



19 February 2026

[REDACTED]
[REDACTED]

Dear [REDACTED]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 27 January 2026. You requested the following document:

- *IR2025/447 Summary of tax treatment of carried interest*

Information being released

The document you have requested is enclosed as **Appendix A**, with some information withheld under the following sections of the OIA, as applicable:

- 6(c) – making available of that information would be likely to prejudice the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial,
- 9(2)(a) – to protect the privacy of natural persons, and
- 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown for members of an organisation or officers and employees of any public service agency or organisation in the course of their duty.

As required by section 9(1) of the OIA, I have considered whether the grounds for withholding the information requested is outweighed by the public interest. In this instance, I do not consider that to be the case.

Right of review

If you disagree with my decision on your OIA request, you have the right to ask the Ombudsman to investigate and review my decision under section 28(3) of the OIA. You can contact the office of the Ombudsman by email at: info@ombudsman.parliament.nz.

Publishing of OIA response

We intend to publish our response to your request on Inland Revenue's website (ird.govt.nz) as this information may be of interest to other members of the public. This letter, with your personal details removed, may be published in its entirety. Publishing responses increases the availability of information to the public and is consistent with the OIA's purpose of enabling more effective participation in the making and administration of laws and policies and promoting the accountability of officials.

Thank you again for your request.

Yours sincerely



Kerryn McIntosh-Watt
Policy Director



POLICY & CUSTOMER AND COMPLIANCE SERVICES

Tax policy report: Summary of tax treatment of carried interest

Date:	10 November 2025	Priority:	Low
Security level:		Report number:	IR2025/447

Action sought

	Action sought	Deadline
Minister of Revenue	Note the contents of this report Agree to recommendation	5 December 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Kerryn McIntosh-Watt	Policy Director	9(2)(a) [Redacted]	<input checked="" type="checkbox"/>
Tony Morris	Customer Segment Leader – Significant Enterprises	9(2)(a) [Redacted]	<input type="checkbox"/>

10 November 2025

Minister of Revenue

Summary of tax treatment of carried interest

Purpose

1. This report follows a discussion you had with the Commissioner of Inland Revenue on 4 November 2025 and provides a summary of Inland Revenue's current work and next steps on carried interest.
2. We have previously reported to you with our initial policy view on carried interest (IR2025/227 refers) and provided an update on our operational position (IR2025-324 refers). This report summarises and updates the information in those reports.

Background

What is "carried interest"?

3. In summary, "carried interest" is a form of compensation for fund managers in the private equity (PE) industry.
4. In broad terms, a typical PE investment will involve a fund manager coming together with a group of passive investors to acquire the shares in a target company. The passive investors provide financial capital to acquire the shares. The fund manager may have a small financial stake but will predominantly use their knowledge and expertise (services) to grow the target company, receiving a management fee during the life of the investment.
5. When the target company is sold, a portion of the amount received will be paid to the passive investors, along with dividends, as a return on their investment (the hurdle return). Assuming the dividends and sale proceeds exceed the hurdle return, a fixed proportion (usually 20%) of the excess is paid to the fund managers in addition to their management fee (the **carried interest**), with the remaining amount paid to the passive investors. Carried interest can therefore be seen as a performance-based reward for the fund manager's services and expertise.

What is the current tax treatment?

6. New Zealand does not currently have any specific tax rules that apply to carried interest. Carried interest is generally structured to be treated as a return on investment and, as such, entitled to capital gains treatment (except for the dividends) for tax purposes. Capital gains typically have favourable tax treatment globally and lead to a tax-free return in New Zealand.

6(c)





Inland Revenue's initial policy view

15. The issue with the taxation of carried interest is one of boundary setting – namely the boundary between capital and revenue receipts. The PE industry seems to acknowledge that carried interest is earned via labour activity but argue that the result is a capital gain. The counter argument to this position is that the activities undertaken by the fund manager are no different to a service provider providing management services and that the compensation is better viewed as taxable service income. There is no doubt that carried interest is a means to compensate the fund manager for their skills and expertise.

16. As previously advised, our initial policy view is that there are good policy reasons to treat carried interest in relation to investment services performed in New Zealand as taxable income in line with similar performance-based reward income.
17. This issue is not on the Tax and Social Policy Work Programme, and we are not currently undertaking any policy work. This was agreed by you and the Minister of Finance in July. We seek your confirmation that no policy work should be undertaken at this time. ^{6(c)}

Consultation

18. Inland Revenue Policy has not yet undertaken any consultation on this issue. The Treasury has not been consulted on this report.

9(2)(g)(i)



Recommended action

We recommend that you:

1. **note** the contents of this report concerning the current operational work
Noted
2. **confirm** that Inland Revenue should not undertake any further policy work at this time
Yes/No

9(2)(a)

Tony Morris
Customer Segment Leader
Customer and Compliance Services

9(2)(a)

Kerryn McIntosh-Watt
Policy Director
Policy

Hon Simon Watts
Minister of Revenue
/ /2025