



# TAX PULSE

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# WELCOME

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Welcome to the summer edition of Tax Pulse. As markets continue to respond to changing national and international political landscapes, the longer days and warmer weather offer a welcome lift in mood. Against this backdrop, it is perhaps reassuring that back in March, the Chancellor delivered a rare moment of calm with her Spring Statement, with no major tax surprises to unsettle the profession this time around.

With the industry still coming to terms with the Finance Act 2025 and its various impacts, we delve into the Carried Interest changes that came into effect in April 2026. With it moving from the Capital Gains Tax regime to being deemed as trading profits, we look at the technical changes that are having the biggest impact.

Following on from this we take a detailed look at a recent remittance case that went through the courts and the implications it has for previous users of the remittance basis. The Alimahomed case proves an interesting case study on the revised definition of remittance post 5 April.

Over in the US, some States are planning their own tax raising initiatives and in this edition our US Tax Corner article looks at LLCs, New York's proposed pied-a-ter tax as well changes to the Global Intangible Low Taxed Income (GILTI) regime that has been replaced with the less punchy Net CFC Tested Income (NCTI) regime.

To complete the uplifting mood of this edition, as part of national stress awareness week, we brought laughter and joy to our staff by inviting them to take part in puppy therapy sessions. Judy Yau – Private Client Associate Director – shares her experience of the day.

As always, we hope that you enjoy reading this edition of Tax Pulse, and if you have any feedback or suggestions for future editions, please contact one of the editorial team.

## ***The Partners***

# THE CARRIED INTEREST SHAKE-UP

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*Read this to understand the implications of recently enacted rule changes on the UK taxation of carried interest.*

## Position prior to 6 April 2026

Carried interest is a performance-based share of profits from an investment fund. Typically, the carried interest entitles an asset manager to a share of capital gains, or investment income, from an investment fund, provided that the external investors have received their return of capital and a preferred return. There are, however, numerous iterations on the precise terms of carried interest, and the exact arrangements can have significant implications on the resulting UK tax treatment.



Up to 5 April 2025, the typical tax rate on carried interest capital gains was 28%, with legislative definitions to determine what is, and what is not, carried interest for these purposes.

For those individuals who claimed the remittance basis, it was possible for the amount of carried interest which related to non-UK investment management services not to be taxed, provided it was not remitted to the UK. For those who were non-UK resident, it was possible for the carried interest not to be taxed at all in the tax year it arose. However, if the non-UK resident individual was subsequently treated as a temporary non-UK resident, tax may apply in the year the individual resumed UK residence.

Following the election of the Labour Government, the carried interest capital gains tax rate was increased to 32% for the 2025/26 tax year. The taxation of non-UK resident individuals remained the same as the pre-5 April 2025 position. The remittance basis was abolished, but those who benefit from the new “FIG” regime retained a tax saving for the amount of carried interest which related to non-UK investment management services.

From 6 April 2026, the Finance Act 2026 introduces a headline effective tax rate of 34.1%. Perhaps more significant however is that this is achieved as part of a wider and more significant change in rules to move the carried interest to an income tax, rather than capital gains tax, regime.

## The new regime

Starting 6 April 2026, carried interest is treated as subject to Income Tax and Class 4 National Insurance Contributions (NIC) as the profits of a deemed trade, rather than potentially being eligible to be taxed as a capital gain.

To the extent that the carried interest is “Qualifying Carried Interest” the amount of carried interest that is taxable will be multiplied by 72.5%. Therefore, if an individual is an additional rate taxpayer, it is likely that their effective tax rate on the Qualifying Carried Interest is 34.075%. Carried Interest that is not Qualifying Carried Interest is subject to Income Tax and NIC, with no multiplier.

What is Qualifying Carried Interest, and what is not, is broadly based on the pre-5 April 2025 definition of what carried interest is. Carried interest which arises from a fund with an average holding period of less than 40 months cannot be Qualifying Carried Interest under the new rules. Previously, a specific

exemption meant that this average holding period test did not apply where the carried interest was an employment related security. The removal of this exemption will likely have a material impact for certain asset managers.

## The impacts of the new regime

Aside from the change in the headline rate of tax, there are a range of more subtle technical changes to the rules. Previously a pre-requisite of the charging provisions was that there was an individual performing investment management services and that was the individual who was subject to capital gains tax, even in certain scenarios where someone else held the interest in the investment fund. The new rules extend the application of these connected party provisions to include those who have inherited carried interest on someone's death, as well as certain other "relevant persons" when they make a disposal of the carried interest.

While these changes need to be considered, what is more likely to be of immediate relevance to most individuals is the wider impacts of having the carried interest charged to income tax and how that impacts their tax position.

For example:

- *Payments on account.* Where carried interest is received in, say, 2026/27, the way in which payments on account for 2027/28 are automatically calculated will essentially assume the same amount of carried interest will arise again in 2027/28. Whilst it may be possible to reduce the payments on account, the first payment would be due in January 2028 and this could lead to short term cash flow issues if the individual is expecting a carried interest distribution to arise in February or March 2028.

Care will also be required not to over-reduce payments on account for the 2026/27 tax year without factoring in any carried interest that may arise in the year. In addition, an individual may not know if the carried interest that they expect to receive in the tax year will be Qualifying Carried Interest or not – meaning they will be uncertain on their anticipated level of income for the year.

Given the high rates of late payment interest that presently apply, the impact of carried interest on the payments on account should not be underestimated.

- *Capital Losses.* Historically, capital losses have been automatically offset against capital gains, including carried interest capital gains. Save for very specific losses where income tax relief is available, this loss relief against carried interest will no longer be the case.
- *Pension contributions.* If an individual relies on their income being less than £200,000 in order to make use of the full pension's annual allowance (currently £60,000), they may find they unexpectedly incur a pension's annual allowance charge due to a carried interest distribution that arose in a tax year they were not expecting it.
- *Making Tax Digital.* Carried Interest will, in due course, fall within the Making Tax Digital Regime whereby individuals will be required to report their carried interest quarterly. Whilst we understand HMRC are not expecting these submissions to include any carried interest until the 2028/29 tax year, with the first potential submission due by 7 August 2028, this additional administrative burden is unlikely to be welcome.

Whilst the move to income tax does mean carried interest can benefit from more general income tax reliefs, i.e. via gift aid donations, or investments that qualify for the Enterprise Investment Scheme,

Seed Enterprise Investment Scheme or a Venture Capital Trust, if an individual has sufficient other income, this may not amount to much.

## **New territorial scope**

For those that are non-UK resident in 2026/27, or later, it seems reasonably clear that the Government's intention is for there to be some UK tax applied to carried interest in the first three tax years of non-UK residence. Qualifying Carried Interest will be subject to income tax under UK domestic law based on the amount that is attributable to investment management services performed in the UK.

Any relevant services performed in the UK prior to 30 October 2024, or in a tax year the individual is non-UK resident with fewer than 60 workdays in the UK will not be treated as UK workdays for these purposes and this is likely to be beneficial for those that have recently left the UK or intend to do so soon.

After three tax years of non-UK residence (with fewer than 60 workdays in the UK in those years) all the Qualifying Carried Interest should be foreign income and so fall outside of income tax if the individual remains non-UK resident. For these first three tax years, Double Taxation Agreements will need to be considered carefully in conjunction with the rules in force in the jurisdiction of the individual's residence.

For individuals returning to the UK, there is an extension to the temporary non-UK residence rules to catch any carried interest arising in the 2025/26 tax year or earlier. This will apply the new income tax regime to amounts arising in tax years where the old regime would otherwise have had applied.

Please do reach out to your usual Rawlinson & Hunter contact if you wish to discuss any aspect of this note.

## **RECENT CASE: ALIMAHOMED RESHAPES WHAT COUNTS AS REMITTANCE**

*Read this for an understanding of the revised definition of remittance post 5 April 2025 and for an update on the Alimahomed remittance case.*

### **Legislative changes**

The 2025 Finance Act (the Finance Act) introduced some amendments to the definition of a remittance. Although the concept of domicile and the remittance basis itself was abolished with effect from 6 April 2025, the concept of remittance is still relevant for previously non-UK domiciled individuals who hold pre-6 April 2025 unremitted foreign income and gains, as these funds remain potentially taxable if remitted to the UK after 5 April 2025.



Before 6 April 2025, the circumstances where a taxpayer was treated as making a remittance included where the individual's untaxed foreign income and gains (in the form of money and other property) was:

- received, brought to, or used in the UK by or for the benefit of a relevant person;
- used to pay for a service provided in the UK; or

- used outside the UK to settle a relevant debt relating to or deriving from UK property or services.

From 6 April 2025, the Finance Act extended the definition of a remittance to include money or other property used outside the UK for the benefit in the UK of a relevant person. This means that even where a transfer is structured so that funds do not physically enter the UK in the traditional sense, this will now constitute a remittance if a UK benefit is obtained by a relevant person.

The Finance Act also extended the definition of a remittance to explicitly include arrangements that result in intangible property becoming situated in the UK and the use of unremitted foreign income and gains to secure a relevant debt outside the UK.

The meaning of “brought to the UK” was also expanded specifically to include sending or otherwise effecting a transfer of property to the UK.

These provisions were likely introduced in response to two tribunal cases, *Alimahomed v HMRC [2025] UKUT* and *HMRC v Sehgal and another [2024] UKUT*. We consider the significance of the Alimahomed case below.

### **Alimahomed v HMRC [2025] UKUT**

Following our initial analysis of the First Tier Tribunal’s (FTT) decision on the Alimahomed case in our [Autumn 2024 edition of Tax Pulse issue 15](#), the Upper Tribunal has now delivered its judgement on the subsequent appeal by the taxpayer.

The Upper Tribunal’s ruling reaffirmed the FTT’s stance that transfers from offshore bank accounts made to UK bank accounts of non-relevant persons are remittances.

The Upper Tribunal rejected the argument that electronic transfers of money did not involve property being physically or legally brought to the UK. They dismissed the idea that a bank transfer merely extinguishes one chose in action (against the foreign bank) and creates a new one (against the UK bank). Instead, the money is regarded as arriving in the UK derived from the payer’s bank balance. They explained that while there is no definition of the term “money”, it is reasonable to assume that Parliament intended the use of “money” to include a credit balance in a bank account.



Furthermore, the judgment established that the term “brought to” does not require the taxpayer to physically accompany the money or property into the country. The Upper Tribunal decision also confirms that a remittance occurs regardless of whether the relevant person benefits from or enjoys the property once it has reached the UK. They contrast this with other forms of remittance which require enjoyment by the relevant person.

The remaining aspects of the case concerned the use of chargeable foreign income and gains to settle an offshore credit card debt. This debt was incurred to pay for goods or services for a non-relevant person and to purchase jewellery for the private use of the taxpayer and his wife. These elements of the case were remitted to the FTT for a rehearing because the Upper Tribunal found that the FTT had made an error in law.

In the taxpayer’s circumstances, under the legislation, a “relevant debt” could only exist if it related to:

- money or property that is brought to, received or used in the UK by or for the benefit of a relevant person; or
- a service provided in the UK for the benefit of a relevant person.

However, the Upper Tribunal determined that the FTT failed to identify the specific property or service that met the conditions for a relevant debt. Specifically, the Upper Tribunal found that the FTT did not properly consider the mechanics of the credit card arrangements, such as how the vendor is paid, whether the vendor's account was based in the UK or whether the money used to settle the credit card debt actually ever entered the UK.

Without identifying the property brought into the UK, the Upper Tribunal decided that the FTT had no basis for concluding that the taxpayer's credit card liability was a "relevant debt" or that the subsequent settlement of that debt constituted a taxable remittance.

## Implications

The amendments to the definition of a remittance introduced by the Finance Act 2025 essentially "hard code" the principles raised in recent cases such as the *Alimahomed* case into statutory law. In particular, the legislative changes have removed any lingering ambiguity regarding electronic bank transfers.

However, prior to the changes being introduced, a leading professional body questioned the necessity of these provisions and the underlying policy itself. The criticism was that it was not appropriate to make significant changes to the remittance rules which substantially widens the scope of what constitutes a remittance precisely at the time the remittance basis was being abolished. The concern was also that the changes would result in greater uncertainty and have wider implications than the provisions were designed, so it was understood, to address.

For example, individuals often use their money and other property abroad to buy goods and services for their personal benefit. The new definition of remittance limits this to a benefit being provided in the United Kingdom. But how is such a benefit determined? The professional body gave two examples where confusion could arise.

For example, an individual uses their foreign income and gains to pay for a haircut in the departure lounge awaiting a flight to the UK. Arguably, the individual has received a benefit in the UK by looking smarter, but is it intended to be within the scope of the new rules? A second example is where a UK resident individual discharges a debt owed to a non-resident individual by payment abroad. If enforcement of the debt might be in the UK, in such circumstances, is there also an argument that a benefit of the repayment has been provided in the UK?

It was also considered that tax cases such as *Alimahomed* and *Sehgal* have clarified the position where there is technical uncertainty in the remittance basis legislation which had been on the statute books for nearly 20 years. So, why was there a need for further legislation in this area?

The professional body's view was also that there was no clear policy reason to tax a transfer of property from outside the UK to a non-relevant person if the taxpayer receives no benefit from the funds in the UK. In their view, the provisions were a "trap for the unwary", noting that well-advised taxpayers would bypass the charge by transferring the funds to a recipient's non-UK bank account.

The Government appears not to have listened. Taxpayers and their advisers will therefore need to live with the changes. For affected individuals with pre-6 April 2025 foreign income and gains, care must be taken to ensure that transfers, particularly outside the UK, do not inadvertently trigger UK tax

liabilities. As such, transfers may now fall within the widened statutory definition of remittance.

Please do reach out to your usual Rawlinson & Hunter contact should you wish to discuss any aspect of this note.

## **US TAX CORNER: LLC REFORM, NYC PROPERTY PROPOSALS, AND**

### **GILTI GIVES WAY TO NCTI**

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*Read this for an understanding of the recent proposals on both sides of the Atlantic that could impact individuals, whether US tax residents or not with certain US assets, as well as changes that came into effect at the start of the year for US shareholders of non-US companies.*

#### **UK Government intends to consult on LLCs**

There are certain items that immediately sound an alarm for US connected individuals, not least Limited Liability Companies (LLCs). The LLC alarm bell has been ringing for a long-time now as HMRC will generally regard them as a hybrid entity, i.e. the UK and US tax treatment does not match. This is particularly true in the aftermath of a tax case from 2015 and also more recent HMRC pronouncements as to their interpretation of how the law should be operated. However, following the Government's announced intention to make the UK a more attractive destination, there is now hope that steps may be taken in the UK to help deal with some of the issues.

In April 2026, the Chancellor of the Exchequer Rachel Reeves announced that she is planning to launch a consultation on the UK taxation of LLCs to help make the UK more attractive to wealthy individuals, especially those looking to relocate given the turmoil in the Middle East. The Chancellor's plan is a timely reminder that tax is an important factor when people are deciding where to locate themselves, their families, and their assets, and that the US market is of particular importance.

The current UK tax treatment of LLCs has been well-covered previously (see the [Spring 2024 edition of Tax Pulse issue 14](#)). In summary, there is a significant risk of double-taxation for owners of LLCs who are taxed in both the US and UK. This is due to the difference between how LLCs are typically treated for US tax purposes (i.e. generally as a partnership/disregarded entity), and how HMRC views them for UK tax purposes (i.e. as a corporate entity), meaning any income may be taxed at different times and different ways between the UK and US leading to potential double taxation.

Individuals can also inadvertently import their LLC into the UK when moving here if, for example, they start making management decisions from the UK. This can give rise to UK corporate tax filing requirements for the LLC itself as well as, potentially, other UK tax responsibilities such as payroll reporting.

The consultation, which runs through to 31 July this year, is a welcome opportunity to resolve the long-standing challenges faced by many Americans with LLCs who currently live in the UK along with UK resident non-Americans who invest in the US through LLCs. At this stage, while there are some suggestions, it is not known with certainty how the Chancellor might seek to resolve the differences in the characterisation of LLCs and resulting potential double taxation.

Furthermore, it has been stated that any changes would be prospective only i.e. would not impact historic and ongoing enquiries by HMRC into LLCs. Nonetheless, the fact that steps are being taken to address these issues is a move in the right direction. It should be noted that UK resident US

individual shareholders of US “S-Corps” face similar issues as well, and we hope these entities can be covered in the consultation too.

## **New York proposes a “pied-à-terre” Tax**

On 15 April, New York Mayor Zohran Mamdani used “Tax Day” to announce a new annual levy on high-value second homes located in New York City.

This “pied-à-terre” tax is only at the proposal stage and so details of what it might involve are lacking despite the fact the Mayor and New York Governor Kathy Hochul say that it will raise about \$500 million annually.

Based on current information, there would be a surcharge on New York properties valued above \$5 million when owners have a separate primary residence outside of New York City. The surcharge would apply to residential properties including “one-to-three” family homes, condominiums, and cooperatives.



For reference, “one-to-three” family homes are a type of residential property that are designed to include one to three separate families (distinguished, for example, from larger apartment buildings that house a larger number of families).

The surcharge amount, how it will be calculated, and from when it might apply have not yet been announced. A number of commentators have pointed out that a similar tax was proposed in 2019 which imposed graduated rates of 0.5% tax on the value of a pied-à-terre over \$5 million, 1.5% over \$10 million, and 4% over \$25 million.

The proposal is apparently well-supported by New Yorkers but there are concerns about the negative impacts this tax might have and so it should be expected there will be lobbying before the rules are introduced.

Whilst there are numerous questions about who would be subject to the tax and very few details about how it would be implemented, this news will undoubtedly cause concern for clients who own residential property in New York City. We will continue to keep this matter under review and provide updates as more information becomes available.

## **US corporate tax changes – GILTI**

Unlike Jake Blues who sang “I’ll be guilty for the rest of my life”, GILTI is no longer GILTI. From 2026 onwards, the Global Intangible Low Taxed Income (GILTI) terminology has been replaced with the less punchy Net CFC Tested Income (NCTI) regime.

In summary, the US has complex rules regarding the characterisation, taxation, and reporting of non-US companies, particularly (but not exclusively) in respect of Controlled Foreign Corporations (CFCs). Broadly, a CFC is a non-US company of which more than 50% is owned by US persons (including individuals, corporations, partnerships, trusts, and estates) who each hold more than 10% of the company. Ownership is based on either the voting power or the value of the stock. It is worth noting that there are attribution rules which require you to consider both direct and indirect ownership as well as interests held by certain family members.

The GILTI regime imposed a US tax on US shareholders of CFCs on their share of certain types

of undistributed net income, impacting most personal business, service companies etc with few exceptions. These rules along with the much older “Subpart F” rules are anti-deferral measures designed to prevent non-US entities being used to gain a US tax advantage by rolling up income rather than distributing it. When they took effect in 2018, the GILTI rules significantly widened the scope of foreign earnings subject to US taxation.

Whilst most elements of the GILTI rules have remained the same under the new NCTI regime, there have been some important changes including:

- Under GILTI, the CFC’s net tested income amount was reduced by 10% of the CFC’s qualified tangible assets (QBAI) less certain interest expenses. Under NCTI, this QBAI deduction has been eliminated expanding the amount of CFC tested income subject to NCTI.
- US shareholders that are corporations and US individuals who make a “section 962 election” (whereby an individual can elect to be taxed as a corporate on certain types of income) could previously claim a 50% deduction when calculating their GILTI inclusion amount. NCTI has reduced this allowable “s.250 deduction” from 50% to 40% which will result in a higher effective tax rate of 12.6% (previously 10.5%) on CFC net tested income.
- The limit on the amount of indirect foreign tax credit that can be claimed by corporations or individuals who have made a section 962 election has helpfully increased from 80% to 90%.
- The Subpart F and net CFC tested income rules have been extended to include ownership structures involving “foreign controlled U.S. shareholders” and “foreign controlled foreign corporations”. We believe this point is less applicable to our typical client as it relates to “tiered chains” of CFCs.

US shareholders with ownership of UK companies (or companies in other jurisdictions with an effective corporate tax rate higher than 18.9%) are unlikely to be affected by these changes. This is due to a High Tax Exception which remains in place, whereby a US shareholder can make an annual election (binding on all US shareholders) to exclude earnings that are taxed at an effective rate of greater than 90% of the US federal corporate income tax rate (i.e. 90% x 21%). However, brought forward losses and other credits which can reduce the effective current year foreign corporate tax rate could continue to complicate the application of this relief.

Furthermore, US shareholders with ownership of companies in low or no tax jurisdictions (e.g. Hong Kong, Channel Islands etc) will be subject to higher levels of taxation under NCTI rules due to the lower deductions available.

Please do reach out to your usual Rawlinson & Hunter contact if you would like to discuss any aspect of this note.

## **PAWS AND REFLECT: STRESS RELIEF FOR BUSY ADVISERS**

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As has become tradition, we move away from tax and finance matters for our final article. For this edition, Judy Yau, an Associate Director in our Private Client team, shares her experience of what is becoming her favourite workday of the year.

Whilst there is undoubtedly still a long way to go, there is an increasing awareness of mental health and wellbeing, with the understanding that it should be a topic we are able to discuss without stigma.

Rawlinson & Hunter offers a broad range of policies to support the mental health and wellbeing of staff, such as additional training on Mental Health First Aid, access to Employee Assistance Programmes

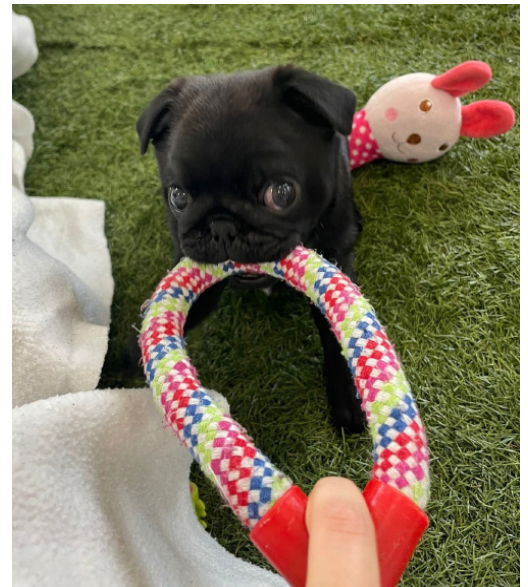
and online resources, health cash plan, and the introduction of core working hours to provide a degree of flexibility for start and finish times.

However, one of the more light-hearted ways that mental health is supported, and my personal favourite working day of the year (yes, even better than 31 January, 5 April and all the Budget days rolled into one) is Puppy Therapy Day provided by Paws in Work. Paws in Work is a mental health-focussed wellbeing company that provides puppy therapy events in the workplace, which have been held annually at the firm since 2022.

On these days, Paws in Work visit our Leatherhead office, bringing with them an adorable litter of puppies and setting up a safe spot complete with white picket fences, sanitised astroturf and a selection of toys for them to play with. The events are highly popular and are often booked up as soon as the email is released. People can book 25-minute slots (disappointingly limited to one slot per person) with up to nine people per slot. In a session, we sit down in a large circle, place a blanket on our laps and then the chaotic cuteness can commence! The puppies are free to run around, play with us, play with one other, or simply take a nap in an obliging lap. It is as fun as it sounds, and so nice to see another side to colleagues I might have worked alongside for years: it is very difficult to maintain a professional demeanour when a puppy is crawling over you and trying to lick your face!

Various studies have indicated that interacting with pets can reduce stress, releasing 'happy hormones'; oxytocin, serotonin, dopamine, and endorphins, lowering cortisol levels. And with dogs, this is a two-way street, with studies showing that dogs feel a similar surge when interacting with humans. Whilst we benefit from the stress-relief and joy of playing with the puppies, Paws in Work note that the puppies also benefit by getting essential socialisation in a controlled environment which can help them become confident adult dogs.

Our most recent puppy therapy day was with five rambunctious black pugs, who charged about playfighting, divebombing into laps and smothering us with licks. I can confirm that I left the session feeling all of the benefits listed above and only feeling slight anxiety when I was closely inspected by my own dogs when I got home later that day for having the temerity to come home smelling of other dogs. I think I am just about out of the dog house now.



**Tax Pulse was brought to you by:**

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