

## 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.

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