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# Reforming UK taxation of UK resident individual members in US LLCs

**Tax Talks** on **November 2, 2026**

On Wednesday 28 October 2026, the UK government announced its Autumn Budget, the first under new Chancellor John Healey. As part of the various tax measures introduced in the Budget, His Majesty's Revenue & Customs ("HMRC" ) published the outcome of a consultation on reforming the UK tax treatment of UK-resident individual members of US LLCs and other foreign reverse hybrids.

As background, currently UK resident members of US LLCs and other foreign reverse hybrids often face high effective tax rates, often as high as 75%. This is because LLCs are typically tax transparent in the US (unless they 'check the box' to be treated as a corporation) but are treated as tax opaque in the UK when applying the UK's entity classification rules. As a result, UK members suffer double tax - in the US on the LLC's underlying business profits and in the UK on distributions – but they generally do not qualify for double tax relief in the UK under the UK-US double tax treaty as the two taxes are seen to be on different profits.

Having considered options (including automatic or elective UK tax transparency of the reverse hybrid) in the consultation, the UK government announced as part of the Budget that it has chosen to resolve this issue through credit relief. If enacted, this will mean UK resident individuals will be able to elect to claim credit for eligible foreign taxes paid personally on the entity's profits, income and gains, including federal, state and local taxes. (The credit would be calculated on the basis of the individual's average rate of foreign tax as opposed to using a tracing mechanism). A further technical consultation will follow, with claims expected to be possible from early 2028.

This can be seen as a move in the right direction to correct the misalignment of the tax rules, which is particularly relevant for UK individuals, for example fund managers, who have US LLC structures for investments and carried interest.  However, the details of the proposed credit relief mechanism – to be published in a forthcoming technical consultation – will be key.

## Related Professionals


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