



Solicitors

Specialist Solicitor Accountants

Newsletter

Summer 2016

Introduction

Welcome to our Summer 2016 solicitor newsletter

Are we really half way through 2016? In our previous issue we noted an upturn in both fee income and profitability, albeit caveated depending on the work types engaged. We reviewed the new PSC Register requirements as well as looking at the current hot topic of cyber security and data protection.

In this issue we look at:

- All change for the SRA Accounts Rules
- Anti money laundering – action points and client due diligence
- Brexit: tax implications as the UK votes to leave the EU
- SRA Accounts Rules training courses
- Hawsons launch new exit planning service
- 4 tips for increasing law firm profitability
- The apprenticeship levy for large law firms

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



www.hawsons.co.uk



All change for the SRA Accounts Rules

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 closes on 21 September 2016. Responses should be completed using the SRA's consultation questionnaire – available on the SRA's website: <http://www.sra.org.uk/sra/consultations/accounts-rules-review.page>

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

Anti money laundering – action points, complacency and client due diligence



The SRA has recently issued its latest Anti Money Laundering (AML) Report which was generally encouraging in that it observed that most law firms seemed to display a positive attitude towards compliance in this area and were trying hard to meet their obligations. It is certainly our experience that our legal clients understand the need for regulation in this area and the possible consequences of non-compliance. Coupled with the increase in targeted attacks on solicitors through cybercrime and other hi-tech methods, it appears that the matter of AML is of increasing importance within the sector.

Whilst the report is largely complementary and finds that most of the firms visited had effective AML compliance frameworks in place, it does give some useful indicators of where some firms are falling down.

AML action points for solicitors

It may now be time for law firms to revisit their AML procedures to ensure they are fully up-to-date. For instance:

- When were the firm's AML procedures last reviewed and updated?
- Have there been any mergers or acquisitions since the AML procedures were introduced, and have policies and processes been updated to take into account the change in ownership and have they been effectively communicated to staff?
- Are all staff aware of who the firm's AML officer is (often the COFA or COLP but could be someone else)?
- Are staff and AML officers up-to-date with reporting procedures within the firm? i.e. some firms still report to SOCA instead of the National Crime Agency (NCA) to whom firms have had to report since the end of 2013.
- Is AML training up-to-date for all staff at varying levels and do training records demonstrate this?
- When performing client due diligence, are adequate checks of source of client's funds being undertaken? Is documentary evidence of this taken or do you rely on verbal representation from clients?

SRA warns firms against charging for money laundering checks

In regards to client due diligence, the rules state that a firm cannot charge a client for the time spent in their due diligence – some firms apparently have done this. However, in complex cases where time spent on potential client due diligence is high (e.g. the need to obtain overseas due diligence) it may be permissible to agree some element of cost be charged to the client. We realise there is much debate in this area with some commentators suggesting that a firm should be able to charge for such due diligence as it is a part of the cost of providing legal services.

The SRA also warns firms about AML complacency

Whilst the report is largely positive in tone SRA Chief Executive, Paul Philip, does warn against complacency, commenting: "...I am pleased that the overall picture is positive. But neither we, nor the firms we regulate, can be complacent."

The Law Society is the named supervisory body for AML but delegate some of their responsibility to the SRA and Philip used this issue in lobbying for full separation from The Law Society due to potential conflicts of interest.

Looking ahead

We expect the AML issue will remain in the focus of the sector as it moves to implement the 4th EU Money Laundering directive and the forthcoming inspection regime by the UK Financial Action Task Force. We will comment further as the matter develops.

Brexit: tax implications as the UK votes to leave



From the argument over selling bendy bananas to the threat of an emergency Budget, the EU referendum campaign has undoubtedly had its share of the headlines over the past couple of months.

The biggest headline now though is of course that the UK has voted to leave the EU.

So what happens next? Will the Brexit vote result in a complete overhaul of UK tax as we know it? The purpose of this short article is to briefly explore some of the potential tax implications of the UK's decision to leave the EU. It is important to stress that the impact of Brexit on UK taxes is extremely difficult to predict at this stage, since many questions remain unanswered.

VAT

The EU has certainly had a significant influence on the UK tax system, perhaps most notably with regard to VAT. VAT is essentially an EU driven tax and leaving the EU could result in significant changes to this area of tax. Whilst the UK may no longer be obliged to have a VAT system once post-exit terms have been agreed, it is fairly safe to assume that VAT will not be abolished given its contribution to the Treasury. The UK will, however be free to decide which goods or services are eligible for reduced rates or exemptions. Freedom from strict EU VAT rules could, for example, allow the government to remove the 5% VAT charge on domestic fuel that is currently required by the EU – a change proposed by the Vote Leave campaign during the referendum.

Even if no amendments are made to VAT law in the UK, there could be changes in how HMRC applies VAT legislation because interpretations of the VAT rules would no longer be bound by decisions made by the European Court of Justice. It is unclear at this stage how the VAT treatment of the UK's trade with the EU will be affected – this will depend on the terms the UK is able to negotiate post-exit. It may be that trade could continue in much the same way as before if the UK is able to obtain access to the single market, or alternatively UK exporters may be subject to EU import VAT and Customs duties.

The Brexit is likely to create winners and losers for both businesses and consumers.

Other taxes

A total overhaul of UK taxes is unlikely to happen because of Brexit alone. A large proportion of the UK's taxes are entirely domestic in nature, and the Brexit by itself won't directly change any of these. There may be small changes to the Gift Aid rules, which could affect UK taxpayers who wish to donate to EU-based charities. At present, UK taxpayers can make donations to EU charities and benefit from UK Gift Aid tax relief, however this approach could be changed post exit.

It will be interesting to see how the UK's existing commitment to international tax agreements will be affected, both in terms of corporate tax and increased transparency.

In summary

The UK tax system will probably remain largely unchanged following Brexit. The most significant changes are predicted to revolve about VAT, but most of these changes are expected to be gradually implemented and will emerge over time, as the UK negotiates post-exit terms. We will keep you updated. The real, practical tax implications of the UK's decision to leave the EU will vary from business to business. For more information, please contact your local office specialist.

SRA Accounts Rules training courses

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. Our SRA Accounts Rules training courses are suitable for all fee earning staff, compliance/risk officers, accounts and finance staff and practice managers working within a law firm.

These training courses have been created and specifically designed to help assist attendees not only with getting to grips with the basics of the SRA Accounts Rules but also with the more detailed aspects through a comprehensive refresher of the rules and related requirements, including common breaches and how to avoid them.

What do the courses include?

A detailed overview of all 52 rules

- Common breaches and current developments
- Quizzes

Duration, location and dates

- Our SRA Accounts Rules training courses usually last between 2 and 3 hours.
- The courses can be held at any time or day, depending on your firm's requirements.
- The courses can either be held at our offices (in Sheffield, Doncaster or Northampton) or at your offices.



How does it work?

If you are interested in registering your law firm for one of our SRA Accounts Rules training courses, please let us know on our website. Once you have submitted your enquiry one of our team will get in touch with you to discuss attendee numbers, dates, costs and times.

Register online at www.hawsons.co.uk/solicitor-accountants/sra-accounts-rules-training-courses

Hawsons launch new exit planning service

Hawsons are pleased to announce the launch of a new exit planning service. The service is aimed at owner managed businesses looking to realise the maximum value of their business as they exit the business in the next 5 years. It puts a structure to the advice and guidance that we have been providing to clients through our corporate finance function.

Pete Wilmer, Corporate Finance Partner at Hawsons, said: "Our expert exit planning service is designed for businesses of all types and sizes to help them ensure their business is ready for sale, at the best possible value."

"The advantage of our successful exit planning methodology is that it looks at the full spectrum of business functions – from processes, to marketing and intellectual property – to add real value to the business. Sometimes the true value of a business lies with an individual, rather than the business itself, and this is where we can work closely with business owners to set out a proactive plan to lower the risk for the prospective buyer and, in turn, increase the value of the business."

"Typically, selling a business is a once in a lifetime transaction – one shot to get it right – and, whilst the majority of business owners recognise that exit planning is an essential part of any business, it can be quite a daunting task. Our exit planning service is all about executing a plan over a period of time, looking at finances in advance and preparing the business for sale."

As part of our new exit planning service we are also launching a business attractiveness test. The test uses a series of tools to see if there are any areas that could improve the value of your business. Find more information and take the test at www.hawsons.co.uk/exit-planning

Business Value Attractiveness

50%

★ FREE ★

How attractive is your business to a potential purchaser?

Start Now

The graphic features a blue header with the text 'Business Value Attractiveness'. Below this is a circular progress indicator showing 50% completion, with a blue and orange color scheme. To the right of the circle is a blue ribbon with the word 'FREE' and stars. Below the circle is the question 'How attractive is your business to a potential purchaser?'. At the bottom is an orange arrow pointing right with the text 'Start Now'.

4 tips for increasing law firm profitability

The legal sector is an extremely competitive market and it can often be difficult to increase profitability and performance. However, as legal clients are continuing to demand more for less, law firms need to become more efficient and take steps to maximise their profitability for a greater return. Additionally, with the ongoing deregulation of the sector (including proposed plans to remove barriers to entry for Alternative Business Structures [ABSs]) the future is certainly not going to be business as usual for many law firms. The legal profession is today presented with challenges that are infinitely more difficult than ever before.

1. Innovation and diversification

There are major opportunities for growth out there for law firms that are able to bring a quick and flexible approach to the legal services that they provide. Now perhaps more than ever the opportunities to increase law firm profitability depend on the work types engaged and service delivery, with innovation serving as an essential driver. Loosely speaking, there are four main ways to innovate:

- Products and services;
- Pricing models;
- Service delivery, and;
- Internal processes and strategy.

For many law firms, innovation is becoming embedded as a core part of what they do and we are seeing a lot of positive innovation being done across the legal sector. In our experience, innovation in the legal sector is essential if a firm wishes to take advantage of some of the more profitable opportunities in an exciting but challenging market.

2. The era of information technology

Technology that streamlines client processes to increase law firm profitability is nothing new for the legal sector. Law firms have long adopted technology that facilitates secure file sharing, client knowledge portals etc, and these are now essential parts of service delivery and the client experience. In the future, it is likely that information technology will play an even greater role in the legal services market and will undoubtedly be a major focus of investment for law firms in the year ahead. Law firms will, however, inevitably find themselves more vulnerable to cyber breaches in the years to come, and need to be prepared for such attacks. Firms must implement robust internal standards and procedures to ensure that criminals do not undermine their financial standing and profitability. As well as the financial impacts this can have, firms must not lose sight of the reputational damage that can be caused.

3. Have a long term goal in mind

By keeping on top of finances and day-to-day business operations legal professionals have the opportunity to improve the firm, increasing its profitability and thereby improving the value of its services as well. The age profile of the sector is rising and many of those who are approaching retirement age have been instrumental in building and leading the practice in which they work. When they step down they leave large shoes to fill, which is why law firms must look to the future and set clear goals about how they can increase profitability in the long term, as well as the near future. A strong plan must be drawn up at the earliest opportunity.

Succession in law firms is an area we have covered in our previous issues www.hawsons.co.uk/succession-in-law-firms

4. Reduce administrative costs and utilise staff time

The burden of administration and compliance often takes up more time than it should. A key driver to increase law firm profitability, as with any business, involves the efficient utilisation of resources; for a law firm this often boils down to staff time. The challenge is to maximise the number of chargeable hours and reduce the amount of non-chargeable time. Linking with point 2 this can be achieved through the power of technology, allowing staff to focus on fee-earning tasks, instead of managing and inputting data on complex systems. In essence, technology enables more traditional and routine tasks to be automated, maximising chargeable hours. Reducing administrative costs could also include things like outsourcing of bookkeeping and payroll matters.

How we can help

This article only really scratches the surface of ways to maximise profitability. There is no “one size fits all” approach, but some answers are easier than others and some objectives are easier to achieve, whilst others can take longer. For more information, please get in touch with your local office specialist.

The apprenticeship levy for large law firms



In April 2017 the way the government funds apprenticeships in England is changing, with the introduction of the new apprenticeship levy. The government first announced the new apprenticeship levy in the 2015 Autumn Statement, but has since provided details on how the levy will work. This is an extremely important issue for large law firms in the UK.

How will the apprenticeship levy work?

Starting 1 April 2017, the apprenticeship levy will be set at a rate of 0.5% of an employer's paybill. Each employer will receive an allowance of £15,000 to offset against the levy, so only employers with a wage bill in excess of £3m will be affected. All employers operating in the UK with a wage bill of over £3m will therefore need to pay the new 0.5% levy, regardless of whether or not apprentices are employed. It is expected that 2% of UK companies will have to pay the levy.

What is the levy allowance?

As mentioned above, all employers will receive a £15,000 apprenticeship levy allowance. This allowance will operate on a monthly basis (£1,250 a month) and will accumulate throughout the year. Your allowance can also be carried forward if it is not fully used in one month so, for example, if your levy charge in month A is £800 you will not pay the levy and your allowance in month B will be £1,700. If your levy charge in month C is £800 you will again not pay the levy and your allowance in month C will be £2,150, and so on.

What about connected companies and groups?

Based on the additional details the government has now published, there appear to be wider consequences for connected companies and groups than initially expected. The government has confirmed that: "where a group of employers are connected they will only be able to use one £15,000 allowance" to offset against the levy. The group can elect which of the connected companies receives the £15,000 allowance. This is similar to the employment allowance connected persons' rule.

The government has also announced that it intends to introduce an amendment to the Finance Bill 2016 for the £15,000 levy allowance for connected companies. The amendment will mean that if a company is part of a group of connected employers, the group must decide what proportion of the levy allowance each employer in the group will be entitled to. This decision to split the allowance must be taken at the beginning of the tax year and will be fixed for that tax year.

It was initially drafted that the allowance could not be split between connected companies, meaning that many smaller groups would have had to pay the 0.5% levy. This amendment is therefore a positive announcement for smaller groups. Larger groups of connected companies, however, will still likely be caught by the apprenticeship levy....even those connected companies that have paybills below £3m when the group total paybill exceeds £3m.

How we can help

As you can see, the new apprenticeship levy brings some detailed and complex rulings, particularly for connected companies and could have wider consequences than originally thought. Whilst the apprenticeship levy will not start until 2017 and the draft legislation is subject to change (the government's guidance says further details on the apprenticeship levy will be released in June, October and December this year) we recommend that all organisations begin to examine if and how the new rules will affect them now. The team at Hawsons can guide you as you consider the impact that the new apprenticeship levy may have on your business. Our experienced employment tax specialists and an in-house payroll team can assist your business with preparing for the new levy, including preparing your payroll system, dealing with associated payroll administration, financial modelling and advising you on way of potentially mitigating the impact of the new costs. For more information, please do get in touch with your local office specialist.



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Find out more about how Hawsons can help your law firm.

Please call your local office or visit:

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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