of its legal form, the lowest total tax burden incurred within the structure by the individual team member is approximately 29%. However, if carry was regarded as earned income, it would be taxed at a progressive rate of up to approximately 60%.

3. Taxation of carried interest

As there is no specific carry regime, the tax treatment has been open for interpretation. The main question is whether carry is to be regarded as income generated by capital, or whether it is deemed to be based on the work contribution of the employees of the AIFM.

The FTA has argued that carry arrangements are, in fact, incentive schemes or regular salary, and that the amount of carry received is based on the work contribution of the individuals working for the AIFM. Consequently, the FTA considers that the legal structure would not correspond to the economic nature of the arrangement and should be considered as tax avoidance under section 28 of the Finnish Act on Assessment Procedure (1558/1995).

The Central Tax Board has issued one ruling,[1] and the Administrative Court of Helsinki has issued a few rulings[2] regarding taxation of carry. One of the administrative court cases was appealed, but the Supreme Administrative Court did not grant leave to appeal[3] and the administrative court's ruling therefore remained final.

The administrative courts and the Central Tax Board have disagreed with the FTA and considered that the carry structures have been genuine, and the taxation should correspond to the legal structure used. Therefore, carry should ultimately be viewed as capital income of the team members.

Based on the court cases, the relevant arguments in favour of taxation according to the legal structure (ultimately as capital income) are as follows:

- investment risk (actual investment and a risk of losing the invested capital)
- entrepreneurial risk (team members bear the establishment costs of the fund in case the fund is not closed)
- carry is mainly dependent on external factors such as general market conditions and appreciation of individual investments of the fund
- the structures have corresponded to market practice
- carry is based on agreement between non-related parties (i.e. the GP and investors)
- using fair market value when subscribing for shares in the carry vehicle
- the AIFM has a separate incentive scheme for employees
- lack of employment relation between the team members and the entity entitled to carry.

Based on the court cases, the following FTA's arguments are not sufficient for taxation of carry as earned income:

- exceptionally high return on the investment
- right to subscribe for shares in the carry vehicle is tied to employment relationship with the AIFM or any of its group companies
- vesting rules apply to shares in the carry vehicle
- profit sharing is asymmetric at the level of the fund

Despite the above administrative court and Central Tax Board rulings, certain amount of uncertainty exists in relation to the taxation of carry in practice, and the FTA is still challenging the tax treatment as capital income. Offshore fund structures, particularly those not specifically tailored to comply with Finnish case law and deviate from the Finnish market standard, involve a substantial risk of the FTA challenging their tax treatment. Each structure is assessed on a case-by-case basis, and it is possible that some structure would ultimately be considered as an incentive scheme and the carry would be taxed accordingly as earned income of the team members. Therefore, the details of each carry structure should be carefully considered.

As carry is taxed under the general rules, it should be included in the tax return of the relevant companies and individuals similarly as any other type of income received.

[1] KVL 51/2016.
[2] HKI HAO 31.3.2015 Dnro. 02415/13/8106, HKI HAO 20.12.2019 Dnro. 05962/18/8101 and HKI HAO 12.1.2021 Dnro. 22817/03.04.04.04.37/2020.
[3] KHO 16.3.2017 T 1260.

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Iceland

1. Special carried interest regime

there is no special tax regime for carried interest in Iceland and to date there is no case law that governs the treatment of such payments. The taxation is governed by the Income Tax Act no 90/2003 (ITA)

Historically, it has been questioned if carried interest should be subject to Icelandic value added taxation. Following changes to the VAT legislation, it is fairly clear that this is not the case.

Carried interest is normally taxed as either salary income or financial income.

2. Applicable rate(s)

2.1. Capital gains

Capital gains are in general defined as the income from the sale of an asset less the acquisition price of such asset. Assets can include financial instruments, movables, real estate, etc.

Capital gains of individuals are taxed at 22% provided that such gains are not part of an individually operated business. This applies to a broad category of income generally referred to as financial income, which would include any type of capital gains, interest, and dividends. The concept of dividends refers to any income distributed by a company on the basis of a shareholding in that company. For such distributions to be taxed as dividends, they have to be in line with company law requirements as regards distributions to shareholders. The first ISK 300,000 of income in the form of interest is exempt, as is the first ISK 300,000 of income from shares provided that the shares are listed on a regulated market.

Icelandic law does not result in different capital gains taxation based on the length of ownership, shareholding thresholds or other criteria. The flat 22% tax rate applies across the board.

2.2. Salary

Salary income is taxed on the basis of brackets. The first bracket of annual income up to about ISK 5,4 million is taxed at 31.48%, the second bracket of annual income up to about ISK 15m is taxed at 37.98%, and annual income in excess of that falls in the third bracket and is taxed at 46.28%. The annual personal deductible personal allowance amounts to about ISK 780 thousand.

3. Taxation of carried interest

taxation of carried interest that is a negotiated payment for performance of services, should be taxed as business income. Business income of individuals is taxed on the basis of the same brackets as apply in case of salaries. Business income of limited companies is generally taxed at 20%, for the tax year 2024. There is a temporary tax law provision dictating a 1% increase for that year.

Income of individuals from dividend distributions, liquidation, share buy-backs and share capital reductions in companies are subject to the 22% capital gains tax rate referred to above. Ignoring the temporary higher 2024 company tax rate, this results in an effective tax rate for shareholders of 37.6%. Income of limited companies from share capital, be it dividends or capital gains, generally qualifies for a very broad form of what is effectively a participation exemption. There are no minimum holding requirements or holding period requirements. The way ITA achieves an effective participation exemption is by providing limited companies with the ability to make a deduction of deemed costs in the same amount as dividends received or capital gains realized resulting in a net tax base of zero.

Therefore, it is important how the interests of fund managers are structured, i.e. if they are contractually based or based on shareholdings in the underlying. The latter is likely the more common structure in Iceland.

Generally, fund managers are likely to invest alongside investors and, assuming the underlying is share capital, the income from such investments made by individuals is taxed at the 22% capital gains rate. Where such investments are made by limited companies, the effective participation exemption applies, provided that the underlying is not located in a tax haven. Distributions to individual shareholders result in the 22% capital gains tax.

To achieve this, fund managers would need to acquire shares in the fund vehicle at market value, and, therefore, it is important when shares are purchased as their value can change significantly over time. Further, the fund vehicle would need to be a limited company or a see-through entity issuing shares and the underlying investment would need to be share capital. The latter is a fairly common structure.

However, if the fund is in the form of a unit fund issuing unit certificates, this type of structure does not provide any potential upside for fund managers acting via corporates, as income derived via unit certificates is classified as interest income irrespective of the underlying. This would result in income received by corporates via unit certificates being taxed in the same manner as they would receive contractual payment for services rendered.

There is no available practice addressing fund manager investments alongside investors. Therefore, there is no practice addressing different versions of such investments. This results in the description above, and the market practice to date being based on general principles in this regards, i.e. payments on the basis of contracts for services rendered are business income, whereas income from share capital, while being business income in case of corporates, results in a different tax treatment due to the income qualifying for the effective exemption referred to above. It is worth noting in this regard that the said classification of income from unit certificates as interest income arguably results in excessive taxation of income via funds when (i) the investors are corporates and (ii) the underlying investment is share capital. This derives from the same principles, i.e. interest income is taxable when derived by corporates while income from share capital is not. Therefore, the wrong combination of investors, investments and fund vehicle can result in excessive taxation.

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Norway

1. Special carried interest regime

Carried interest is not recognized as a separate legal concept in Norway, and there is no special tax regime for carried interest. Thus, the tax treatment of carried interest will depend on an overall case-by-case assessment and how it is structured in each case. Carried interest is, as a main rule, considered as taxable income in Norway. Pursuant to the Norwegian Taxation Act, section 5-1, tax is levied on (i) employment income, (ii) capital income and (iii) business income. All taxable income, including carried interest, is categorised as one of the above types of income and taxed thereafter.

The Norwegian tax authorities ("NTA") generally apply a "substance-over-form" approach, and it must be determined on a case-by-case basis how carried interest shall be classified for Norwegian tax purposes. Generally, carried interest is considered as either capital income or business income depending on the specific circumstances applicable to such carried interest payment. The classification of carried interest for Norwegian tax purposes will be examined further in section 2 and 3 of this article.

2. Applicable rate(s)

Capital income is income which is derived from capital efforts, typically through investments in shares or other capital placements, and includes inter alia dividends and capital gains on shares as well as interest. As a starting point, capital income is taxed at a rate of 22%. Dividends and capital gains from an investment in shares are generally comprised by the Norwegian participation exemption for corporate shareholders, provided that certain substance requirements are met for shares in companies that are tax resident in other EEA jurisdictions. Additional requirements apply for shares in companies that are tax resident outside the EEA or in low-tax jurisdictions.

If the Norwegian participation exemption applies, distributions and capital gains on shares are generally exempt from tax, and losses are non-deductible. However, if the recipient of dividends holds 90% or less of the shares and votes in the distributing company, 3% of dividend distributions are considered as taxable income subject to 22% tax. This results in an effective tax rate of 0.66% on dividend distributions.

Business income is any income which is derived from business activities. Business activities are activities which are performed at the risk and expense of the recipient and which are likely to result in a surplus of a certain scale and duration. Business income is taxed at a rate of 22%. Certain financial entities (which may include fund managers) are subject to an additional financial tax of 3%, resulting in an effective tax rate of 25% on business income.

As carried interest is generally structured through an investment in shares, such carried interest will, in case of being considered as capital income, usually be comprised by the Norwegian participation exemption. If carried interest is considered as business income, it will generally be taxable at a rate of 22%, alternatively 25% if the income is allocated to a financial entity.

3. Taxation of carried interest

The question whether carried interest should be considered capital income or business income must be based on a specific assessment in each separate case of the contractual arrangements and structure. The Norwegian Supreme Court stated in a ruling from 2015 regarding carried interest (as further described below) that "(...) the contribution made must justify the income".

Generally, in order for carried interest to be considered as capital income, the recipient of the carried interest (hereafter referred to as the "GP") must be considered as a capital investor and must have assumed a sufficient risk on its capital investment. If the capital risk undertaken by the GP is not of such nature that it justifies the split in profits between the GP and the investors, there is a risk that carried interest may be reclassified as business income subject to taxation at a rate of 22% or 25%, or the GP may be considered to have subscribed for the shares at a discount, triggering a taxable benefit.

Carried interest which has not been derived from a capital investment, inter alia carried interest structured as performance fee, will generally be considered as business income. In case of the carried interest is treated as business income, it may trigger the question how such carried interest should be allocated.

In a ruling from 2015 (Herkules)[1], the Norwegian Supreme Court found that carried interest was business income for the GP. The GP had not invested in the fund and had not undertaken any capital risk. Thus, the GP had accepted, prior to the case being presented to the Supreme Court, that the income was to be treated as business income. The question before the Supreme Court was whether the carried interest should be allocated to the GP for tax purposes, or whether such carried interest should instead be reallocated to the advisory company providing advice to the GP on which the GP based its investment decisions. The advisory company received a management fee for such services. The Supreme Court found that the allocation of management fee to the advisory company and carried interest to the GP was in accordance with their responsibilities towards the fund. The Norwegian Tax Authorities have in their comments on the Herkules-case stated that carried interest may be reallocated, e.g. from the GP to the advisory company, in cases where the fee structure does not correspond to the agreed sharing of responsibility.

There is limited practice related to the treatment of carried interest in Norway, and the Norwegian Supreme Court has made no ruling on the treatment of carried interest as capital income. As the tax treatment of carried interest is determined on a case-by-case basis, there is a risk that the NTA will challenge the classification of carried interest. Due to the discretionary nature of the assessment and lack of clear tax guidance, we always recommend that recipients of carried interest disclose such carried interest structures to the NTA in connection with the annual tax return in order to avoid penalty taxes in case of a reclassification of income.

[1] Supreme Court judgement of 11 December 2015, HR-2015-2268-A

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Sweden

1. Special carried interest regime

There is no special tax regime for carried interest in Sweden. The characterisation for the purpose of the taxation of carried interest is heavily governed by Swedish case law.

In recent years, carried interest has been taxed in Sweden either as salary or under the so-called 3:12 regime. The tax classification of carried interest and thus the choice of income type solely based on interest is based on tax case law, but the tax is ultimately levied under the Swedish Income Tax Act (in Swedish "inkomstskattelag sfs 1999:1229").

2. Applicable rate(s)

Salary taxation

Salary is taxed at a progressive tax rate ranging from 30% to approximately 55%. To the extent social security contributions are levied, the rate is 31.42%.

3:12 taxation

If the 3:12 rules are applicable, dividends and capital gains received by an individual are taxed as follows:

Generally, dividends and capital gains up to approximately SEK 200,000, allocated pro rata on all shares in the company, are on a yearly basis taxed at a flat rate of 20%.

Dividends and capital gains above the SEK 200,000 threshold are taxed as employment income at a progressive rate of up to approximately 50% on the first approximately SEK 6.9 million (annually) in respect of dividends, or approximately SEK 7.6 million (accrued over five years) in respect of capital gains.

Any excess dividends or capital gains, i.e. any amount exceeding the amount taxed as employment income, are taxed at a flat rate of 30%.

No social security contributions are levied on the dividends or capital gains taxed under the 3:12 rules.

Generally, the 3:12 rules apply to individual tax residents in Sweden holding qualified shares (in Swedish "kvalificerade andelar") in so-called closely held companies (in Swedish "fåmansföretag").

Generally, a Swedish limited liability company or a foreign equivalent is considered closely held if four (4) or fewer individuals directly or indirectly hold or otherwise control shares representing more than 50% of the votes in the company. Related individuals and shareholding individuals who work in the company are considered as one shareholder for the purpose of this classification.

Shares held should be considered as "qualified shares" if he/she is active to a significant extent in the closely held company or in e.g. a subsidiary to that company. Being active 3:12 to a significant extent generally means that the individual is significant to generating profits in the relevant company. It should be noted that these rules are governed by case law and are extremely technical.

For carried interest to be covered by the 3:12 regime, the Swedish tax resident individual must receive the carried interest as dividend distributions directly or indirectly (via a private holding company) from the general partner/fund manager. Moreover, the Swedish tax resident individual must be considered as active to a significant extent in the fund manager/general partner or in an associated entity closely linked to the general partner/fund manager. This must be assessed on a case-by-case basis and is heavily governed by recent tax case law.

3. Taxation of carried interest

since taxation of carried interest is not regulated in statutory law, it has been litigated in the tax courts for more than 15 years in Sweden at the level of individuals. During the majority of this time, carried interest taxed under the 3:12 rules has been accepted by the Swedish Tax Agency. However, recently a vast number of domestic and foreign funds have been litigated, where carried interest has been found to constitute salary income for the individuals instead.

The Swedish Tax Agency has recently taken the position that carried interest should always be regarded as a remuneration to the corporate general partner/fund manager for the management of the fund, i.e. the investors in the fund refrain from part of the proceeds from the fund for the benefit of the corporate general partner/fund manager.

According to the Swedish Tax Agency, this entails that carried interest not paid via the general partner/fund manager should be considered as having been re-routed from the general partner/fund manager. A Swedish tax resident individual holding shares in the general partner/fund manager and receiving carried interest directly (i.e. privately) or to his/her private holding company via other entities than the general partner/fund manager, should, in the opinion of the Swedish Tax Agency, be subject to salary taxation on the amount received by the individual or by his/her private holding company. This applies even if the so-called 3:12 rules described above are generally applicable to the private holding company.

Contrarily to the above, a Swedish tax resident individual receiving carried interest directly (i.e. privately) or via his/her private holding company as dividend distributions on shares in the general partner/fund manager should generally be taxed under the 3:12 rules upon receipt, provided that the 3:12 rules are generally applicable to the shareholding.

Disclosure of information

Swedish taxpayers have an obligation to correctly report and pay their taxes. If a taxpayer is uncertain in relation to specific income, this uncertainty and all facts relevant to make a correct assessment of the tax should be disclosed and filed with the tax return to the Swedish Tax Agency. This applies in relation to individuals receiving carried interest and to Swedish companies potentially liable to pay social security contributions. If an income is incorrectly reported in a tax return and a disclosure has not been filed or is found insufficient by the Swedish Tax Agency, the taxpayer risks tax penalties of up to 40% computed on the tax wrongfully not paid.

The Swedish Tax Agency has historically not been successful in levying social security charges on carried interest. However, in a recent Court of Appeal front-runner case, social security charges were levied on Swedish advisory companies that have, or have had, employees who receive salary taxed carried interest, even though the Swedish advisory companies were not part of the carried interest payment. Because of this ruling, the Swedish Tax Agency is expected to levy social security charges in cases where carried interest is taxed as salary.

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Most Nordic countries do not have explicit tax rules regulating carried interest to rely on when tax authorities assess the specific carry arrangement. Instead, most of the Nordic countries rely on general tax legislation and principles, as well as case law. It is fair to conclude that most cases involving a carried interest arrangement are assessed on a case-by-case basis with no exact recipe to rely on. The complexity of the rules governing the assessment in each country shows that setting up a carried interest arrangement requires expert knowledge.

Likewise, these Nordic Tax Views on carried interest show that setting up a carried interest arrangement in accordance with one jurisdiction's set of rules is not necessarily compliant with another jurisdiction's rules. In cases where the persons receiving carried interest are located in different jurisdictions, cross-border expertise is crucial.

Furthermore, it seems that the tax authorities across the Nordic countries take an increasing interest in assessing the tax consequences of carried interest arrangements and, notably, challenging the taxpayer's position. It will be interesting to follow the coming years where we expect more controversies with some Nordic tax authorities and consequently more case law.

Looking across Europe, several countries have established a specific carry interest regime. It will be interesting to see if some of the other Nordic countries in the years to come introduce a specific carry interest regime like Denmark did back in 2009.

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