

UK Tax and LLCs: An End to Double Taxation?

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In welcome news, on 10 June 2026, the UK government signalled its intention to resolve a frequently encountered problem for UK taxpayers holding interests in cross-border structures: the tax mismatch – and consequent high effective tax rates – that can arise for UK members of limited liability companies (LLCs).

The UK tax authority (HMRC) [published a consultation document](#) (ConDoc) setting out the government's proposals.

The 'tax mismatch' explained

The underlying issue concerns the UK tax classification of LLCs. The ConDoc focuses on US LLCs, but all LLCs are in scope.

LLCs are a type of corporate entity commonly used to hold investments and businesses, combining operational flexibility with limited liability. Whilst LLCs are popular in the US and many other jurisdictions, UK corporate law does not allow the creation of UK LLCs.

Under US tax rules, a US LLC is treated as "transparent" for US tax purposes (either as a partnership or as a disregarded entity if it has only one member), unless a "check-the-box" election has been made to treat it as "opaque" (as a corporation). In principle, therefore, an individual UK member of a (transparent) US LLC is subject to US tax on that member's proportion of the income and gains of the LLC, taxed at applicable US tax rates.

The tax mismatch arises because it is current HMRC practice to treat almost all US LLCs as opaque for UK tax purposes. Consequently, a UK member of a US LLC is treated for UK tax purposes not as receiving a proportion of the income and gains of the LLC, but instead as receiving a distribution from the LLC, as and when its income and gains are treated as distributed by the LLC. In the UK, distributions are generally taxed at income tax rates of up to 39.35%.

HMRC's position is that, except in limited circumstances, the US tax cannot be credited against the UK tax (including under the UK/US treaty) because credit for tax can only be given in respect of the **same** profits, income or gains – and LLC profits, income and gains, on the one hand, and dividends, on the other, are inherently different.

This purely technical mismatch can result in double taxation for UK individual members of an LLC – indeed, the ConDoc notes that effective tax rates can exceed 75%.

Proposed reforms

The ConDoc states that the UK government is minded to introduce legislation that would, going forward, automatically treat LLCs that are fiscally transparent in their home country as transparent for UK tax purposes. In theory, this should eliminate (or at least substantially reduce) the risk of double taxation. The ConDoc does, however, also seek views on two alternative proposals, being a deduction regime (reducing UK taxable receipts to the amount net of non-UK tax already paid) or a credit regime (effectively the status quo but with credit for non-UK tax on underlying profits given against UK tax on distributions).

Some important issues have not yet been addressed. In particular, the proposed reforms are stated to apply only to UK individuals, with UK corporates expressly carved out of scope (the current mismatch is typically less of a problem for UK corporates, because of a UK tax exemption for dividends received by companies, but LLCs can cause other complications for UK companies, including around the application of grouping tests). Transparent

treatment would also not apply to LLCs that are themselves subject to UK taxation, either as resident in the UK or through a UK permanent establishment – leaving the door open to the risk of high effective tax rates for UK individuals in some scenarios. There are also likely to be complications around any transition into the new rules. Even after the mismatch between transparent and opaque treatment has been resolved, problems could still arise as a result of a different type of mismatch, between the timing and calculation of profits and gains arising to the LLC under separate UK and US tax rules.

Concluding thoughts and next steps

If implemented, the proposal to treat many US LLCs as transparent on an automatic basis could be a neat solution to what has long been a thorny issue for UK taxpayers and their advisors. It should also make it more attractive for LLC-holding US citizens to relocate to the UK.

The announcement also supports wider shifts in UK tax policy aimed at making the UK tax system more user-friendly for US-facing business structures and transactions. Another relatively recent example is the [publication by HMRC of guidance](#) indicating its view that UK tax deferral (under section 135 of the Taxation of Chargeable Gains Act 1992) may be achieved in US merger transactions, which historically has been far from clear.

The consultation runs until 31 July 2026. Individuals potentially impacted by the government’s proposal should continue to monitor for updates, including the publication of any draft legislation.

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