

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

VAT and Other Indirect Taxes

May 2026

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2025/26 legislation (including rates and allowances) continues to apply for 2026/27 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a trainee tax adviser at Austen & Austin Tax Advisers, a firm of Chartered Tax Advisers based in the new town of Maynard Keats. You work for Evelyn Austen, the firm's Tax Partner.

Evelyn has received an email from Darius Azimi (**EXHIBIT A**), a partner in ZRID Construction, which constructs small-scale new housing developments and does general building work. It is a long-standing client of the firm. Darius and his brother, Iskander, have each recently inherited a 50% share in some land, which has just received planning permission for new-build housing.

Darius is now wondering about the best way to use his inheritance, and has identified two options, as follows:

Option 1: Darius would set up a chain of "fitness hubs", beginning with a site he has identified in Maynard Keats. He would sell his share in the land to help finance this plan.

Option 2: Iskander wants to bring the land into the partnership, and for Darius to work with him in using it to develop "build-to-rent" new housing. This plan would require external finance, as the land would be retained.

Darius has also inherited an increased share in the ZRID Construction partnership (**EXHIBIT A**).

The following exhibits are provided to assist you:

EXHIBIT A: Email from Darius Azimi, partner in ZRID Construction

EXHIBIT B: Outline Business Plan for Fitness Hubs

EXHIBIT C: Schedule of Financial Information for Option 2

EXHIBIT D: Pre-seen information

Requirement:

Write a draft report for review by Evelyn Austen, advising on the key tax and commercial issues arising from Darius's email.

EXHIBIT A

Email from Darius Azimi, partner in ZRID Construction

From: darius@zridconstruction.co.uk
To: evelyn.austen@austenaustin.co.uk
Date: 29 April 2026
Subject: Options for inheritance

Hi Evelyn

Good to chat to you yesterday.

I've set out below the basic idea for both the Options I mentioned. I've also attached two documents:

- 1) My own business plan for Option 1 (**EXHIBIT B**).
- 2) Some figures Iskander and I have drawn up for Option 2 (**EXHIBIT C**).

Before getting into the Options, I also wanted to give you a bit of background, as I am quite stressed about this decision, and wanted you to understand the full picture.

Background

As you know, my Uncle Zia died on 31 March 2026. We are very close as a family and his death came as a huge shock. Zia did not have a family of his own, and so under his will, my brother Iskander and I each inherited the following:

- 1) 25% share in the trade and assets of ZRID Construction.
- 2) 50% share in a development site on the outskirts of Maynard Keats.

The site outside Maynard Keats had been owned by Zia in his own name and it has never belonged to the partnership. No option to tax has been made over the site. Zia applied for planning permission several years ago and it finally came through shortly before he died. This means the land is now worth £4 million.

I have always been very keen on fitness and training – I even met my girlfriend, Beth, at a health and fitness event in London last year! As you know, having qualified as a personal trainer a while back, I set up a gym in my garage. I began taking in local clients and coaching them in physical fitness, either on an individual basis or in groups of up to five people. I think you will be surprised once you have my figures to prepare my accounts but the business has grown quickly and I turned over £30,000 in the 12 months to 31 March 2026.

This brings me to the two Options. One is about me following my dreams, and the other is about me staying close to my family and working with them. This is a really tough decision!

Option 1: Grow my fitness business

I've always dreamt of owning a chain of gyms, or "Fitness Hubs".

I would have my first Hub in Maynard Keats. I reckon I have found a good site not too far from the main shopping district where I can build and fit out the premises and have space for parking.

This first Hub would offer a high-spec gym, a swimming pool and facilities for physiotherapy and similar treatments. Some of the physiotherapists would work directly for the Hub, but others would operate on a self-employed basis. In addition to this, the Hub would also sell nutrition and health products and operate a small café/health bar. I would also offer opportunities to other personal trainers to hire out equipment and space for their clients. Self-employed physiotherapists could also hire facilities.

Once the first Hub is generating profits, I would begin work on a second Hub in the neighbouring town of Layton Eaglet. I think there is a lot of pent-up demand there, as the only gym there is small and quite old-fashioned. Each Hub would follow a similar plan to the first one.

I am really excited by this idea, and so is Beth. However, as she is still training as a physiotherapist, she definitely wouldn't have time to help out in the early years. If things work out, though, she is hoping to be able to offer physiotherapy services herself at the Hubs in due course.

Continued

Continuation

My big concern is that Option 1 would mean I would have to cut back my involvement in ZRID Construction. I have discussed reducing my holding in the partnership to just 5%, selling the balance to Iskander and my Dad. They are open to making it work, but they would prefer me not to do this.

I would obviously also sell my share in the development site. I would want Iskander to have the first chance of buying it. If he could not, I would sell it to a third-party on the open market.

ZRID Construction does have quite a bit of cash (**EXHIBIT D**), which could be used to buy me out, but Iskander would have to borrow money to pay for my share of the land. I don't know how easy that would be to sort out, although he does have a good relationship with the Bank.

Option 2: Grow ZRID Construction

This is really Iskander's idea, but he and I have discussed it in quite a lot of detail.

Until now, ZRID Construction has always focused on small-scale new builds, with extension work contracts and some small-scale commercial building as well.

However, Iskander thinks we can achieve more and that we should take a new direction. His plan is to bring the development site into ZRID Construction. We would then use it as a base to expand our activities into "build-to-rent", with any capital and income profits shared in the normal partnership ratios.

The past couple of years, Iskander has been involved with a couple of other developers on his own account in this sector and it went really well.

Dad and I have both been impressed with how quickly Iskander got to grips with the build-to-rent business and how he has made some really good contacts in the market.

As you'll see from the figures attached (**EXHIBIT C**), we have drawn together some figures. The plan would require significant borrowings upfront – we reckon at least £2.8 million – but it could lead to excellent long-term returns for the partnership.

Summary

Just so you know, I should add that Iskander and I work really well together, and our skills complement each other. I've always been good at handling the financial and administrative side of the business, while Iskander is a talented builder and is also a very astute purchaser of stock.

To make my decision even harder, Uncle Zia said in his will that he hoped the two of us would keep working in the business he founded until we could pass it on to our own families. After losing Uncle Zia so suddenly, I also don't want to upset my Dad, who really misses his big brother.

I would like you to draw up a report for me, setting out what the big tax and commercial issues are, so at least I can make an informed choice.

Iskander has told me that he will be getting in touch with you to get his own advice in due course, so please just keep this focused on my own position and an overview of the firm's position.

Hopefully I have given you enough information to go on, but please let me know if you need anything else.

Many thanks

Darius

Darius Azimi
Partner, ZRID Construction

Continued

EXHIBIT BOutline Business Plan for Fitness Hubs

Each Fitness Hub would be built out as a separate phase. The figures below set out the basic details for the first Hub, intended for Maynard Keats. I have already identified a greenfield site which is being sold with full planning permission for commercial development. Relevant information is included below.

ZRID Construction doesn't have the experience in this sector to do the work itself, so I have asked a friend of my Dad's, Peter Blasket, who runs a building firm called Blasket Builders Ltd, to quote for labour and materials. The figures are included below.

I would expect the first Hub to take about nine months to build after construction began. I have set out the expected costs of building the Hub, as well as draft income and expenditure for the first three years. All figures are shown net of VAT.

As you will see, I would expect to be able to finance most of the construction from the disposal of my share in the site I have inherited, with some drawings from ZRID Construction to cover the balance.

I haven't decided if I should use a company for the Hubs.

Expected Outlays

<u>Item</u>	<u>Cost</u>
	£
Land	750,000
Professional Costs of Purchase	5,500
Building Materials	225,000
Construction Costs	900,000
Gym Equipment	250,000
Contingency	30,000
Total	<u>£2,160,500</u>

Expected Income & Expenditure for First Three Years

<u>Item</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Total</u>
	£	£	£	£
<u>Income</u>				
Gym Membership Fees	175,000	400,000	680,000	1,255,000
Physiotherapy Income	60,000	130,000	190,000	380,000
Facilities Hire Income from Personal Trainers and Physiotherapists	15,000	45,000	65,000	125,000
Nutritional Supplies Sales	40,000	75,000	110,000	225,000
Café Sales	60,000	100,000	125,000	285,000
Total Income	<u>£350,000</u>	<u>£750,000</u>	<u>£1,170,000</u>	<u>£2,270,000</u>
<u>Expenditure</u>				
Wages	180,000	280,000	360,000	820,000
Advertising & Promotion	100,000	150,000	185,000	435,000
General Expenses	120,000	180,000	240,000	540,000
Total Expenses	<u>£400,000</u>	<u>£610,000</u>	<u>£785,000</u>	<u>£1,795,000</u>
<u>Profit/(Loss)</u>	<u>(£50,000)</u>	<u>£140,000</u>	<u>£385,000</u>	<u>£475,000</u>

Continued

EXHIBIT CSchedule of Financial Information for Option 2Background

The intention is to build out three separate blocks of nine two-bedroom apartments on the site. Accordingly, the full development would consist of 27 apartments. The construction costs would be:

<u>Items</u>	<u>Net</u> £	<u>VAT</u> £	<u>Gross</u> £
Materials	2,000,000	400,000	2,400,000
Labour costs	1,750,000	-	1,750,000
Subcontractors	300,000	60,000	360,000
Architects' fees	85,000	17,000	102,000
Other professional costs	50,000	10,000	60,000
Total	<u>£4,185,000</u>	<u>£487,000</u>	<u>£4,672,000</u>

We will retain the apartments and let them out. Although we have no plans to do so, if we sold the entire development, we estimate that its value on completion would be £6.5 million, but this is obviously dependent on market conditions at the time of sale.

The apartments will be built to a high standard, and a mandatory service charge will be levied on residential tenants to cover the communal services.

Each block of apartments will also offer residents access to a gym in each block, a rooftop garden, and car parking. The service charge will cover this too.

We believe we could let out up to nine of the apartments on holiday-type lettings, and estimated rental figures are shown separately below (with no VAT as it is from letting residential property). The figures don't include a service charge for the proportion of the apartments used for holiday-type lettings.

We expect the building works for the three blocks to take about three to six months using modern construction methods, and so year 1 in the figures below shows six months' rental income, with a full year's rental income shown for each of years 2 and 3. A discount has been applied for expected vacancy rates.

Rents and service charges would increase by 5% per annum for the first three-year period.

We also calculate we will need a loan of about £2.8 million to supplement the cash available on ZRID Construction's balance sheet (**EXHIBIT D**) to finance the works. The Bank has indicated that the interest rate would be 6.1% for a 10-year loan. Interest charges are included below.

Expected Income & Expenditure for Build-to-Rent Project for First Three Years

<u>Item</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Total</u>
<u>Income</u>	£	£	£	£
Long-term Residential Rental Income	200,000	453,600	476,280	1,129,880
Service Charges	18,000	37,800	39,690	95,490
Holiday Letting Income	151,875	319,000	335,000	805,875
Total Income	<u>£369,875</u>	<u>£810,400</u>	<u>£850,970</u>	<u>£2,031,245</u>
<u>Expenditure</u>				
Annual Maintenance Costs	27,000	54,000	54,000	135,000
Interest on Bank Debt (6.1% per annum, amortised)	165,001	151,844	137,863	454,708
Additional Admin Expenses	1,000	2,000	2,000	5,000
Total Expenses	<u>£193,001</u>	<u>£207,844</u>	<u>£193,863</u>	<u>£594,708</u>
Profit/(Loss)	<u>£176,874</u>	<u>£602,556</u>	<u>£657,107</u>	<u>£1,436,537</u>

EXHIBIT D

Pre-seen information

Client Name: Darius Azimi

Date of Birth: 11 January 2002

Home Address: 17 Wheatfield, Maynard Keats, Hendleshire, MK17 8PP.

Darius is a partner in ZRID Construction. He started a sole trade business as a personal trainer in April 2025. Accounts have not yet been prepared for this business and it is not currently VAT registered.

ZRID Construction

ZRID Construction is a partnership formed in 2010 which builds small-scale new housing developments on greenfield sites it acquires, selling the houses to individual buyers. It also does general building work. The original partners were Reza (Darius's father) and Zia (Darius's uncle) who split capital and income profits equally. Iskander (Darius's brother) was given a 12.5% share by Reza in 2022 when he turned 21 and Darius was given a 12.5% share by Reza in 2023 when he turned 21.

Zia died on 31 March 2026 leaving his share of the partnership equally between Darius and Iskander. The split of income and capital profits of the partnership is as follows:

<u>Name</u>	<u>Until 31 March</u>	<u>Inheritance</u>	<u>From 1 April</u>
Zia	50%	(50%)	0%
Reza	25%	-	25%
Iskander	12.5%	25%	37.5%
Darius	12.5%	25%	37.5%
Totals	<u>100%</u>	<u>0%</u>	<u>100%</u>

Accounts have always been made up to 31 March. The latest draft accounts for ZRID Construction are shown below.

The partnership and all its members are clients.

The partnership is registered for VAT with stagger periods of June, September, December and March. It had its last inspection in September 2022; no issues were identified. The partnership has not made an option to tax over any of its property assets.

Draft Partnership Accounts for y/e 31 March 2026

Profit and Loss Account

	<u>Year ended 31 March</u> <u>2026</u>	<u>Year ended 31 March</u> <u>2025</u>
	£	£
Sales	2,711,334	2,377,968
Less Cost of Sales	<u>(857,425)</u>	<u>(788,100)</u>
Gross Profit	1,853,909	1,589,868
<u>Less Expenses:</u>		
Wages & Subcontract Labour	(843,679)	(797,431)
Other Construction Expenses	(121,812)	(119,231)
Administrative Expenses	<u>(79,225)</u>	<u>(68,477)</u>
Net Profit	<u>£809,193</u>	<u>£604,729</u>

Balance Sheet

	<u>31 March 2026</u>	<u>31 March 2025</u>
	£	£
<u>Fixed Assets</u>		
Land & Property	867,300	885,000
Plant & Machinery	383,199	377,642
Fixtures & Fittings	<u>33,174</u>	<u>23,125</u>
Total Fixed Assets	1,283,673	1,285,767
<u>Current Assets</u>		
Stock	621,942	474,897
Debtors	217,217	201,387
Cash at Bank	<u>1,673,096</u>	<u>1,358,999</u>
Total Assets	<u>3,795,928</u>	<u>3,321,050</u>
<u>Current Liabilities</u>		
Trade Creditors	88,644	97,412
Other Creditors	284,117	226,718
Accruals	<u>8,175</u>	<u>6,246</u>
Total Liabilities	<u>380,936</u>	<u>330,376</u>
Total Equity	<u>£3,414,992</u>	<u>£2,990,674</u>
Represented By:		
Partners' Capital Accounts	2,750,000	2,750,000
Partners' Current Accounts	<u>664,992</u>	<u>240,674</u>
Total	<u>£3,414,992</u>	<u>£2,990,674</u>