Davis Polk

IRS finalizes carried interest regulations

January 11, 2021 | Client Update

The IRS has issued final regulations on the taxation of carried interest under Section 1061 of the tax code, which was added in the 2017 tax law and provides that capital gain allocated under certain carried interest arrangements is eligible for the favorable 20% U.S. federal income tax rate only if the underlying asset was held for more than three years.

The regulations are, on the whole, consistent with the manner in which most taxpayers have been applying Section 1061 and with the regulations that the IRS proposed in August. There are helpful changes related to capital gain allocated on a private equity sponsor's own capital and somewhat less helpful changes applicable to related party loans used to fund a sponsor's capital contributions.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

Lucy W. Farr
+1 212 450 4026
lucy.farr@davispolk.com

Ethan R. Goldman
+1 212 450 4523
ethan.goldman@davispolk.com

Michael S. Hong
+1 212 450 4048
michael.hong@davispolk.com

Leor Landa
+1 212 450 6160
leor.landa@davispolk.com

David H. Schnabel
+1 212 450 4910
david.schnabel@davispolk.com

Patrick E. Sigmon
+1 212 450 4814
patrick.sigmon@davispolk.com

This communication, which we believe may be of interest to our clients and friends of the firm, is for general information only. It is not a full analysis of the matters presented and should not be relied upon as legal advice. This may be considered attorney advertising in some jurisdictions. Please refer to the firm's privacy notice for further details.

Related materials

irs_finalizes_carried_interest_regulations.pdf