HMRC Consults on the Tax Treatment of Non-UK Company Distributions

Tax Talks on **July 7, 2026**

HMRC has published a consultation on proposals to modernise the UK tax framework for distributions and repayments of capital made by companies to individual and trust shareholders. A key feature of the consultation is a proposal to align the income tax treatment of distributions made by UK and non-UK resident companies by bringing distributions from non-UK resident companies within the statutory distributions regime.

This proposal is likely to be of particular interest to private equity sponsors, investment fund managers, family offices and other investors using Luxembourg, Jersey or other non-UK companies where value may be returned to UK-resident individual or trust shareholders otherwise than on a liquidation.

The consultation forms part of the Government's wider programme to modernise the UK's distributions framework. HMRC's stated objectives are to improve clarity and consistency, reduce unintended differences in tax treatment and ensure that economically similar transactions are taxed consistently. Alongside the proposals on distributions from non-UK resident companies, HMRC is also consulting on extending the loans to participators regime to non-UK resident close companies, together with a number of other reforms to the taxation of distributions and returns of capital. While the proposals are not intended to affect corporate shareholders directly, they could have significant implications for private companies, owner-managed businesses, private equity-backed groups and other structures involving individual and trust shareholders.

Aligning the taxation of distributions from non-UK resident companies

Under the current rules, distributions made by UK resident companies are subject to the statutory distributions regime, which contains a broad definition of what constitutes a taxable distribution. Such distributions are generally subject to income tax in the hands of UK-resident individual shareholders. By contrast, distributions from non-UK resident companies are generally charged to income tax only where they constitute dividends other than dividends of a capital nature.

The consultation highlights that this distinction can produce different tax outcomes for economically similar transactions depending on the residence of the distributing company. In particular, certain returns of value, including some returns of capital, share repurchases and stock dividends, may be subject to income tax as distributions if made by a UK resident company but instead be taxed under the capital gains tax regime when made by a non-UK resident company. As a result, the tax treatment of the same return of value may currently differ depending on which regime applies, with current rates of up to 39.35% for dividend income and 24% for capital gains.

The consultation therefore seeks views on bringing distributions from non-UK resident companies within the statutory distributions regime so that, broadly, the same income tax rules would apply regardless of where the distributing company is resident. HMRC's stated objective is to create a single, more coherent framework for taxing company distributions in which equivalent returns of value are taxed consistently.

The consultation does not include draft legislation and acknowledges that careful consideration will be required to ensure that applying the UK's statutory distributions regime to non-UK resident companies does not produce unintended consequences. This is particularly important given the differences between UK company law and overseas corporate regimes, including how concepts such as dividends, share capital, share premium and repayments of capital operate in different jurisdictions.

If implemented, the proposals could have implications for future distribution planning, shareholder returns, capital extraction and wider transaction structuring involving non-UK holding companies.

Loans to participators

The consultation also proposes extending the loans to participators regime to loans made by non-UK resident close companies to UK participators. The existing regime is intended to discourage the extraction of value from close companies by way of loans rather than taxable dividends and currently operates by imposing a corporation tax charge on UK resident close companies where loans to participators remain outstanding beyond the relevant repayment period.

As non-UK resident companies are outside the UK corporation tax regime, HMRC is consulting on an equivalent income tax charge on the UK participator, together with an appropriate mechanism for collecting that charge. The consultation contains relatively little detail on how the proposed regime would operate in practice, with HMRC instead seeking views on the overall policy approach before developing draft legislation.

The consultation also seeks views on better aligning the loans to participators and distributions regimes, including introducing a priority rule where both regimes could potentially apply. While the detailed mechanics remain to be developed, the proposals would represent a significant extension of the existing regime for businesses using non-UK holding company structures.

Other proposals

The consultation also seeks views on a number of related proposals, including:

- **Purchase of own shares** – reforming the conditions for qualifying for capital treatment on company share buybacks, including replacing the existing “trade benefit” test with more objective conditions.
- **Returns of capital** – reviewing the “new consideration” and repayments of capital rules to reduce inconsistent outcomes between income and capital treatment.
- **Demergers** – abolishing the capital reduction demerger regime and expanding the statutory demerger rules.
- **Transactions in Securities** – considering whether the existing anti-avoidance regime should be modernised or replaced.

Next steps

The consultation is open until 14 September 2026, with HMRC inviting feedback on both the policy objectives and the practical operation of the proposed reforms before legislation is developed.

Although the consultation is framed as a modernisation exercise, it signals HMRC's intention to revisit several long-standing features of the UK's distributions framework. Businesses and investors using non-UK holding structures should consider whether existing or planned distributions, loans, share buybacks, returns of capital or shareholder exits could be affected if the proposals are taken forward.

We will continue to monitor developments and provide updates as the Government's proposals evolve.

Related Professionals

- **Emma C. McDonnell**
  Associate
- **Richard Miller**
  Partner
- **Daniella Abel**
  Partner