Institution **CIOT - CTA**
Course **APS VAT and Other Indirect Tax**

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Section 1	**5621**	**26667**	**32163**
Total	**5621**	**26667**	**32163**

Report to Mr D Azimi outlining the tax and commercial implications of the proposed developments of either the chain of fitness hubs or developing build-to-rent housing

30 April 2026

Prepared by

Austen & Austin Tax Advisers

1. Scope

1.1 This report sets out the commercial and tax implications of the following topics:

- Option 1 - Setting up a chain of fitness hubs
- Option 2 - Development of Build to Rent housing
- Funding implications of both options 1 and 2, including the sale of the land in Maynard Keats, proposed dilution of your share in ZRID Construction ("ZRID") or external funding
- Review of IR35 (employed v self-employed workers)
- Review of the current Gym business set up

You will find supporting calculations for the figures included in our report within the appendecies at the end of the report.

1.2 Disclaimer

We have reviewed the VAT, income tax, Corporation Tax and Stamp duty implications of both of the main two options you have presented and the report has been prepared based on tax legislation at today's (30 April 2026) date. Should there be any material changes to tax legislation, we may be required to review the findings in our report.

Our report is based on the information we hold on file for the three partners of ZRID Construction, and the information provided to us in the email dated 29 April 2026 from Darius Azimi (exhibit A) as well as the further information appended to this email, specifically:

- Darius' business plan for option 1
- The figures provided for option 2 prepared by Darius and Iksander

This report has been prepared for the sole use by Darius Azimi, however we appreciate that the detail included within out report may be shared with both his father (Reza Azimi) and his brother (Iskander Azimi) and as we act for both of these parties, we would suggest that they seek our advice separately on their own tax implications. We take no acceptance of any responsbility to any third parties who have relied on the information within this report, without our prior written consent.

2. Executive summary

Option 1

2.1 You have highlighted that you would be required to purchase a new piece of land to

begin construction of the gym space, for a purchase price of £750,000. Therefore the SDLT charge is £27,000.

2.2 As you have highlighted that you are unsure whether to use a company, we have reviewed whether you should hold the fitness hubs in a company. A limited company has more flexibility over how and how much to remunerate you which creates much better tax planning opportunities.

2.3 Commercially, given that the proposal is to continue the development of further gym sites, we would expect reserves to be retained and reinvested, should these be kept in a sole trade business, you will be paying the highest rate of tax (45%) however a company will only pay 25% Corporation tax, therefore saving 20% in tax. Therefore we highly advise on using a limited company structure for the development.

2.4 Given estimated profits of £385,000, we anticipate that you will pay £168,409 in income tax and national insurance. However if you left all of the money in the company, the company would pay corporation tax of £95,250. Should you vote the maximum level of dividends of £288,750 there would be personal tax of £97,191, which would result in total taxes of £193,441. Any dividends not voted, will save tax initially at 39.35% per pound voted.

2.5 To register a company you will need to incorporate with Companies House. Normally a company is registered with 100 £1 shares which you can either split the shares with your partner, Beth, which will further reduce your overall tax liabilities, or we can look to complete a share re-organisation at a later date. Companies House will inform HMRC that the comapny has been registered and a UTR will be issued.

2.6 As it is expected that you will breach the VAT registration threshold in year 1, we

would suggest that you register straitght away as commercially, we would suggest registering for monthly VAT Returns so that cash flow is aided during construction, and then returning to quarterly returns so as soon as you become making regualr payments.

2.7 As the construction of the property will be in excess of £250,000, the asset will be included in the capital goods scheme for 10 years. Given the nature of the supplies of the gym, this could mean there is a restriction on recovering some of the upfront VAT. To prevent this from arising we would suggest that you use the physiotherapists as subcontractors by hiring floor space to them [for which you will require an option to tax to be in place through form VAT1614A] and they will manage their own client base. Given that physiotherapy income is to be £190k out of £1.17m of income, this would mean a circa 20% VAT saving by tailoring the set up; £46,420 VAT Saved.

2.8 In order to fund the construction, you will need to sell your share of the land and ZRID to your brother and father. Your father has highligthed that both he and your uncle wished for you to remain in ZRID therefore we would advise against proceeding with the fitness hubs.

2.9 Residential property transactions are ordinarily exempt from VAT, however, you have highlighted that you would be running nine "holiday-type lettings"; furnished holiday lets (FHLs) have different VAT treatment when compared to ordinary long term lets, as they are considered a taxable trade. Given that you are going to be turning over in excess of £90,000 from holiday lettings alone, this will mean that you will have to register for VAT. Under the current proposals, given that 9 of 27 properties will be FHLS you will be able to recover one third of the VAT (£162,333) in the current set up between you and your brother. Moving forwards, the normal partial exemption rules will follow, which means that 39.6% of VAT will be able to be recovered.

2.10 The sale of new build residential dwellings is zero rated for VAT purposes. Although you have not mentioned about making a sale, you can sell the completed new build properties, via corporate set up from parent company to subsidiary, to create the zero rated supply. Having reviewed the position, we anticipate that at present you are set to lose £324,666 in VAT under the current set up.

2.11 Firstly, you have highlighted that the land is only owned by you and your brother. We would recommend that you transfer this into the partnership so that it can benefit from incorporation relief. There will be no gain due to inheriting the land at its current value. Then, we would suggest that you incorporate the partnership ZRID into a new limited company. There are two reliefs available - section 162 and section 165. For both, all trade and assets, excluding cash, have to be transferred to the new limited company.

2.12 Section 162 applies automatically, and pervents there being a chargeable gain, subject to capital gains tax, by deferring any gains against the base cost of the shares. The company takes on the market value of the assets, meaning it has a cost of the properties at todays date. You can opt to disapply section 162, and apply for Section 165, but all three of you must do this. Section 165 is different in such that the company takes on the based cost of assets as they costed to you. As you have recently inherited the land at a £2m valuation, this route would be favourable as the base cost of the assets will credit your directors loan account creating tax free income back to you.

2.13 As the company would owe you, as the directors, money, you could also look to charge interest to the company on your loan account balance. This is the cheapest way to remunerate yourselves as the company gets full tax relief on the interest and you do not pay national insurance on interest income. This will need to be declared on form CT61 and 20% tax deducted, just like the construction industry scheme.

2.14 After incorporating, a second company will be registered with Companies House, however this company will be owned solely by ZRID Construction Limited. Upon completion of the work, the properties will be sold from ZRID construction to the subsidiary. This transfer will be subject to Corporation Tax, however as the costs are £4m for the land, and £4.2m for the construction, with an esimate value on completion of £6.5m we would anticipate a loss for Corporation Tax purposes. No stamp duty will be due on this sale. We would highly recommend this option as it allows for the full recoverability of the £487,000 of VAT payable.

2.15 As mentioned above, the subsidiary will become partially exempt, as it will have both a taxable trade - the furnished holiday lets - and the exempt trade of the long term lettings.

2.16 Given that option 2, is not only financially is the better option, but will ensure that the business is continued as per your Uncle Zia and your fathers requests to continue to family business, we would strongly recommend proceeding with option 2.

2.17 There would unlikely be any tax implications on you on the sale of the land in Maynard Keats, as you would have inherited this at the current valuation of £2m.

2.18 The sale of your share of ZRID Construction would again be subject to capital gains tax as this would be considered a chargeable disposal. As this is a business however, you will benefit from business asset disposal relief. This will mean that the first £1m of gain is taxed at 14% with anything in excees of this being taxed at 24%.

2.19 You have highlighted a current shortfall of £2.8m however it is worth considering whether the stock will be cystalised as income in the short term, As these amounts are

paid out, any sales would vastly increase the cash available. Commercialy you could also push for faster payment on your debtors of £217,217 to again realise further free cash in the business.

2.20 You have highlighted the use of subcontracted labour for the personal trainers in the gym, but also, we have proposed the use of subcontracted labour for the physiotherapy position. However thought should be given to whether these would be deemed employees, or actually subcontractors.

2.21 We have noted that you are currently operating out of your own garage, assuming that you own your property, you should be careful in the current set up so as to lose part of your principal primary residence relief. Given the current position of the sole trade business, this is unlikely to ave a big impact, and as such, we would suggest that the cost of the capital gains tax would be lower than that of private rent, however should the business grow, we woul suggest monitoring the position.

2.22 We would strongly advise you delay registering your personal training business for VAT. You will not have any issues with disaggregation of income as your personal training business is significantly different to that of the partnership.

3. Option 1 - Setting up a chain of fitness hubs

3.1 Firstly to review the potential chain of fitness hubs, we have highlighted the return on investment in appendix 1 - whilst taking your numbers, we have estimated a return on investment of 7-7.5 years, on the assumption that the year three profits are reaching maximum capacity. However this will fluctuate based on the below points raised.

3.2 As part of the development, we have reviewed the implications of the below taxes:

- Stamp Duty Land tax
- VAT
- Corporation tax v Income tax

SDLT

3.3 You have highlighted that you would be required to purchase a new piece of land to begin construction of the gym space, for a purchase price of £750,000. As this is commercial land, stamp duty land tax would apply. Stamp duty is charged at 0% for the first £150k, 2% for the next £100k, then 5% for everything thereafter on the VAT inclusive purchase price. As you have highlighted that there is no option to tax in place on the land, therefore you should not be charged any VAT on the purchase. Therefore the SDLT charge is £27,000 (as per appendix 4).

As this land is being purchased from an unconnected party, there are no reliefs available to you.

Corporate Structure

3.4 We have reviewed whether you should hold the fitness hubs in a company, as you have highlighted that you are unsure whether to use a company. There are pros and cons of both options, however, lets first review the tax implications. A company is its own legal entity, and it is required to pay Corporation Tax at the following rates:

- 19% for profits under £50,000,
- 26.5% for profits between £50,000 and £250,000
- and 25% for anything there after

There is also more flexibility with how you can remunerate yourself. As a limited company is its own legal entity, you can pay yourself a salary - we normally suggest that this is £12,570 such that you do not pay income tax on this amount, with any balance of income being paid by way of dividends.

3.6 The biggest benefit of using a corporate structure is that you do not have to pay income tax personally on any profits that are not extracted from the business. Given the financial performance of ZRID last year, we can see that there were £400k of profits that were not extracted from the company, however, as an unincorporated entity, tax will be paid on these. Commercially, given that the proposal is to continue the development of further gym sites, we would expect reserves to be retained, should these be kept in a sole trade business, you will be paying the highest rate of tax (45%) however a company will only pay 25% Corporation tax, therefore saving 20% in tax. Therefore we highly advise on using a limited company structure for the development.

3.7 We have included the tax calculcations in appendix 4 and these highlight that you would pay £168,409 in income tax and national insurance on £385k of profits, however if you extracted every pound from the company the company would pay corporation tax of £95,250, and to pay dividends of £288,750 would incur further personal tax of £97,191, which would result in total taxes of £193,441. However, if you do not require the funds personally, especially given your retaining share in ZRID the personal tax on the dividends could be reduced as far as to nil, should you not require the funds.

3.8 To register a company you will need to incorporate with Companies House, you can either split the shares with your partner, Beth, which will further reduce your overall tax liabilities, or we can look to complete a share re-organisation at a later date. We normally recommend using 100 £1 shares. HMRC will then issue you with a company Unique tax

payer reference. Company accounts are due 9 months and after the year end, with the Corporation Tax payment being due the next day. We can of course assist with all of this should you wish.

VAT

3.9 At present you are not VAT registered, however given the nature of your costs, and that most of these would incur VAT, we would suggest registering the company for VAT straight away. Commercially, we would suggest registered for monthly VAT Returns so that cash flow is aided during construction, and then returning to quarterly returns so as soon as you become making regualr payments.

3.10 As the construction of the property will be in excess of £250,000, the asset will be included in the capital goods scheme for 10 years. The capital goods scheme reviews the taxable vs. exempt use of the property every year for ten years, on the anniversary, with any movement in the useage being subject to a potential VAT payment or VAT recoverable. With the advice below, we should be in a position whereby all income is taxable, therefore this should not be a worry to you, however, we will continue to monitor, should you proceed.

3.11 There are, however, a variety of different VAT implications for the ongoing supplies. Gym memberships are standard rated by nature, however physiotherapy income is exempt whereby this is provided by a registered health care professional. This creates a partial exemption problem for the company and we would suggest reviewing the set up, otherwise, as highlighted below, the original costs of the construction would need to be apportioned under the capital goods scheme. Given that physiotherapy income is to be £190k out of £1.17m of income, this would mean a circa 20% loss of VAT. All of the costs to build the gym would total £2,160,500 however £750,000 will have no VAT charged, meaning a total VAT bill of £232,100 (2,160,500 - 750,000 x 20%) resulting in

lost VAT of £46,420.

3.12 Therefore, we would suggest that you use the physiotherapists, in the same way that you are going to be using personal trainers - by hiring floor space to them, and they manage their own client base. We have covered the employed v self-employed points later in the report.

3.13 In order for VAT to be charged on the hire charges to physiotherapists, you will need to apply for an option to tax, using VAT 1614A, otherwise the hire of an allocated space would ordinarily be exempt from VAT and will not resolve the partial exemption problem. By opting to tax all income will become taxable and allow for full recoverability.

Employment allowance

3.14 As you have employees within ZRID Construction, and you are a partner within this business, you will not benefit from receiving employment allowance in either your sole trade business or the new company. Therefore all employees are subject to employers national insurance at 15% for every pound they earn over £5,000. If you were to come away from ZRID completely, you would be able to claim employment allowance, however we appreciate that this position is unlikely.

Other considerations

3.15 In order to fund the construction, you will need to sell your share of the land and ZRID to your brother and father. This may become complicated, given a purchase price of £2m as your brother only has access to £1.6m readily available cash within the partnership, therefore he would need to fund external finance for the purchase. The period

for return on investment is similar for both options, however your father has also highligthed a keen intention for you to remain in ZRID therefore we would advise against proceeding with the fitness hubs.

4. Option 2 - Development of Build to Rent housing

4.1 Similar to that within option 1 we have reviewwed the tax implications of the build to rent housing. But firstly, we will review the VAT implications of build to rent, prior to advising on next steps.

4.2 Residential property transactions are ordinarily exempt from VAT, and unlike commercial property, you cannot apply for an option to tax. Therefore as the ongoing trade is going to be exempt, no VAT would initially be able to be recovered. However, you have highlighted that you would be running nine "holiday-type lettings"; furnished holiday lets (FHLs) have different VAT treatment when compared to ordinary long term lets, as they are considered a taxable trade. Given that you are going to be turning over in excess of £90,000 from holiday lettings alone, this will mean that you will have to register for VAT, this will allow for the recoverability on the costs relating specifically to the holiday lets, or an apportionment of general costs.

4.3 Given that 9 of 27 properties will be FHLS you will be able to recover one third of the VAT (£162,333) in the current set up between you and your brother. Moving forwards, the normal partial exemption rules will follow, and you will be able to recover any VAT on costs relating directly to the FHLs, and a proportion of overhead costs, based on the taxable percetange of income - this appears to be circa 39.6%.

4.4 One other relief available, is the sale of new build residential dwellings at the zero

rate of VAT. You have not mentioned about making a sale, however, through incorporation, you can sell the properties, to an investment subsidiary which will hold the properties for letting, and enable you to recover any lost VAT.

Incorporation & incorporation relief

4.5 Having reviewed the position, we anticipate that at present you are set to lose £324,666 in lost VAT due to the exemption of the letting income. Through incorporating the partnership, you will be able to recover all of this lost VAT.

4.6 Firstly, you have highlighted that the land is only owned by you and your brother. In order to bring this in to the partnership, you will need to transfer 25% (12.5%) of the holding into your fathers name. This can be gifted, given the based cost that you inherited it at £2m each, and therfore the land will become a partnership asset.

4.7 Then, we would suggest that you incorporate the partnership ZRID into a new limited company - say ZRID Construction Limited. Section 162, also known as incorporation relief, will be automatically applied, and so as long as all of the trade and assets (excluding free cash) of the partnership are included in the transfer. This will include the new land, and so long as the proportion split of the limited company [25% Reza, 37.5% Iskander/Darius] is kept the same in the share structure - under the sum of lower proportions rules, no stamp duty will be due on the land.

4.8 Section 162 defers any gain on the market value uplift of assets, mostly land and properties, into the base cost of the shares. You will receive shares to the value of the market value, including goodwill, of the partnership, however the capital gain made on the land, will reduce the base cost of the share price for capital gains tax reasons.

4.9 One thing to consider commercially, is whether you look to elect for section 165 relief rather than 162. Section 165 works such that the gain is held over in the value of the properties, and stamp duty remains not payable, which in essence means that the company will pay any Corporation Tax on the gain made on the sale of the property, from the date it was purchases, rather than you having a lower base cost of the shares. You will have a lower share price, and any cost price that is included on the comapny balance sheet will credit your directors loan account creating tax free income back to you. Given that £4m of the land being introduced is being introduced for cost of £4m, there remains £867,000 of property to be revlaued.

4.10 As 165 creates monies due back to you, we would suggest that this option would be more favourable, however all three of your would have to apply for this. We would suggest that you discuss this in some detail, and we would be more than happy to assist.

4.11 As the company would owe you, as the directors, money, you could also look to charge interest to the company on your loan account balance. We would normally expect to see commercial rates of around 10% being charged, and this is the cheapest way to remunerate yourselves. The company gets full tax relief on the interest and you do not pay national insurance on interest income. The only additional administration on interest is through completing form CT61, which declares the interest paid to HMRC, and the company have to deduct 20% basic rate income tax - this works similar to that of the construction industry scheme, which I understand you have familiarity with.

4.12 As with our review into corporation tax in option 1, it is clear that not all funds are drawn out of the company year on year. As ZRID construction limited would pay corporation tax now at 25% rather than income tax at 45%, there would be a 20% corporation tax saving on the £400,000 not drawn out of the company in the year. This would have saved £80,000 in tax.

Onward sale

4.12 After incorporating, a second company will be registered with Companies House, however this company will be owned solely by ZRID Construction Limited, creating a tax group for Corporation tax and Stamp Duty Land tax.

4.13 As i have highlighted above, the first sale of new property is zero rated for VAT purposes. Therefore when the properties are completed, these properties will be sold from ZRId Construction Ltd to ZRID Subsidiary. This transfer will be subject to Corporation Tax, however as the costs are £4m for the land, and £4.2m for the construction, with an esimate value on completion of £6.5m we would anticipate a loss for Corporation Tax purposes, of £1.7m. This can be relieved against other trading profits. The zero rating also applies for the first sale of a property that will become a furnished holiday let.

4.14 As the two companies are in a SDLT group, no stamp duty will be due on this sale. We would highly recommend this option as it allows for the full recoverability of the £487,000 of VAT payable.

4.15 As mentioned above, the subsidiary will become partially exempt, as it will have both a taxable trade - the furnished holiday lets - and the exempt trade of the long term lettings. Service charges follow the underlying supply, so service charges on exempt rental income is also exempt. We doubt there would be service charges on the holiday let income.

4.16 We have calculated the return on investment at 7.2 years, however this assumed year three profits would continue in a straight line. Given that the interest charge will fall each year, we would anticipate that this is going to reduce slightly, therefore giving a faster

rate of return than option 1. We have included the workings in appendix 4.

Annual tax on enveloped dwellings

4.17 There is also a further tax charge to consider, and that is that of annual tax on enveloped dwellings (ATED), which a company is required to pay on any property held within a company which exceeds a valuation in excess of £500,000. However the company will get relief for all properties as there is an exemption for properties that are rented out.

4.18 Given that option 2, not only financially is the better option, but it will ensure that the business is continued as per your Uncle Zia and your fathers requests to continue to family business, we would strongly recommend proceeding with option 2.

5. Funding implications of both options 1 and 2, including the sale of the land in Maynard Keats, proposed dilution of your share in ZRID Construction ("ZRID") or external funding

5.1 The use of external funding will create an interest cost for the business, wether that is through the use of the proposed limited company set up or that of the current partnership set up. The limited company will benefit from full tax relief on the interest cost, however there is an interest restriction on unincorporated rental businesses. Relief is only given at the basic rate, and as you are all at present higher, or additional, tax rate payers, you would be losing out on relief.

5.2 We would also suggest reviewing whether you can leverage any specific assets, as mortgage rates tend to be slightly lower than that of normal loans. Having reviewed the

offer that you have got, however, 6.1% is a very commercial rate.

5.3 There would unlikely be any tax implications on you on the sale of the land in Maynard Keats, as you would have inherited this at the current valuation of £2m. Any sale would be subject to capital gains tax on any gain made, so if you do not make a gain, there would be no tax. There is no option to tax on the land, so VAT is not an issue. SDLT would be due on the purchase but this would be a cost for your brother.

5.4 The sale of your share of ZRID Construction would again be subject to capital gains tax as this would be considered a chargeable disposal. As this is a business however, you will benefit from business asset disposal relief.

5.5 When considering the sale of ZRID we need to take into account two different base costs, that which was transferred to you in 2022 by your father, and that which you have just inherited. Similar to that of the property, we would not expect that you would have made a gain on the 25% share of the partnership that you have recently inherited, therefore capital gains tax will likely only be due on the 12.% stake given by your father. Assuming gift relief was claimed, this would be at your fathers original base cost.

5.6 As you have been a partner for in excess of two years, business asset disposal relief will be available. This will mean that the first £1m of gain is taxed at 14% with anything in excees of this being taxed at 24%.

5.7 You have highlighted a current shortfall of £2.8m however it is worth considering whether the stock will be cystalised as income in the short term, As these amounts are paid out, any sales would vastly increase the cash available. Commercialy you could also push for faster payment on your debtors of £217,217 to again realise further free cash in the business.

5.8 As our proposal states that option 2 is the better option, we would not advise considering a dilution or the sale of the land to fund future operations.

6. Review of IR35 (employed v self-employed workers)

6.1 You have highlighted the use of subcontracted labour for the personal trainers in the gym, but also, we have proposed the use of subcontracted labour for the physiotherapy position. HMRC have clamped down in recent years on the use of subcontractors, which would ordarinly be employees. This is known as IR35.

6.2 As you are currently a small company, the onus is with your subcontractors to confirm their status, however, in order for subcontractors to be considered subcontractors rather that staff, HMRC have provided an online test (see website here) that you can complete to determine elegibility. The tests review working relationships, such as:

- is the a contract in place
- is holiday/sick pay provided
- who provides their own equipment
- can a qualified replacement be sent in their place
- who has taken on the risk and reward of the business

6.3 As such is it crucial that you review this set up for each of the proposed subcontractors. Should HMRC deem that any of the tests fail, the subcontractors will be taxed as employees regardless of the agreement in place.

7. Review of the current Gym business set up

7.1 We have noted that you are currently operating out of your own garage, assuming that you own your property, you should be careful in the current set up so as to lose part of your principal primary residence relief. Whereby there is business space being utilised at your main home, capital gains tax can be due on the space that is used solely for business purposes. Given the current position of the sole trade business, this is unlikely to ave a big impact, and as such, we would suggest that the cost of the capital gains tax would be lower than that of private rent, however should the business grow, we woul suggest monitoring the position.

7.2 From a VAT perspective, as you deal with consumers, we would suggest that you delay registration until such point that you breach the VAT threshold. I would expect that this is some time away, given your other business ventures with ZRID, however it is worth keeping an eye on.

7.3 You will not have any issues with disaggregation of income - whereby you have multiple businesses in the same industries so as to avoid registering for VAT - as your personal training business is significantly different to that of the partnership. Although both bodies are unicorporated, the partnership is considered completed separate for VAT purposes, therefore it doesnt affect you personally.

We have summarised all of the above in our executive summary.

Austen & Austin Tax Adivsors

30 April 2026

Appendicies

Appendix 1

Return on investment for Gym business

intitial outlay - £2.16m

Year 3 profits - £385k (assumed max capacity)

YEar 1 + 2 combines profits = £90k

Carry forwrad investment = £2.07m

Return on investment = 7.4 years

Appendix 2

Taxable income		385,000	
income tax			
37700	20%	37,700	7,540
37701-125140	40%	87,440	34,976
125140+	45%	289,860	116,937

			159,453
NIC			
12570	0%		
12571-50270	6%	37,700	2262
5271+	2%	334,730	6,697
			8,957
			168,409
Corporation tax	25%	385,000	96,250
Remaining reserves		288,750	
500	0%	500	
37700	8.75%	37700	3,299
37701-125140	33.75%	87440	29,511
125140+	39.35%	163610	64,380
			97,191
		Total combined	193,441

Appendix 3

SDLT			
0-150,000	150,000	0%	0
150,000-250,000	100,000	2%	2,000
250,000-750,000	500,000	5%	25,000
			27,000

Appendix 4
Return on investment for Build to rent

Total initial outlay £4.185m
Year 3 profits - £657k (assumed max capacity)
YEar 1 + 2 combines profits = £779k

Carry forwrad investment = £3.406m

Return on investment = 7.2 years