31 July 2026

# Consultation on reform to taxation of UK-resident members of LLCs and other reverse hybrids

Comments from Saffery LLP

## 1. Executive summary

1.1 We welcome the opportunity to comment on the proposals to address the taxation of UK resident individuals who are members of reverse hybrid entities, such as United States Limited Liability Companies (US LLCs).

1.2 In summary, our key points are as follows:

- The current UK tax treatment can affect commercial structuring decisions and may lead taxpayers to use less commercially desirable structures to mitigate double taxation.
- The scope of any reform should be considered carefully, including its application to indirect holdings, trusts and entities other than LLCs where similar classification mismatches can arise.
- We are not convinced that additional restrictions excluding certain UK-resident entities or entities trading through a permanent establishment are necessary where the underlying double taxation issue remains.
- While many taxpayers may favour alignment between UK and foreign treatment, we believe transparent treatment should be elective rather than automatic.
- Where an entity is treated as transparent, it should generally be treated consistently with existing partnership principles rather than being subject to separate bespoke rules.
- Practical compliance considerations should be recognised, including reliance on foreign tax information and reporting.
- The government should also consider related issues affecting corporate members of LLCs, either as part of this work or separately.

1.3 Section 2 below covers our responses to the specific questions raised in the consultation document.

1.4 We would be happy to discuss the points raised here in further detail. If you have any questions, or would like any further information, please contact: Sean McGinness, National Tax Partner, on +44 (0)131 221 3217 or email sean.mcginness@saffery.com or Ami Jack, Partner, National Tax, on +44 (0)330 094 3079 or email ami.jack@saffery.com.

## 2. Specific consultation questions

**2.1 Question 1: Have you or your clients faced a high effective tax rate (ETR) on income from reverse hybrids? If so, please provide details about the circumstances, including the ETR, the type of entity and income it related to, and what kind of member you or your clients were.**

2.1.1 No comment.

**2.2 Question 2: Have you ever taken steps to mitigate a high ETR related to a reverse hybrid? If so, please provide details. If you were not able to take steps to mitigate a high ETR, please explain what the barriers were.**

2.2.1 No comment.

**2.3 Question 3: Have you or your clients ever sought Double Taxation Relief from a foreign jurisdiction with respect to UK tax paid on income from a reverse hybrid entity? If you were granted relief, on what basis was this given? If you were not granted relief, why not?**

2.3.1 No comment.

**2.4 Question 4: Has the UK tax treatment of income from reverse hybrids affected your or your clients' personal decisions about where to live and work? If so, please give details.**

2.4.1 No comment.

**2.5 Question 5: Has the UK tax treatment of income from reverse hybrids affected your or your clients' commercial decisions such as where to locate offices and staff, do business and make investments? If so, please give details.**

2.5.1 Yes.

2.5.2 In our experience, the current UK tax treatment can affect the way businesses structure their US operations and investments.

2.5.3 For example, clients may use limited partnerships rather than LLCs to preserve access to foreign tax credits, despite limited partnerships not being their preferred commercial vehicle.

2.5.4 We also regularly advise clients to own an LLC through a US C corporation to achieve a more favourable UK tax outcome. While this can mitigate the double taxation issue, it significantly increases US tax compliance obligations.

**2.6 Question 6: Do other jurisdictions offer more favourable treatment for your or your clients' income from reverse hybrids? If so, which jurisdictions are these? What makes the treatment more favourable than the UK?**

2.6.1 No comment.

**2.7 Question 7: Do you see any issues with defining the scope in the way stated above? Can you identify any potential boundary issues with any specific entity types?**

2.7.1 One potential boundary issue is the treatment of indirect holdings. Consideration should be given to LLCs held through offshore trusts, including settlor-interested and grantor trusts, as well as structures involving multiple layers of LLCs or other entities.

2.7.2 We would welcome clarification as to whether the proposed rules are intended to apply to foundations, where similar mismatches can occur.

2.7.3 In our view, the focus should be on addressing double taxation arising from differences in entity classification between jurisdictions. Treatment should therefore be aligned, as far as possible, with the treatment of the entity in its local jurisdiction.

2.7.4 Where there are concerns about avoidance or excessive loss claims, we consider these would be better addressed through targeted legislative provisions rather than by excluding otherwise affected structures from the scope of the regime.

**2.8 Question 8: Do you think that these conditions are reasonable? Do you see any potential issues with these conditions? Should further conditions be imposed to limit the holdings to which this treatment would apply?**

2.8.1 We are not clear why these additional conditions are required.

2.8.2 We often see businesses established as US LLCs that continue to be directed from the UK. In these cases, profits may be attributable to a US permanent establishment and subject to tax in the US, yet the same double taxation issues can arise.

2.8.3 We would welcome further explanation of the policy rationale for excluding entities that are UK resident or trading through a UK permanent establishment. If the objective is to address double taxation arising from differences in entity classification, it is not clear that these conditions are necessary.

**2.9 Question 9: Do you see any advantages or disadvantages to transparent treatment applying automatically, rather than by irrevocable election?**

2.9.1 Many taxpayers are likely to prefer UK treatment to align with the treatment of the entity in its home jurisdiction, which may support an automatic approach.

2.9.2 However, there are circumstances where automatic transparent treatment could produce unintended outcomes. For example, some investment LLC structures make tax distributions to fund US tax liabilities. These distributions may be limited under the LLC agreement to the relevant US tax liability, which will often be lower than the corresponding UK tax liability.

2.9.3 In such cases, the underlying profits may not be fully distributed. Automatic transparent treatment could therefore result in UK tax liabilities arising without corresponding cash receipts.

2.9.4 We are also concerned that automatic treatment could affect existing structures that were established based on the current rules. Existing advice may no longer be valid and taxpayers could experience unexpected outcomes unless they restructure their affairs.

2.9.5 On balance, we believe transparent treatment should be elective rather than automatic. This would allow taxpayers to assess their particular circumstances and decide whether transparent treatment is appropriate.

**2.10 Question 10: Do you see any issues with deeming the trade or business of eligible foreign entities to be carried on in partnership (or as a sole trade), and profits/losses being computed in accordance with UK Income Tax rules? If so, what are they?**

2.10.1 We do not see any issues with this approach.

2.10.2 Where an eligible foreign entity is deemed to be a partnership for UK tax purposes, it should be treated as a partnership. The government should resist introducing different rules.

**2.11 Question 11: Do you see any issues with attributing investment income to members in line with their proportional membership interest, and tax liability being computed in accordance with UK Income Tax rules? If so, what are they?**

2.11.1 The practical issues already encountered with foreign partnerships are likely to arise here and should be acknowledged.

2.11.2 In particular, there can be difficulties obtaining information in a format that aligns with UK tax concepts and UK tax periods.

2.11.3 In our view, foreign tax reporting information, such as a Schedule K-1, should generally be accepted as the basis for preparing a UK tax return.

**2.12 Question 12: Do you see any issues with applying Statement of Practice D12 to individual members, and capital gains/losses being computed in accordance with UK Capital Gains Tax rules? If so, what are they?**

2.12.1 We note that this approach assumes there is more than one member. Where an LLC has a single member, Statement of Practice D12 would not be relevant.

2.12.2 If an LLC is treated as transparent for UK tax purposes, it should be treated consistently as a partnership. In those circumstances, we would expect Statement of Practice D12 to apply in the same way as it does to other partnerships.

**2.13 Question 13: Do you see any issues specifically with respect to establishing each member's fractional interest in the assets of the entity? If so, how could these problems be overcome?**

2.13.1 No comment.

**2.14 Question 14: Do you see any other issues with the transparent treatment outlined above in respect of the application of any other UK tax rules (or reliefs/exemptions)? If so, which UK tax rules (or reliefs/exemptions) are these? What are the issues that arise? How might these be mitigated?**

2.14.1 No comment.

**2.15 Question 15: Do you see any issues that might arise upon these transitions, in respect of tax rules (or reliefs/exemptions) applicable to a holding that begins or ceases to be treated on a transparent basis? What are the issues that arise? How might these be mitigated?**

2.15.1 Transitional provisions will be important where a holding begins or ceases to be treated on a transparent basis.

2.15.2 In the US, equivalent changes are generally treated as deemed distributions or incorporations, with the corresponding capital disposals arising. A similar approach would appear to be appropriate in the UK and could build on the existing provisions in s59AA TCGA 1992.

2.15.3 Consideration should also be given to the timing of any election. In the US, an election may be made within a specified period following the establishment of an entity without giving rise to a deemed disposal or distribution. A similar approach should be considered in the UK.

2.15.4 Any such period should be sufficiently long to allow taxpayers to obtain advice and consider the implications of the election.

**2.16 Question 16: Do you believe that the approach set out above would solve the issue of high effective tax rates for individual members of reverse hybrids? Please explain why/why not.**

2.16.1 Yes. We believe the proposed approach would address the issue of high effective tax rates for individual members of reverse hybrids.

**2.17 Question 17: Do you see any issues with this approach, including any unintended outcomes for individual or non-individual taxpayers? If so, what are these?**

2.17.1 Provided transparent treatment is elective, we do not expect any adverse consequences. Taxpayers would be free to take advice and choose the treatment that is most suitable for their circumstances.

2.17.2 We assume that HMRC's existing treaty approach in Tax Bulletin SE6 will continue to apply where an LLC is treated as transparent for UK tax purposes and treaty relief is otherwise available.

**2.18 Question 18: Do you have any comments on the potential impacts of these changes on tax receipts or taxpayer behaviour? How might individuals and businesses respond to these changes? For instance, would these changes increase UK tax receipts overall? Conversely, are there specific tax planning techniques which these changes would incentivise or otherwise fail to capture?**

2.18.1 No comment.

**2.19 Question 19: What are your views on the deduction for foreign tax and credit relief options outlined above? Do these approaches have advantages or disadvantages in comparison to UK matching of transparent treatment? Please give details.**

2.19.1 No comment.

**2.20 Question 20: Do you see any issues with either of these approaches, including any unintended outcomes for individual or non-individual taxpayers? If so, what are these?**

2.20.1 No comment.

**2.21 Question 21: Do you have experience of the rules applied by other jurisdictions with respect to income from reverse hybrids? What jurisdictions are these, and what are the rules? What advantages and challenges have you encountered when applying these rules?**

2.21.1 We understand that Israel has introduced arrangements intended to address double taxation arising from the differing treatment of US LLCs.

2.21.2 Broadly, these arrangements appear to allow certain Israeli resident members of US LLCs to elect to report the LLC's income on an ongoing basis and obtain relief for foreign tax paid, helping to address double taxation arising from differences in entity classification.

2.21.3 We also understand that more recent Israeli Tax Authority guidance requires income derived through certain transparent entities, including LLCs where this treatment has been elected, to be calculated in accordance with Israeli tax rules in some circumstances rather than relying solely on foreign tax reporting.

2.21.4 The government may wish to consider whether any lessons can be drawn from the Israeli approach, particularly in relation to elective treatment, the interaction with foreign tax credit rules and practical reporting requirements.

**2.22 Question 22: Are there any other options or ideas for reforming the taxation of individual members of reverse hybrids that you believe the government should consider? This could include forms of treatment or relief not mentioned above.**

2.22.1 Although this consultation focuses on individual members of reverse hybrids, we encourage the government to consider whether related issues affecting corporate members should also be addressed, either as part of this work or through a separate review.

2.22.2 For example, substantial shareholding exemption treatment may not be available where an LLC has not issued an interest that is analogous to share capital.

2.22.3 In addition, dividends received from an LLC by a member of a small group may be taxable in the UK where the LLC is treated as transparent in the US and is therefore not itself subject to US tax.

**2.23 Question 23: In relation to any of the proposals above, apart from change to UK liabilities, what would be the other impacts on you or your clients? For example, would there be impacts on time spent managing tax compliance, fees, cashflow, certainty, foreign tax expenses?**

2.23.1 The proposals would provide greater flexibility in how businesses structure their affairs.

2.23.2 We are aware that limited partnerships have been used instead of LLCs previously to avoid adverse tax consequences, despite limited partnerships not being the preferred vehicle. US C corporations have also been used, which can impose additional governance requirements and restrictions.

2.23.3 If the double taxation issues are addressed, LLCs could be used more freely and taxpayers would be better able to choose structures based on commercial considerations rather than tax outcomes.

**2.24 Question 24: How might any of the proposed changes to the tax treatment of income from reverse hybrids impact your or your clients' view of the UK as a place to live, work, do business and make investments?**

2.24.1 We welcome proposals that address the double taxation issues affecting members of reverse hybrids.

2.24.2 While these changes would improve the position for affected taxpayers, we do not expect them to have a significant impact on decisions about whether to live, work, do business or invest in the UK. Such decisions are influenced by a much wider range of factors, including the wider changes to the taxation of internationally mobile individuals introduced in April 2025.

## 3. About Saffery LLP

3.1 At Saffery, we're more than just chartered accountants and tax and business advisers. We're a partner-led and people-focused firm, committed to our clients and honouring our heritage.

3.2 Since 1855, we've evolved in size and scope, but our unwavering dedication to exceptional client service remains the same.

3.3 As a proud member of Nexia, a worldwide network of trusted member firms, we've got access to local insight on a global scale.

3.4 In the UK, Saffery LLP is the 15th largest accountancy firm by fee income, with 90+ partners and 1,300+ staff across nine offices. Saffery also has an office in Dublin, Ireland.