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

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Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**4042**	**18693**	**22658**
Total	**4042**	**18693**	**22658**

To: Daris Azimi

From:
Tax Advisor,
Austen & Austen Tax Advisers

For Evelyn Austen Review

Date 30 April 2026

Subject: Key Tax and commercial issues in respect of proposed options for Darius Azimi

Dear Darius,

Further to our discussions we have prepared our report which discusses the keu tax and commercial issues of the proposed options. We have based our report on the information you have shared with us by way of email dated 29 April 2026, including the relevant Exibit information.

Please note that this report has been produced exclusively for the addresse listed above and should not be shared to any third parties. We understand if you would like to share this with Iskander or Reza and given they are both clients of the firm we would be happy to allow you to do so following a signed release letter.

Scope of work

- Tax implications resulting from inheritance from Zia

- Tax and commerical implications under Option 1

- Tax and commercial implications under Option 2

- Comparison of Option 1 and Option 2 and recommendations based on tax and commercial findings

1 Executive Summary

1.1 The inheritence of the partnership shares from Zia will not attract VAT or CGT on the assumption that gift relief was not used on the transfer. Any future sales of shares will attract CGT with the base cost based on the market value at the time of transfer. SDLT will also not be payable based on the sum of lower proportions.

1.2 SDLT will be payable on the inheritence of the land from Zia held outside the partnership as the sum of lower proportions is not available, with the amount due of £94,750. This should be paid as soon as possible to mitigate any penalties or interest as we are not aware this has been paid within the 14 days.

1.3 Option 1 will incur VAT generally at the standard rate as this will be a commercial build. Recovery of VAT will be dependant on registering for VAT which is recommended as there is a six month time limit on recovering VAT on services. It is recommended you register for VAT as soon as possible to avoid losing out on the circa

£400k of VAT, however this should be weighed against your sole trader business as this will increase the pricing of this.

1.4 If the land under Option 1 is opted to tax, then the land will fall under the CGS and will need to be monitored over the next 10 years.

1.5 We recommend you do not elect to state end user status for cash flow benefits for the construction works under Option 1.

1.6 Consderation should be given as to the employment status of staff and the liability of products as this will impact the VAT liability and income stream of the business under Option 1.

1.7 Option 1 will incur SDLT at £27,000 and CGT at £147,500 on the assumption that BADR is elected for on the disposal of the partnership interest.

1.8 We recommend that the hubs under Option 1 are operated as a company rather than a sole trader as this is more efficient for profit retention and extraction. This will allow you to retain profits for expansion via paying CT rather than the income tax rates. A corporate set up also allows you to limit your liability. However you will pay higher NICS, although this can be mitigated via taking a salary below the NIC threshold of 15% in combination with dividends which have no NICS.

1.9 Option 2 will not attract VAT or SDLT on bringing the site into the partnership, however there will be CGT, although this is unlikely to be high given the land was recently transferred for market value.

1.10 Option 2 will give rise to blocked input tax of £447,000 based on the fact that the

onward supplies are exempt rentals. This input tax can be recovered if the buildings are later sold, and this should be done by way of an adjustment. Based on estimated figures and the onward sales being zero rated, this would allow input tax recovery of £335,056.

1.11 Option 2 involves taxable income streams (holiday rental and service charge). Therefore this business will be partially exempt for VAT purposes. Based on calculations, the estimated partial exemption percentage over the next 3 years is 45%. This has the immediate impact of restricting input tax for the costs related to both income streams. These income streams will also impact the rest of the partnership making the entire partnership partially exempt. Therefore consideration as to whether a special method should be used to ring fence this income is necessary.

1.12 The properties in Option 2 will be treated as investment stock in the Partnership accounts. If they are then sold, an appropriation will be made and the gain can be rolled over against the base cost of the stock to avoid needing to pay CGT, and income tax will be due on the profits.

1.13 Option 1 will involve higher SDLT and CGT charges compared with Option 2. However Option 2 will result in more blocked input tax compared with option 1 on the assumption that the exempt rental will continue. Option 2 has higher investment costs upfront but leads to greater investment value in the future.

1.14 Both Options are similar from a tax perspective, with Option 2 perhaps being more tax efficient on the basis an eventual sale is made (which will allow the blocked input tax to be recovered).

1.15 We recommened Option 2 is chosen if you wish to continue the business and would like higher returns and more certainty in the future. However we recommend Option 1 is

chosen if you do not mind having lower returns in the future, but you are pursuing your dream. However we only recommend Option 2 if you set up a company and do not recommend you operate this business as a sole trader due to tax and liability issues.

Tax Implications resulting from Inheritance from Zia

Inheritence of Partnership Trade and Assets

VAT

There are no VAT implications on the inheritance of the trade and assets from Zia given that VAT is levied on goods and services and the transfer of trade and assets by way of partnership share is not within the scope of VAT.

CGT

The inheritance of the trade and assets was a CGT disposal for Zia, therefore his estate will have handled the CGT implications of transferring his shares to you. On the assumption that gift relief was not elected for at the time given the sudden passing, there will be no reduction in the base cost of the trade and assets. This will mean gains on any future sale of these assets by you will be based on the base cost at market value on inheritence.

SDLT

SDLT is payable on purchase of a chargeable asset which is land and buildings. Given Zia's 25% share of the partnership includes land and buildings this would give rise to SDLT as your inheritence includes acquiring his share in the land and buildings.

However, under the Sum of lower proportion rules for SDLT, if persons are connected in a partnership the value of the share holding includes all connected people. This means that when you look at the Partnership interest in the land before Zia and after Zia's death, both figures are 100% as all parties are connected. Therfore the Sum of lower proportions rules mean that the chargeable interest is 100-100, which is 0. Therefore there is no SDLT to pay on this transfer.

Inheritence of the Maynard Keats development site

VAT

For VAT purposes, the inheritence of 50% of the development site is a gift under inheritence tax rules and would usually fall outside the scope of VAT unless there was anti-avoidance. In any case given there was no Option to tax on the land, the transfer will be exempt from VAT so no VAT would charged on the inheritence of the land.

SDLT

SDLT would be due on the transfer of land given that this would be a chargeable interest. As you are a connected person to Zia the value for SDLT purposes would need to be made at market value. We understand you have obtained a valuation of £4million. Given the land is bare land it will fall under the non-residential rates which attracts a lower level rate than residential rates for SDLT purposes. Accordingly, the SDLT payable as per

Appendix 1 is £187,500, which would result in you paying £94,750 as you own a 50% share in the land.

It should be noted that the Sum of lower proportions relief does not apply in this case as Zia owned the land outside the partnership.

SDLT should be paid and notified to HMRC within 14 days of acquiring the land. On the assumption that this has not been notified to HMRC as we have not recieved communication this has been actioned, we recommend that this is reported as soon as possible to mitigate any penalties or interest accruing.

Tax and commercial implications under Option 1

VAT

Based on the projected figures of your current sole trader operation and the income in year 1, we expect you will exceed the VAT registration threshold as a sole trader within the first year. Whilst you can delay registering for VAT to keep the prices low for your customers, the projected project is likely to result in signficant VAT costs which will only be recoverable if you are registered for VAT. We recommend registering for VAT as soon as possible as this will enable you to recover VAT incurred pre-registration. There are rules which only allow recovery of pre-registration input tax on services for six months pre registration, and four years for goods on hand at the date of registration.

As per Appendix 2 the projected VAT cost of £432,120 is at stake as the construction is estimated to take nine months with the service elements subject to the six month window therefore to avoid losing recovery of this VAT it is recommended you register for VAT

as soon as possible taking into account your other business and the pricing implications.

On the assumption that the greenfield site is being sold without an option to tax, this will not attract VAT and any further VAT issues such as the capital goods scheme. However if the land is being sold with an option to tax in place then VAT will be chargeable on the land which will in turn increase the level of SDLT payable as SDLT is paid inclusive of VAT. Furthermore, as the projected land cost is £750,000, this is above the Capital Goods Scheme threshold of £250,000. This would mean the land would then become a capital goods item for VAT purposes.

A CGS asset is monitored for 10 years and the associated input tax recovered on the asset at purchase is monitored over a following nine intervals based on taxable or exempt useage of the property. As outlined (below), there appears to be some indication that useage of the property will not be entirely taxable, and therefore CGS adjustments will be required. As such, it would be necessary to confirm whether the land is being sold with an option to tax. Furthermore, you based on the proposed development being commercial in nature, you will not be able to disapply the option to tax, therefore it will be important to confirm this point with the vendor.

The construction works for the hub will not benefit from any of the lower rates of VAT given that the construction does not qualify for residential useage. As such we expect that both the building materials and construction costs to be standard rated for VAT purposes. The construction costs will fall under the Construction Industry Scheme provisions if you register for VAT as I am sure you are aware given your involvement with ZRID Construction. Therefore the domestic reverse charge applies, which is where the customer accounts for the VAT rather than the supplier. This means you would account for VAT on box 1,4 and 7 of the return instead of the supplier accounting for VAT on the supply.

This is an anti-avoidance tool used by HMRC to combat missing trader fraud. However, given you are and end user, (you are not making any future supplies of construction services), you are able to provide the Blasket Builders with a certificate to confirm this. However we do not recommend you do this as you can benefit from the cash flow advantage if you use the reverse charge.

The different activites attract different liabilites for VAT. The physiotherapy work might be considered educational if provided by licenced professionals. The nutritional food and cafe might be zero rated provided certain conditions are met, therefore it will be important to confirm the correct liabilities for VAT purposes.

Consideration is needed as to whether the staff are employed or self employed as this impacts the liability for VAT purposes. If they are self employed then they will be providing supplies of services to you potentially subeject to VAT. If they are employed by you then they are providing a supply of service and VAT is outside the scope and they are treated as an employee and you will be liable to pay the relevant Nics and income tax via setting up PAYE.

The recovery of input tax will depend on whether taxable supplies are being made.

SDLT

SDLT will be due on the purchase of the site which will be at the non-residential rates as the site is bare land. As per Appendix 3 this will result in SDLT of £27,000. As mentioned earlier, this should be notifed and paid to HMRC within 14 days of acquisition via the SDLT return.

CGT

The disposal of your 32.5% share in the partnership will give rise to capital gains tax. Given you are retaining 5% share in the partnership and have held it for over two years, you can use Business Asset Disposal relief which allows you to pay 14% CGT up to a million. The remaining amount will be charged at the higher rate of 24%. You will retain 5% in the partnership so you will also be able to access BADR in the future if you decide to sell the remaining shares (on the assumption you have not used up the £1million lifetime limit). As per Appendix 6 this will result in a CGT charge of £147,500 if you opt for BADR on the whole £1million.

Operation as a sole trader or company

Operating as a sole trader vs a company has a variety of different direct tax issues.

If you remain operational as a sole trader, you will be charged income tax on your earnings from the gym at the non-savings rates of 20%, 40%, 45%. And you will also pay Class 4 Nics. You can opt to pay Class 2 Nics voluntarily if you wish. You income is taxed as you earn it via a self-assessment form and you cannot avoid income tax by not taking any drawings.

Furthermore, operating as a sole trader you will have unlimited liability. This means that your personal assets can be used to settle any debts.

Alternatively, operating as a company allows you pay corporate tax on your profits. The

corporation tax rate varies depending on you profit rates and you will fall within the small profit rate for year 2 and this will be charged at 19%. Your profit levels increase beyond this point so the corporation tax rate will be 25%. As a company, the profits can be retained within the company and used to further expand the company. You do not need to extract funds out of the company, which provides an advantage when compared with the sole trader model as you will have access to more funding. This will also enable you to borrow more money for future expansions.

The NICs payable are more expensive than as a sole trader with the Class 1 primary and Class 1 Secondary rates higher. Therefore this means that taking a salary using a company will be more expensive than if you took this out as a sole trader. However you can use a combination of salary and dividends to take money out. If you draw a salary under the 15% Nic rate you avoid this expensive charge, and you can take the rest of the money out via dividends. Given you are currently earning around £100k from the partnership you are a higher tax payer, so you will pay the 39% dividend rate.

Additionaly, operating as a Limited company allows you to create a corporate veil which means that your liability is limited to the company assets and your personal assets cannot be used to settle any debts.

Based on your current model we recommend you operate as a company given this will allow you expand more easily, obtain finance, limit your liability and reduce your taxes.

Tax and Commercial implications under Option 2

Purchase of the site

The relevant VAT and SDLT implications of acquiring the site were mentioned above, and result in no VAT (as no option to tax), and SDLT due.

Bringing the site into the partnership

VAT

Bringing the site into the partnership will not have any SDLT implications based on the sum of lower proportions. The transfer will not attract VAT as there is no option to tax on the site, therefore this will be an exempt sale to the partnership for VAT purposes.

CGT

There will be CGT implications of bringing the site into the partnership as you will both have been deemed to made a disposal to the partnership. However as you inherited the land at market value recently, it is unlikely there is any significant gain to pay CGT on.

Other VAT issues

The projected costs include VAT of £487,000. This VAT will not be recoverable on the basis that they are used to make exempt rentals. Input tax can only be recovered if it has a direct and immediate link to taxable supplies. However, if the intention changes as you have mentioned, and you sell the properties later, then the zero rating provisions will apply. If you sell the properties to individuals for a lease greater than 21 years then you can zero rate the supply as the first grant of a major interest. This means that you will be able to recover the input tax which has previously been blocked (subject to limitations as mentioned below). This is what is known as a clawback adjustment and can only be done

within six years of the initial use of an asset and this allows for changes in traders intentions.

The limitations to the recovery, as mentioned above are that the input tax must be apportioned over the entire period to recover the input tax only relating to exempt sales. Therefore the rental income should be compared against the sale income to work out the percentage, and then restrict the input tax accordingly. As per Appendix 4, an estimate would be that £335,056 of the previously blocked input tax would be recoverable if zero rated sales are made.

The VAT liability of the service charge should be considered in more detail as to whether this is a mixed supply for VAT purposes. Given that one service charge is levied which covers additional amenities which would usually be taxable this indicates a single supply of taxable services. Furthermore the service charge is not bundled in with the rental income, therefore it should be dealt with as a seperate taxable supply of income.

The holiday lets will not fall under the residential exemption as they are short term in nature and are akin to hotel, boarding or other accomodation as eclusively mentioned within the legislation. Therefore this will be a taxable income stream, and VAT should be charged on this letting income.

As a result of the above, the business will be partially exempt for VAT purposes. This is where both taxable and exempt sales are made. Based on Appendix 5, the partial exemption percentage rate over the next 3 years will be 45%. This means that an input tax which relates to both the exempt and taxable activities (known as residual input tax), will need to be recovered according to the partial exemption percentage. This is ring fenced for this element of the property business, however this will have an impact of the entire

partnership partial exemption position. This can be mitigated if a special method is used, which would allow this property rental business to be treated as a seperate sector from the property development business which is fully taxable.

The expenditure involved appears to relate to both activities, therefore the VAT recovery on maintainence costs and and admin will need to be restricted accordingly.

Partnership Impications

Trading income tax and CGT

Given the properties are to be brought for eventual rental, they should not be held as trading stock. They should be held as investment stock in the accounts. The rental income will be form part of the parternship's trading income and will be subject to income tax in the usual way and this will be split based on the profit share agreement.

If the properties are later to be sold, they should be appropriated into the trading stock. This will result in a CGT tax charge as this will be seen as a disposal. However, the gain can be rolled against the base cost which results in a lower cost of stock value. This will then have the impact of resulting in a higher gain for income tax purposes. The eventual sale will be treated as trading income and subject to income tax rather than CGT.

Comparison of Option 1 and Option 2 and recommendations based on tax and commercial findings

Option 2 results in a higher financing cost upfront compared with Option 1 as Option 1 can be financed via sale of the shares in the partnership. However Option 2 also results in

higher projected income over the three years when compared to Option 1.

Option 1 will involve higher SDLT and CGT charges compared with Option 2. However Option 2 will result in more blocked input tax compared with option 1 on the assumption that the exempt rental will continue. Option 2 has higher investment costs upfront but leads to greater investment value in the future.

Both Options are similar from a tax perspective, with Option 2 perhaps being more tax efficient on the basis an eventual sale is made (which will allow the blocked input tax to be recovered).

We recommened Option 2 is chosen if you wish to continue the business and would like higher returns and more certainty in the future. However we recommend Option 1 is chosen if you do not mind having lower returns in the future, but you are pursuing your dream. However we only recommend Option 2 if you set up a company and do not recommend you operate this business as a sole trader due to tax and liability issues.

We trust the above report has answered your points in detail, however please let us know if you would like to discuss any of the points in more detail.

Appendices

Appendix 1

SDLT:

150,000 @ 0% = £0

100,000 @ 2% = £2,000

3,750,000 @ 5% = £187,500

Total SDLT = £189,500

50% share = £94,750

Appendix 2

2,160,600 @ 20% = £432,120

Appendix 3

150,000 @ 0% = £0

100,000 @ 2% = £2,000

500,000 @ 5% = £25,000

Total SDLT = £27,000

Appendix 4

Rental income ; 2,031,245/6,500,000 = 31.2%

blocked Input tax: 487,000 @ 31.2% = £151,944

Recoverable input tax: £335,056

Appendix 5

Exempt income over 3 years: 1,129,880

Taxable income over 3 years: 95,490 + 805,875 = £901,365

PE percentage = Taxable/total = 901,365/1,129,880 + 901,365

PE % = 44.3 = 45% (rounded to nearest whole number)

Appendix 6 :

CGT disposal ; 2750,000 @ 37.5% = 1,031,250

CGT @ 14% for 1 mil: 1,000,000 = £140,000

CGT @ 24% = 31,250 = 7500

Total CGT = £147,500