



Solicitors

Specialist Solicitor Accountants

Newsletter

Summer 2015



www.hawsons.co.uk

Introduction

It is with cautious optimism that we welcome you to our summer newsletter for 2015. So far 2015 is continuing the trend set towards the back half of 2014, with many law firms reporting enhanced activity levels and subsequent profitability. This is not necessarily true across the sector as a whole however, and now more than ever depends on the work types engaged.

In this issue we look at:

- The pros and cons of incorporating your firm
- Is succession in law firms becoming a very real problem?
- Do you have adequate finance in place?
- Cyber security: how to make your law firm safe
- SRA Accounts Rules – what does the future hold?

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

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The pros and cons of incorporation

The default model for a solicitor practice was historically the partnership structure. However, since the introduction of the Solicitors' Incorporated Practice Rules in the early 1990s, allowing solicitor practices to incorporate, law firms are now also operating as limited companies and LLPs. The take up by law firms adopting the LLP model in the UK has been particularly impressive. Yet, many solicitors are still unclear on the pros and cons of incorporation and the costs of making the wrong decision for your practice.

Full incorporation can bring benefits to the firm, but there are some disadvantages that must be carefully considered. This article is a summary of some of the key considerations regarding incorporation for solicitors.

Limitation of liability

Sole trader/traditional partnership

Liability is unlimited

LLP and Limited company

For LLPs and Limited Companies, liability is limited to:

- The partner's capital account plus any unallocated profits; or
- The share capital in the company

An LLP also has joint and several liability for stamp duty land tax.

Personal liability can still fall on the members/directors if they are proven to have acted negligently.

Banks will often require personal guarantees for borrowing depending on the amounts involved.

Sale of practice

Sole trader/traditional partnership and LLP

Buyers will generally prefer to buy the assets and goodwill because it can mitigate the transfer of potential liabilities. This can happen on the purchase of shares, where a buyer acquires all the assets and liabilities in the company.

Limited company

Conversely, sellers usually prefer to sell shares. This is generally seen as cleaner to the seller and also avoids double tax pitfalls, whereby income is taxed within the company and then again on the individual.



Pension arrangements

Sole trader/traditional partnership and LLP

Limited to a personal pension arrangement (E.g. Stakeholder pension, personal pension or self-invested personal pension).

Limited company

A wider range of pension arrangements are available (E.g. Executive pension plan, small self-administered scheme or a group personal pension plan)

Other pros and cons

Full incorporation can bring benefits to the firm, but there are some disadvantages that must be considered. The structure of your firm and whether it works for you is something only you and your fellow partners can decide. If incorporation is the right route for your firm, Hawsons' specialist team can help you achieve that status as efficiently as possible.

This article has given a brief look at the pros and cons of incorporating. For more information on the impacts on:

- Flexibility
- Accounts requirements
- Taxation on profits and owners income
- Capital gains tax
- Inheritance tax

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Is succession in law firms becoming a very real problem?



A very real problem

The age profile of the legal sector is increasing. The huge wave of legal practitioners who entered the market 30 or 40 years ago are today of an age when they begin to contemplate phasing down or retiring altogether. These individuals have been instrumental in building, marketing and leading the practice in which they work and when they do step-down, they leave large shoes to fill.

In many cases these individuals have large client portfolios with whom they have built a relationship over a number of years. That overall contribution to the firm, both financially and strategically, should not be overlooked.

In our experience, transition plans are rarely in place, and where they are, they are often overly ambitious and myopic – failing to give a long enough lead time for successor partners.

But this is not entirely unexpected given the current economic climate. During the recession firms rightly focussed on short-term decision making, putting longer-term decisions, such as succession planning, on hold. The result we see today is a potential demographic problem on the horizon.

For a succession plan to be viable, law firms first have to buy into it. Practices are full of individuals who are top of their class when it comes to analysis and subsequent decision making. But a strong succession plan must be drawn up in such a way that it can be flexible to the developing practice's needs whilst remaining robust.

Key barriers to succession

Some of the key barriers to watch out for when it comes to a viable succession plan are as follows.

Lack of suitable successors

Do the next-in-line have the requisite desire, skill level and personality to make the step-up?

Upsetting incumbent partners

If partners are approaching retirement age but don't raise the subject themselves, there can become a tendency to ignore the issue to avoid any tension that may result.

Client retention

Clients enjoy stability and value the relationship that has developed over a number of years. By raising the issue of succession we automatically raise the prospect of change.

The lack of suitable successors is a particularly pertinent point when it comes to transition planning. It is often assumed the next generation want to become partners; however, it is presumptuous to assume their aspirations are the same as the incumbents. Work-life-balance and flexible working hours have become an increasingly important part of working in practice and, as a natural result, top candidates fluctuate between firms much more than they would (or indeed could) have done twenty years ago.

Looking ahead

Over the next five to ten years many law firms will be transitioning to the next generation.

It is therefore vital that law firms recognise the need for succession planning and determine over what time-frame the issue will arise. In this case, the old adage of 'failing to plan is like planning to fail' could never be more accurate.

Managing succession

If succession planning is a concern to you then please get in touch with your local office specialist.

Do you have adequate finance in place?

A financial forecast is invaluable in identifying potential funding issues in a timely manner so that these can be addressed before it is too late. It is much easier to raise finance in advance of an issue arising than waiting for it to occur. This demonstrates management competence, whereas attempting to raise finance at the last minute reflects poorly on management and makes it more difficult to secure funding.

Every business needs to plan ahead to ensure success, but daily pressures often delay the forecasting process. At Hawsons, we can help prepare a financial forecast, which enables you to forecast your profit levels and cash flow requirements and provide a benchmark against which you can measure your actual results. We will challenge the assumptions used and provide a sense check on the numbers based on our vast experience of helping clients go through this process.



Questions to ask yourself

- Acquisitions - does the business have access to sufficient resources to take advantage of any opportunities that arise during the year?
- Dividends/remuneration - How much free cash will be available to increase the rewards to the owners of the business?
- Potential losses - does the business have sufficient funding in place to cover potential losses?
- Cost savings - Where can costs be cut to improve profitability or reduce losses?

Cyber security: how to make your law firm safe

The COLPs, partners and practice managers of law firms hardly need reminding of the risks of data loss and the potential financial cost and reputational damage which can arise. Data breaches are regularly reported in the news and the SRA may well be focusing their efforts on cyber security and data protection when visiting law firms.

Here is what you should do about cyber security

There is a lot of information about what you need to do about cyber security but nobody is telling you how to do it until now.

To ensure your firm takes the necessary care of all the personal and confidential data of both your practice and your clients, you need to implement a Cyber Security Management System (CSMS). A CSMS is like the other systems and processes you have in your firm which ensure that all your staff know what they have to do and how to do it so that your client data is looked after and your firm's reputation is safeguarded.

A CSMS helps you:

- Set roles and responsibilities
- Identify and document the risks in your firm, using checklists and workbooks
- Link your risks to cyber security policies which are tailored to your business
- Train your staff on your risks and policies
- Check and document your staff's understanding of the risks and the training



Hawsons have a proven solution

Hawsons can help with all aspects of cyber security including the provision of a CSMS used by over 70 organisations including ICAS, the Institute of Chartered Accountants in Scotland. We also provide encryption products, policies, staff training and assessments.

Once your firm implements a CSMS and acts upon its findings you know that if your firm suffers a data breach your documented audit trail will demonstrate that you took all the reasonable steps that you could have done to prevent that breach.

Please give us a call for more information and a free, no-obligation discussion on how we can help you.

SRA Accounts Rules – What does the future hold?

A three-stage fundamental reconsideration

Following a consultation period, which ran between May and June last year, the Solicitors Regulation Authority (SRA) announced, in September 2014, that a three-stage process regarding the proposed new changes to the SRA Accounts Rules would be phased in. The proposed changes are being staged in three waves; Phase One took effect in October 2014, with Phase Two and Phase Three coming into force in April 2015 and April 2016, respectively.

Why the changes?

In May 2014, the SRA announced that they were reviewing the requirement for all firms of solicitors who hold client money to submit an annual accountant's report. The idea behind these proposals was that the obligatory 'one size fits all' process was viewed as disproportionate and added an additional regularity burden on law firms. It was hoped that these proposals, if implemented, would reduce costs and 'red tape' for law firms and they were therefore put forward for consultation.

The consultation period ran between May and June 2014, receiving 147 responses.

In summary:

- There was overall support for more proportionate and targeted regulation, however;
- The respondents felt that removing the mandatory annual accountant's report was not the answer.
- They also stressed that the proposal for the Compliance Officer for Finance and Administration (COFA) to sign annual declarations was of concern.

The final point is particularly noteworthy. As part of the changes, the SRA proposed that the COFA would be required to sign an annual declaration that they are satisfied the firm is managing the client account in accordance with the SRA Accounts Rules. This clearly placed an additional unwelcome burden on the COFA who in many cases was not a Partner within the firm.

Phase One

The first phase took effect from October 2014 and saw the SRA relax some rules on the filing of the accountant's reports. The principle change from Phase One was the removal of the mandatory requirement for firms to deliver an annual accountant's report under certain limited circumstances.

Phase Two

Phase Two will look to redefine the circumstances in which an accountant's report needs to be qualified and raises a more pressing question; what should the accountant be reporting on?

Although the outcome of the consultation (which ran until 28 January 2015) is unclear, it looks likely that the accountant will be required to exercise greater professional judgement in the detailed testing that they undertake. Subsequently, the accountant's report will be an 'opinion' as to whether the breaches are of a nature that reveals significant risk to client money.

Phase Three

The third and final phase will involve a fundamental reconsideration of the Accounts Rules as a whole, and is planned to come into force in April 2016. It may be that the very prescriptive and detailed rules are replaced with a more outcomes focussed approach.

What does this mean for me?

It will be interesting to see the forthcoming changes to the SRA Account Rules and the impact of Phases Two and Three. The next couple of years are likely to be a period of significant change both for accountants and their solicitor clients. Ensuring that your principles, COFA and staff stay up to date with the rules will be essential in this period of regulatory reform.

For more information on each of the three phases, please visit www.hawsons.co.uk/solicitors

SRA Accounts Rules Training Courses

Given the significance of recent developments and proposed changes to the current SRA Accounts Rules, it is important that your principles, COFA and staff stay up to date with the rules. The Hawsons specialist legal sector team provide training courses on the SRA Accounts Rules in each of our Sheffield, Doncaster and Northampton offices.

For more information please contact Simon Bladen on sib@hawsons.co.uk or 0114 266 7141. Further information can be found at the back of this newsletter.



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Find out more about our SRA Accounts Rules Training Courses.

Please call your local office or visit:

www.hawsons.co.uk/solicitors



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

