



Solicitors

Specialist Solicitor Accountants

Newsletter

Winter 2017

Introduction

Welcome to our Winter 2017 solicitor newsletter.

2016 seems to have been and gone in the blink of an eye. As I write this the degree of uncertainty in the UK economy is as high as I can remember. Brexit, coupled with a new President-elect across the North Atlantic suggests some interesting times ahead. How this will impact the UK economy and legal sector, only time will tell.

In this issue, we look at:

- SRA plan to simplify the SRA Accounts Rules 2011
- Making Tax Digital
- Is your legal structure right for you?
- Brexit and the new EU GDPR rules
- Rising wage costs for employers
- Cloud accounting
- Autumn Statement recap

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.



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Hawsons are specialist legal accountants

Hawsons is one of the few accountancy practices with a dedicated team specialising exclusively in the need of solicitors and legal professionals. We act for a large number of law firms across all three of our offices and offer a wide range of services which are tailored to meet their individual needs. Our legal client base consists of a multitude of firms of varying structure and size, from sole traders to limited companies and LLPs with corporate members.

Our specialists offer an all-encompassing service to sole traders, partnerships, companies, partners and LLPs. We are able to offer all types of compliance work and advice on non-routine issues, including personal and business planning.

For more information on our legal expertise, including the services we offer and our experience, please visit: www.hawsons.co.uk/solicitors



SRA plan to simplify the SRA Accounts Rules 2011

Over the course of the last 18 months, since the SRA announced that a three-stage process regarding the proposed new changes to the SRA Accounts Rules would be phased in, the Accounts Rules have been subject to some major changes.

The latest development, announced on 1 June 2016, is that the SRA is to begin consultation for the third (and final) phase of its review of the Accounts Rules. In this article, we continue our coverage and comment on the ambitious plans to simplify the Accounts Rules and look at the proposed changes and their potential impacts. Running in parallel with the consultation on the Accounts Rules, the SRA is also proposing to significantly shorten its hefty handbook and code of conduct, from over 400 pages to less than 50 pages.

Phase Three

Although Phase One and Phase Two have brought in some welcome changes, the third and final phase will involve a fundamental reconsideration of the Accounts Rules as a whole. Phase Three can be split into three core proposals:

Proposal 1

The main proposal of Phase Three is an overall simplification of the Accounts Rules, considerably reducing the number of rules whilst still maintaining the overriding principles that client money must be kept safeguarded and only be used for its intended purpose. The SRA has produced a draft of their proposed Accounts Rules, which runs to just six pages.

The legal sector is evolving at a faster pace than ever before and regulation needs to keep up-to-date to ensure that it is fit for purpose. The current Accounts Rules have not been reformed for many years, so this is of course a step in the right direction. A fundamental rethink of the Accounts Rules has been in the pipeline for quite some time with the SRA working towards an approach which is significantly more proportionate. This is a welcome proposal in meeting that goal.

Proposal 2

Under the new proposals, the definition of client money is to be changed to allow money paid for fees and disbursements for which the solicitor is liable (e.g. counsel fees) to be treated as the firm's money. Money held for payments for which the client is liable (e.g. Stamp Duty Land Tax) will, however, continue to be treated as client money.

A change to the definition of client money is one of most significant proposals of Phase Three. Following on from expanding exemptions in Phase One and Phase Two, a change to the definition of client money will see a greater focus on targeted regulation with an even greater number of firms being exempt from the requirement to obtain an accountant's report. This should go some way to reducing compliance costs, particularly for smaller law firms.

Proposal 3

The final proposal of Phase Three is to provide an alternative to the holding of client money through the introduction of clear and consistent safeguards around the use of Third Party Managed Accounts (TPMAs) as a mechanism for managing payments and transactions. The proposals add that clients wanting a higher level of protection could opt to pay by credit card.

Any changes that simplify matters must surely be welcomed, but they must also be in the client's best interests. The proposal of a TPMA is an interesting one, but it remains to be seen how it will work in practice and how client money will be safeguarded. Increased flexibility always needs to be balanced with client protection. The SRA admits that the use of TPMAs may therefore only be appropriate for certain types of clients or categories of work.

Next steps

The consultation for Phase Three closed on 21 September 2016. Analysis of responses to the consultation is now in progress.

The Hawsons specialist legal sector team provide in-house SRA Accounts Rules training courses – including a detailed overview of all 52 rules – for law firms of all sizes across the UK: www.hawsons.co.uk/solicitor-accountants/sra-accounts-rules-training-courses

Making Tax Digital

HMRC have recently published six consultation documents on the 'Making Tax Digital' strategy – the biggest shake-up of the personal tax system in 20 years. These documents set out HMRC's plans to move to a fully digital tax system by 2020, with the aim of making the tax system more efficient. The government first announced the project in the 2015 Budget but has now provided additional details of the proposals for consultation.

The consultation documents

The six consultation documents cover:

- Bringing business tax into the digital age
- Simplifying tax for unincorporated businesses
- The simplified cash basis for unincorporated property businesses
- Voluntary tax payments in advance of liabilities being due
- Tax administration
- Transforming the tax system through better use of information



In summary

HMRC plan to make fundamental changes to the way tax reporting is carried out. Business owners and landlords will be required to keep records digitally and update HMRC more frequently than is currently the case. These reforms will be introduced from April 2018.

By 2020 most businesses and landlords will have to use software or apps to keep their records and report to HMRC on a quarterly basis. Tax returns will be replaced by an End of Year declaration which will need to be filed within 9 months of the end of the period of account.

HMRC also intend to make changes to some of the underlying tax rules for businesses and amend HMRC's compliance and enquiry powers. This will include the introduction of a new regime for late submission penalties, late payment sanctions and proposals to align interest across taxes.

Those taxpayers who are likely to be exempt from the changes include:

- All unincorporated businesses and landlords with an annual income of less than £10,000;
- Charities and Community Amateur Sports Clubs (CASCs) and;
- Those who cannot engage digitally

Reaction

Craig Walker, Senior Tax Manager at Hawsons commented: "The proposals are radical and wide ranging, and clearly significant consultation is required. There are deep concerns within the profession and the business community that HMRC's plans are overambitious and unrealistic, the proposals will place additional burdens and costs on businesses, and the current timetable for implementation is unworkable."

"Although the concessions for businesses with income below £10,000 are welcome, much more still needs to be done by HMRC to address the legitimate concerns of businesses."

More on Making Tax Digital

Over the coming weeks and months, we will provide further details on the new initiative, commenting on the new consultation documents and what they mean to taxpayers and the personal tax system.

Is your legal structure right for you?

The Legal Services Act 2007 brought with it the possibility for Alternative Business Structures (ABS) to operate within the legal sector. In essence, it allowed non-lawyer managers to operate within and/or own law firms. Whilst this has been the case for some time now, the Jackson Reforms which came into force on the 1st of April 2013 have made some stop and have another look at their business structure.

In this article, we summarise some of the key points to consider when comparing the existing partnerships model to a Limited Liability Partnership (LLP). We then move on to consider the idea of incorporating a corporate member into your structure Partnership or LLP. Since the 6th April of 2001, LLPs have been a possibility for law firms wishing to reduce their liability, acting as a type of half-way house between partnership and limited company.

The LLP model was specifically designed in a manner that was attractive to existing partnerships in an attempt to minimise the disruption in the transfer from partnership to LLP. Partnerships and LLPs share many of the same traits, with a couple of key exceptions:

- LLPs are registered with Companies House and have annual filing requirements just like a limited company. There is therefore an increased onus on openness and transparency when it comes to reporting.
- The traditional partnership model comes with unlimited liability. Given rising PI costs this can be a somewhat perilous position. An LLP by contrast is regarded in law as a separate legal entity from the individual members (partners) and so gives increased protection to its members, in most cases putting only the member's capital and current accounts at risk (although there are exceptions). It should be stressed however that third parties such as banks often require cross personal guarantees from members within an LLP which can limit the effectiveness of reduced liability.

Although there are some very detailed tax issues to consider, in the main an LLP is taxed no differently from a traditional partnership. The members of the LLP are taxed as though they are self-employed; exactly as if they were partners in a partnership. There are many other factors to consider in determining whether to become an LLP or not, including the impact on existing commercial arrangements, the increased administration burden, perception by clients and associated costs.

Corporate members

One of the inherent limitations with both the partnership and, to a lesser extent, the LLP model, is that of being able to generate growth via external investment. The idea of a corporate member is a relatively recent concept and is usually created by setting up a limited company and allowing it to take (in most cases) a stake in an LLP. The members of the LLP would then have a stake in the LLP (no change there) and also a shareholding in the corporate member.

Legal practices going down this route can use this as a means of generating external investment into the corporate member which can subsequently use the funds to acquire smaller legal practices thereby growing the business through acquisition at a faster rate than would otherwise be achievable via organic growth. In addition to the investment opportunities, a corporate member also provides increased flexibility when it comes to rewarding employees through staff share schemes and can also allow provision to be made for retired partners. The latter is a particularly pertinent point given the difficulty that can sometimes be experienced when partners of an LLP retire.

In a corporate structure where a retired partner retains a share in the corporate member only, they can be rewarded from the business that they helped to grow, even after retirement. Structuring the ownership of the corporate member is something that must be given due care and attention and there are numerous tax implications which we will not go into in this article. However, a word of caution here, saving tax should not be the key driver behind the decision to register a corporate member and HMRC have become increasingly interested where they believe this to be the case.

The tax advantages of companies over LLPs and partnerships are still present in some cases but are not what they once were. The decision should be based on commercial reasoning to benefit the organisation as a whole.

Summary

Whether your structure works for you is something only you and your fellow partners can decide. In particular, the idea of a setting up a corporate member is something that must be given considerable thought.

Contact our specialists

At Hawsons we have a wealth of experience in dealing with different legal structures of all sizes and the numerous tax pitfalls and we consider each case on its merits after reviewing the information provided. No two legal practices are the same and what works for one may not work for the other. As members of HLB International, our expertise is not limited to UK operations and we have access to prompt and accurate advice on a worldwide basis.

Brexit and the new EU GDPR rules

The final text of the new EU General Data Protection Regulation (GDPR) was released in April 2016. Since this deals with the handling of personal data it is likely to apply to almost every law firm as you will hold personal information regarding your clients and staff as part of your everyday work. Whilst we are told 'Brexit means Brexit', it is highly likely that the UK will still apply the GDPR rules.

The new EU GDPR rules & Brexit - a brief summary

The new EU GDPR rules have been put forward to make Europe fit for the digital age, and for the UK are an update to the Data Protection Act. The EU GDPR rules will apply to all entities, regardless of where in the world they are located, which hold or use the personal data of an EU citizen.

The new EU GDPR rules come into law on 25th May 2018 and whilst it might be tempting to say the UK will not have to apply them, the likelihood is that we will. Irrespective of the form of Brexit the UK takes, the UK is likely to adopt the EU rules as the other alternative is to adopt UNECE rules (covering Europe, North America and Asia) which are very similar.

Irrespective of EU GDPR, the Law Society and other regulators it is just good business sense to take steps to protect the data of your clients and staff, above all your firm's reputation is at stake. Ideally, you should start to take action now to review current business procedures and implement appropriate measures ready for the new regime.

The rules bring radical changes to how organisations process personal data, giving greater protection to the public and greater powers to authorities to take action against companies that breach the rules. One of the most important changes EU GDPR stipulates is regarding the mandatory reporting of breaches.

Unlike the Data Protection Act, EU GDPR rules apply to a data processor in exactly the same way as a data owner and law firms cannot exclude themselves from responsibility or liability.

Data breaches will now be far more expensive than ever before, and where there is a breach and a failure to comply with the new regulations there will be fines of up to the greater of €20m and 4% of annual global revenue.

12 things you should be doing now to prepare for EU GDPR

The Information Commissioner's Office (ICO) has released a 12-step plan to help companies prepare for EU GDPR. It is important you begin to prepare for the new EU GDPR rules before the regulation comes into law on 25th May 2018.

You need to determine your risks and take the necessary measures before the new GDPR rules come into force. This is a process that could easily take two years.

Here are 12 things the ICO recommends you should be doing now:

1. Appoint a data protection officer
2. Raise staff awareness of the new EU GDPR rules
3. Implement procedures to detect, report and investigate data breaches
4. Audit the information you hold (including its source and use)
5. Review privacy information and implement appropriate changes
6. Consider individual's rights (including the right to be forgotten)
7. Update subject access request procedures
8. Establish and document your legal basis for processing data
9. Review consent mechanisms and implement appropriate changes
10. Incorporate data protection by design and privacy impact assessments
11. Update procedures for processing data about children
12. Determine the data protection authority for international organisations

As you can see, for a number of organisations there will be a lot of work to do and less than two years to get everything in order. Failing to do so could result in considerable fines and loss of reputation.

How we can help you

Our data protection experts have a great deal of experience in this area, working closely with businesses to implement information security management systems. If you are looking for help in this area, please get in touch with Charles Kavazy, Director of IT Services at Hawsons, on 0114 266 7141.

Rising wage costs for employers

National Minimum Wage

The government announced increases to the National Minimum Wage which came into effect on 1 October 2016, after accepting recommendations for the new rates from the Low Pay Commission (LPC).

The main National Minimum Wage rate (for 21- 24 year olds) has risen by 3.7% from £6.70 to £6.95 per hour, as the table below shows.

	Current rate	Rate from 1 October
21-24 year olds	£6.70	£6.95
18-20 year olds	£5.30	£5.55
16-17 year olds	£3.87	£4.00
Apprentice rate*	£3.30	£3.40

*This apprentice rate is for apprentices aged 16 to 18 and those aged 19 or over who are in their first year. All other apprentices are entitled to the National Minimum Wage for their age.

The table below shows the historic wage increases for the National Minimum Wage:

Year	21 and over	18-20	Under 18	Apprentice
2015	£6.70	£5.30	£3.87	£3.30
2014	£6.50	£5.13	£3.79	£2.73
2013	£6.31	£5.03	£3.72	£2.68

The National Living Wage

From 1 April 2016, following the introduction of the new National Living Wage, all workers aged 25 and over are legally entitled to at least £7.20 per hour. This was, however, until the Chancellor delivered his Autumn Statement, where he announced that the National Living will increase by a further 30p from April 2017 to £7.50 per hour. The National Living Wage rates are set to increase gradually alongside rises in the National Minimum Wage, and is projected to rise to more than £9 per hour in 2020.

A four-step checklist for employers following the announcements is:

1. Know the correct rate of pay (including the National Living Wage)
2. Find out which staff are eligible which rates
3. Update the company payroll and keep up to date with all the announcements
4. Communicate the changes to staff as soon as possible

Moving forward – more compliance for employers

National Minimum Wage and National Living Wage rates will now change every April, as opposed to every October and April respectively.

This is a positive change, but does mean that the above rates will only be effective up until 31 March 2017.

Following the introduction of the new National Living Wage in April 2016, and the imminent increase of the NLW, this will see be the fifth round of wage increases (in some form) in just two years. It is therefore unsurprising to see that many small (and indeed large) business owners are finding running their payroll an increasingly complex and time-consuming task. The compliance obligation on employers has never been greater and there has never been a better time to consider outsourcing your payroll.

Cloud accounting

Cloud accounting is the use of accounting software where your data and software is stored on the cloud rather than your hard drive. It can be accessed remotely from any device that has internet access, much like your internet banking. As your business grows, one of the key questions you will ask yourself is: “how can I prioritise my time?” and rightly so, with not having enough hours in the day is one of the key challenges many small business owners face. This is where Cloud accounting can help your business. Here are just a few ways where our online client accounting software can help your business:

Prioritise your time – online accounting brings new working practices. Bank fees that automate the postings into the software from entries on your electronic bank statement, the emailing of pictures of receipts on to your system and the scanning of supplier invoices all reduce the time in data inputting.

IT Services – The Cloud service providers deal with much of the IT maintenance such as the backing up of your data, installing software updates and this in turn reduces the need for on premise servers.

Flexibility – In today’s environment, people are mobile working outside of their office hours and away from their office locations, usually on mobiles or tablets or other devices. It is also essential that you can securely access business software and data as and when needed, wherever in the world that may be.

Moving to the Cloud couldn’t be simpler, working on the Cloud will give you the opportunity to reduce the amount of time you spend on tedious and time consuming administrative tasks, allowing you to concentrate on what you do best which is running and growing your business. After all, you started a business to run a business, not to be an accountant or a book-keeper. With Cloud accounting, you can do just that.

Our Cloud Accounting services

We will work with you to find out which Cloud accounting software best suits your needs. We work with a range of the leading traditional and Cloud accounting software providers:

- [Xero](#)
- [Sage One](#)
- [QuickBooks](#)

We will help you move to your new software and make the data transfer as automated as possible. Next, we will provide you with training on your cloud accounting software so you know how to use it efficiently and get the benefits as quickly as possible.

Ongoing Cloud accounting services

Once you are up and running we are available to help at any time answering any questions you may have. With your permission, we can log into the software at the same time as you and even take control of your screen to help you with any questions you may have.

How secure is the Cloud?

Charles Kavazy, Director of IT Services at Hawsons says: “It depends. Of course, that’s not a very helpful answer, but much depends on many factors including your attitude to risk, the nature of your data and the strength of the security including the processes carried out by the company hosting your data. Some people argue that storing your data on the Cloud can be more secure than storing it on your desktop or an on-site server. The level of physical and electronic security that Cloud service providers offer may be higher, depending on the risk involved, and the duplicated continuous backup processes of Cloud providers are probably going to be better than most businesses would implement.”

Wherever you store your data, there are always security issues, as Charles adds: “Most Cloud computing providers take great measures to ensure your data is safe, including backup power supplies, firewalls, data encryption software and regular, third-party security audits. They can also protect your data against floods and fires by having multiple servers in different locations.”

Charles summarises: “The Cloud service providers take great care to protect your data, but ultimately each business needs to consider its attitude to risk, the data being stored and the implications of a security breach. If you decide the benefits of the Cloud outweigh the risks and you are happy to accept the risk, then you need to ensure you choose your Cloud provider carefully and implement robust procedures to mitigate the risk of problems. For example, controlling access rights, regular password changes and training your staff on security risks.”

Autumn Statement

Philip Hammond presented what was to be his first and the last Autumn Statement on Wednesday 23rd November as he announced that going forward the budget will be in the Autumn with a Spring Statement replacing the current one. In this article, we summarise the key points arising from the Autumn Statement and focus on what the changes may mean for the legal sector.

In Summary (general)

- the government reaffirming the objectives to raise the personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of this Parliament
- reduction of the Money Purchase Annual Allowance from £10,000 to £4,000
- review of ways to build on research and development tax relief
- tax and National Insurance advantages of salary sacrifice schemes to be removed
- anti-avoidance measures for the VAT Flat Rate Scheme

In addition, the Chancellor announced the following pay and welfare measures:

- National Living Wage to rise from £7.20 an hour to £7.50 from April 2017
- Universal Credit taper rate to be cut from 65% to 63% from April 2017.

In the March Budget the government announced various proposals, many of which have been subject to consultation with interested parties. Draft legislation relating to many of these areas will be published in due course and some of the details may change as a result.

You can read our full Autumn Statement 2016 review here: [Autumn Statement 2016 Key Details and Summary](#)

In summary (Legal sector specific)

- Ministry of Justice (MoJ) announcement was reiterated to reduce whiplash claims. Insurers will be expected to pass on savings from the reduced number of claims through premiums.
- MoJ to be given up to £500m of additional to enable the recruitment of 2,500 additional prison officers. Wider reforms to the justice system expected.
- Confirmation of the scrapping of privatisation of the Land Registry.
- From April 2017 employees who provide evidence in court will not be required to pay tax on legal support from their employer.
- Government announce that they will legislate to clarify and improve certain aspects of partnership taxation. It is thought that the Government will announce that partnerships must decide their profit-sharing arrangements at the start of the tax year rather than at the end.

For more information on the Autumn Statement and how it might affect your business, please contact your local office



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SRA Accounts Rules Training Courses

SHEFFIELD | DONCASTER | NORTHAMPTON

Hawsons' specialist legal sector team provide training courses on the SRA accounts rules.

The sessions include:

- A detailed overview of all 52 rules
- Common breaches
- Current developments
- Quizzes