

Institute of Directors  
116 Pall Mall  
London  
SW1Y 5ED

30 August 2024

## The Taxation of Carried Interest

To whom it may concern,

*The IoD is an independent, non-party political organisation representing 20,000 company directors, senior business leaders, and entrepreneurs. It is the UK's longest-running organisation for professional leaders, having been founded in 1903 and incorporated by Royal Charter in 1906. Its aim is to promote good governance and ensure high levels of skills and integrity among directors of organisations. It campaigns on issues of importance to its members and to the wider business community with the aim of fostering a climate favourable to entrepreneurial activity in the UK.*

We welcome this opportunity to respond to the invitation to the call for evidence on the tax treatment of carried interest.

### Key considerations

1. **IoD members have a range of views regarding the taxation of carried interest:** We surveyed our members in February 2024<sup>1</sup> regarding the notion that the tax rate for carried interest could be equalised with income tax rates. Members were quite evenly split on this issue overall, but the balance of comments received was more negative.
2. **The tax environment for entrepreneurs in the UK:** The tax treatment of carried interest is one of a number of tax changes currently under design or consideration which affect the overall tax treatment of entrepreneurs in the UK. It is crucial that changes to the tax system for business in the UK are done in a well-considered fashion, taking into account the UK's competitiveness and based on realistic and up-to-date analysis of the revenue raising opportunity.
3. **Take time and get policy design right for the long-term:** The tax system, public spending priorities, and plans for major infrastructure investment in combination are crucial to

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<sup>1</sup> IoD, Policy Voice February 2024, published 29 February 2024: <https://www.iod.com/resources/data/policy-voice-february-2024-zero-hours-contracts-private-equity-hmrc-and-supply-chains/>

delivering on growth ambitions. To deliver the stable policy environment which businesses need to enable them to thrive, it is important that policy is well-designed and delivered in the first instance to minimise disruption to business decision-making.

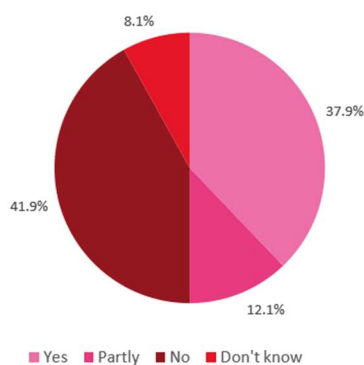
## The taxation of carried interest

The IoD surveyed our members in February 2024 on the idea that the taxation of carried interest could be equalised with income tax:

Policy Voice full results February 2024

Currently, private equity executives pay capital gains tax on their profits from successful deals ("carried interest") rather than higher rate income tax. This enables them to benefit from a lower tax rate (28% rather than 45%).

**Should a future UK government remove this tax advantage for private equity?**



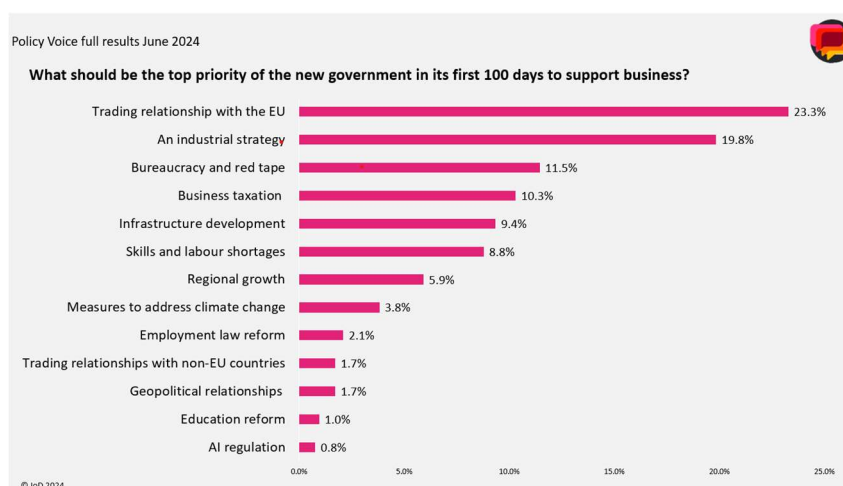
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The overall results were quite balanced with 42% opposed to the idea of equalising the tax treatment of carried interest with income tax and 38% in favour, with a further 8% in favour of partial equalisation and the remainder unsure. The comments reflected a greater level of concern, however, with 28 of the comments received concerned with the proposal, 20 in favour, and 18 balanced or neutral. Concerns focussed on the economic rationale for treating returns on capital differently to income, while comments in favour largely focussed on fairness. The balanced comments reflected a range of issues including: the broader balance between tax and public spending; tweaks to the existing system to ensure that it better reflected the principle of capital at risk over the long-term being appropriately rewarded; and the importance of considering what works elsewhere.

## IoD member priorities for the policy environment

In the IoD's July Policy Voice survey<sup>2</sup>, the top impediment to growth/investment reported by members was policy uncertainty (selected by 53% of respondents). This clearly demonstrates the importance that business leaders place on stability in the policy environment. This was followed by skill/labour shortages (40%) and demand uncertainty (38%).

In our June Policy Voice survey<sup>3</sup>, we asked our members what they felt should be the new government's priorities for the first 100 days of their administration.



Industrial strategy was the second biggest priority for the new government to address in its first 100 days, after the UK's trading relationship with the EU.

Business taxation was the fourth most important priority for the new government in its first 100 days when members were surveyed in April. However, in light of the newsflow over the summer weeks, this seems likely to have changed. In our August survey [[embargoed until 1st September](#)], the extent to which business tax was considered to be having a negative impact on organisations had risen up the list relative to May:

<sup>2</sup> IoD, Policy Voice July 2024, published 29 August 2024: <https://www.iod.com/resources/data/policy-voice-july-2024-growth-capital-expensing-exporting-to-the-eu-and-beyond/>

<sup>3</sup> IoD, Policy Voice June 2024, published 24 July 2024: <https://www.iod.com/resources/data/policy-voice-june-2024-the-new-government-and-fit-notes/>

**Which of the following, if any, are having a negative impact on your organisation?**

	August	May
UK economic conditions	55.5%	64.4%
Skills shortages and/or labour shortages	43.2%	44.5%
Business taxes	41.0%	33.0%
Compliance with government regulation	36.8%	33.3%
Employment taxes	34.4%	25.1%
Cost of energy	29.2%	29.2%
Trading relationship with the EU	26.3%	25.6%
Global economic conditions	25.9%	33.3%
Cost/availability of finance	21.8%	18.4%
Difficulty or delays obtaining payment from customers	20.4%	18.7%
Transport cost/speed/reliability	17.6%	17.0%
Supply chain disruption	13.4%	15.6%
Broadband cost/speed/reliability	11.0%	11.2%
None	2.1%	2.6%

Source: IoD May and August 2024 Policy Voice surveys

Various tax measures are either planned or have been trailed recently:

1. Non-doms (underway)
2. Energy company levies
3. Carried interest
4. Employer NICs increase (the Telegraph 24th August – CST Darren Jones declined to rule them out)
5. CGT increase

Outside of the relative pros and cons economically and fiscally of these measures, their trailing has been unhelpful to business confidence and inconsistent with broader messaging about growth and stability. The IoD’s August Directors’ Economic Confidence Index [\[embargoed until 1st September\]](#) has weakened from its July +7% level (highest since August 2021) to -12% (similar to -14% in June, ahead of the GE).

## CONCLUSION

Government and the private sector have a shared interest in the UK's fiscal stability and growth ambitions. IoD members have a keen interest in the role that the policy environment plays in supporting the growth and investment ambitions of entrepreneurs and companies in the UK.

The IoD and our members are keen to work with the government in its ambitions to unlock a higher rate of growth for the UK which will support the public finances and deliver prosperity. Delivering on the manifesto commitment to a business tax roadmap will be fundamental for enshrining a growth principle in the government's tax priorities.