Solicitors

Specialist Solicitor Accountants

Newsletter
Autumn 2015

www.hawsons.co.uk

Introduction

Welcome to our Autumn 2015 Solicitors newsletter.

With the drama of the General Election firmly behind us, and with further changes on the horizon in the sector, it is with great pleasure that we bring you our latest sector newsletter for the legal sector.

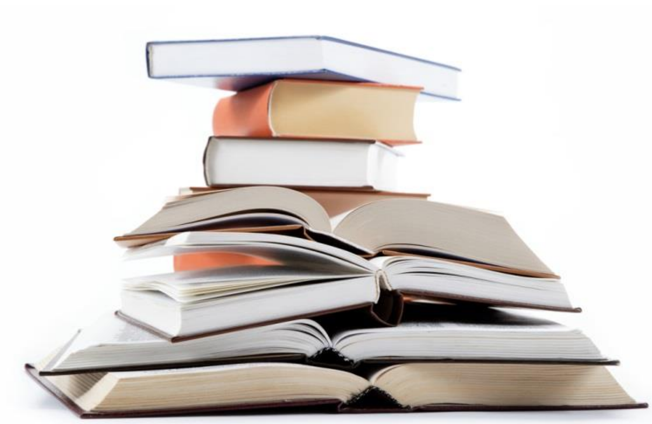
In this issue we look at:

- The importance of crisis planning for law firms
- Booming conveyancing market on the up again
- Big dividend income changes and the impact on incorporation for law firms
- Is now a good time for a business acquisition?
- SRA Accounts Rules – relaxation of Reporting Accountants' requirements?

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

Simon Bladen
Legal Partner

E: slb@hawsons.co.uk
T: 0114 266 7141
LinkedIn: www.linkedin.com/in/simonbladen
Twitter: @HawsonsLegal



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**

HLB International

INVESTORS IN PEOPLE

The importance of crisis planning for law firms

Whether you are an independent law firm with predominately local clients or a multiple office law firm with a national/international focus, it is vital you have a plan for when crisis strikes. All law firms are vulnerable to crisis, whether it be internal (e.g. a colleague stealing from the client account) or external (e.g. a virus leaking confidential data or a criminal posing as a bank security team).

Simon Bladen, Legal Partner at Hawsons, notes: "Crisis can strike at any point, in a number of different ways. Protecting client money is one of the golden rules of being allowed to practice as a solicitor, and the SRA take a very strict stance to ensure law firms adhere to sound risk management practices. But that isn't the only crisis law firms need to be thinking about. What if a senior management figure is taken ill and cannot return to work? What impact will the digital age have on a crisis? The importance of crisis planning for law firms cannot be understated."

Using scenario planning to prepare for the unexpected

Scenario planning is undoubtedly central to successfully managing a crisis, as Simon adds: "It is important to identify the scenarios (ideally around ten) that would create the most damaging internal or external crisis for the firm and then prepare a strategy for dealing with each of these. Through what channel(s) will the firm respond and what will the statement/message be? Who will be the firm's spokesperson? How will staff and clients be informed? What will be communicated to staff and clients? There are a number of questions that need to be considered for each crisis scenario. Pre-planning (e.g. pre-approving messages to the press, staff and clients) will mean you are better prepared to manage a crisis, and can focus on limiting and controlling the reputational and financial damage caused by a crisis."

"This really needs to be an evolving process. Fraudulent threats and the damage caused by a particular crisis will evolve over time. For example, the growth of the internet has significantly changed crisis planning for law firms."

Crisis planning for law firms in the digital age

The nature of what both constitutes and arises during a crisis is changing, or indeed has changed in recent years. This section is not devoted to how a law firm can protect itself from a crisis online – such as having social media policies in place and setting strong passwords etc. – but to how a crisis can quickly snowball out of control, and have long-term implications with growing internet usage.

A crisis can quickly become overwhelming: What was once word of mouth is now world of mouth. Bad news travels fast in the digital age, particularly with the growing prevalence of social media. The reputational damage that a law firm may suffer from a crisis is exponentially heightened in the digital age, and it can happen both very quickly and very easily. A 'tweet' that is sent out by the firm or a 'tweet' sent by an unhappy client can very quickly become viral and seen by millions across the world, for example.

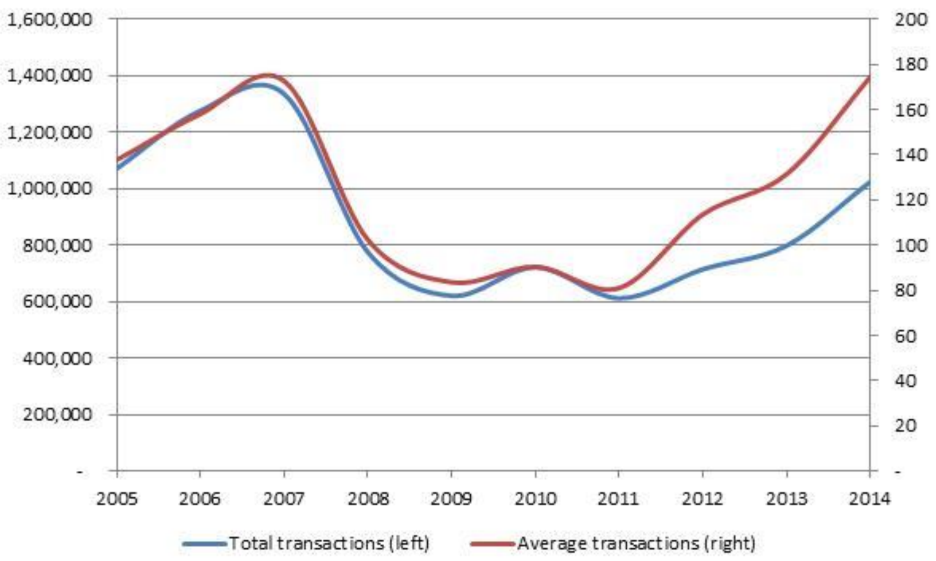
A crisis is not easily forgotten: Law firms, as with many businesses across the UK, are spending a great deal of time in enhancing their visibility on the internet. Where a law firm ranks on Google is quickly becoming a central management issue. It is a big contributor to the number of leads a law firm generates online. Google is where prospective clients often go to research your company, to look up your services or to make contact. A law firm's association with a crisis, be that a misguided tweet or insufficient risk management practices, is likely to be seen whenever its name is typed into Google. What impact will that have on the generation of online leads?

For more information please contact your local office specialist.

Booming conveyancing market on the up again

Safe as houses, as the old saying goes. As the housing market continues to recover following the devastating blow it was dealt during the 2008 recession, the conveyancing market is once again on the up. Conveyancing has continued to slowly recover since the sharp decline in 2008 and research now shows that the market is beginning to stabilise.

The conveyancing market has seen year-on-year growth since 2011



Residential property transactions over £40,000 have continued to grow in the years following the economic downtown; by 5.4% in 2012, 14.5% in 2013 and 14.9% in 2014. Although conveyancing activity (2014) has yet to reach the heights of the booming market in 2007, law firms are, on average, handling more conveyancing transactions than in 2007, research has indicated. In fact, the average number of transactions per law firm reached a ten-year high in 2014.

Image Source: Solicitors Journal

What factors are contributing to the growth of the conveyancing market?

There are a number of different factors that have contributed to the sustained comeback of the conveyancing market, including fewer competitors in the market, rising wages and the introduction of government incentives, such as the Help to Buy scheme and the Stamp Duty Land Tax (SDLT) reform.

Less competition: Following the recession in 2008, and the subsequent crushing impact on conveyancing, many specialist conveyancing law firms left the market; others cut the number of staff in that department (many of whom retrained). Those that stayed are now reaping the rewards of their commitment.

Help to Buy scheme: The Help to Buy Scheme, introduced in October 2013 to help first-time buyers and home movers on new-build homes in purchasing of up to £600,000, has undoubtedly contributed to the growth of the conveyancing market. Early statistics show that the scheme has help more than 17,000 households, with almost 90% of those being first-time buyers.

Rising wages: Wages are continuing to rise in the UK, with National Minimum Wage rising for the second time in twelve months on 1 October 2015. As I am sure you are aware, the government has also recently announced the introduction of a new National Living Wage for working people aged 25 years and above. Rising wages are, in turn, boosting both the appetite to buy and the average cost of a property in the housing market. Recent research indicates that UK property prices have risen by an average of 5.7% in recent months.

Changes to property taxes: There have been some big changes to property taxes in recent months, including Stamp Duty Land Tax (SDLT), the Annual Tax on Enveloped Dwellings (ATED) and ATED-related Capital Gains Tax (CGT). The change to SDLT on the purchase of residential property in December 2014 has, in particular, been a welcome announcement in the market. The effect of the changes means that all purchasers of residential property valued at less than £937,500 will pay less tax than they would have paid under the old rules. This has been perhaps one of the biggest contributing factors in the recent upward trend in residential property transactions.

Opportunities for growth in conveyancing

As both buyer demand and property prices continue to growth, almost simultaneously, there is a big opportunity for law firms to take advantage of the booming conveyancing market. With the market continuing to show signs of a strong recovery, particularly with first-time buyers getting onto the property ladder, and the uncertainty of the General Election behind us, the picture is largely positive.

Big dividend income changes and the impact on incorporation for law firms

The Chancellor, George Osborne, announced in the Summer 2015 Budget a shake-up in the way dividend income is taxed from April 2016. As the announcement has added to the complexity of the current dividend system the reaction has been, unsurprisingly, one of confusion over how the new tax will work in practice. The changes again raise the question of incorporation for law firms. The default model for a solicitor practice was historically the partnership structure, yet, in the last few years, the take up by law firms adopting the LLP model has been particularly impressive. Full incorporation can bring benefits to a law firm – as we have covered in our pros and cons guide to solicitor incorporation - but the recent changes to the way dividend income will be taxed is set to reduce the tax advantages of incorporation for many law firms.

How will the new tax work?

Following the announcement, all taxpayers will have, when the new tax comes into effect, a tax-free dividend allowance of £5,000 a year. The first £5,000 of dividend income in each tax year will be tax-free, and dividend income above this allowance will be taxed at 7.5% for basic-rate taxpayers, 32.5% for higher-rate taxpayers and 38.1% for additional-rate taxpayers. This will replace the current system, where those receiving dividends benefit from a tax credit. The tax credit means that basic-rate taxpayers are currently taxed at 0%, higher-rate taxpayers at 25% and additional-rate taxpayers at 30.6%. The changes are highlighted in the table below:

	2015/16	2016/17
Basic-rate taxpayer	0%	7.5%
Higher-rate taxpayer	25%	32.5%
Additional-rate taxpayer	30.6%	38.1%

It is also worth noting that the allowance will not completely exempt £5,000 of dividend from tax. Although no tax will be charged on the first £5,000 of dividend income, it will still count towards total income in determining which tax band applies to any additional dividends.

Will all individual taxpayers be worse off under the new regime?

No. While it's true that the new system will see many pay more, a new £5,000 allowance for all taxpayers and the removal of tax credits will create both winners and losers. The biggest losers may be those basic-rate taxpayers who receive more than £5,000 in dividends a year, large-scale investors and business owners who currently mix their remuneration between salary, bonus and dividend. The winners, on the other hand, will be small-scale investors who receive less than £5,000 dividends in a tax year and higher-rate taxpayers who have a dividend income below £21,667. We have provided some examples at: www.hawsons.co.uk/dividend-income

Is incorporation for law firms still worthwhile?

These changes will reduce the tax advantage of taking dividends rather than salary, but for most law firm owners it is still likely to be marginally more efficient. If your law firm currently operates using a limited company structure then now is a good time to review the planning and timing of your remuneration and profit extraction strategies. If you do not operate using a limited company structure then these changes will not affect you, but whether or not incorporation is still worthwhile is still a relevant question. In addition to the dividend income shake-up the Chancellor also announced further taxation changes which are likely to impact the tax advantages for law firms who incorporate, including changes to entrepreneurs' relief and corporation tax. These significant and continued changes will further impact the attractive tax planning opportunities for law firms operating using a corporate structure.

Whether or not incorporation for law firms is still worthwhile will depend on specific circumstances and whether it works for your firm is something only you and your fellow partners can decide. It is also important to note that when deciding whether incorporation is the right route for your firm, you must also consider other factors as well as tax, such as limited liability, pension arrangements and exit strategies.

For more information please contact your local office specialist.

Is now a good time for a business acquisition?

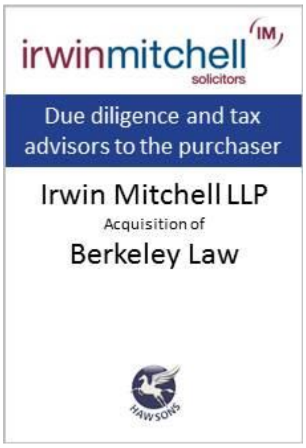
Over recent years the corporate acquisition market has been challenging for those wanting to complete deals. The appetite of funders to lend has been constrained and the price expectations of vendors have been relatively high as they hold on to notions conceived in the buoyant pre-2008 market. However, our experience on deals over the last twelve to eighteen months has led us to believe that the acquisitions market has now become increasingly attractive and that now is a good time to consider a business acquisition.

Is now a good time for law firms to be thinking about a business acquisition?

- Good quality businesses available at realistic prices – Many business sales were deferred during the recession waiting for the economy and funding markets to improve. Owners of these businesses are now looking to sell and recent transactions have shown that vendors now have more realistic pricing expectations.
- Funders have an appetite to lend – Bank's liquidity positions are substantially improved with a strong desire to lend and at lower interest rates than have been seen for some time.
- Preferential deal structures – There is now a general acceptance in the market place that deferred payment terms are required in order for vendors to achieve their price expectations whilst giving purchasers the confidence to invest.

How Hawsons Corporate Finance can help

At Hawsons Corporate Finance we have an experienced team of deal makers who have worked on 15 transactions with a total value of £70m over the last eighteen months, including:



For more information on our latest deals, including a range of case studies, please visit www.hawsons.co.uk/latest-deals

We have the flexibility to tailor our services whilst being able to offer a full deal advisory service including, identifying targets, initial approach, negotiation of terms, due diligence, tax efficient structuring and raising finance. As well as the technical excellence you would expect as qualified chartered accountants the team also works closely with the in-house tax specialists at Hawsons and has extensive experience in both industry and corporate banking, bringing a broad perspective to our advice and service.

If you are thinking about a business acquisition please give Pete Wilmer a call on 0114 266 7141 or email at pjw@hawsons.co.uk.

SRA Accounts Rules – a relaxation of Reporting Accountants' requirements?

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 details of Phase Two have recently been announced.

Phase Two – Reporting Accountants' requirements relaxed

In March we looked at how Phase Two will redefine the circumstances in which an accountant's report needs to be qualified and raised a pressing question; exactly what should the accountant be reporting on? Following an announcement by the SRA, on 15 July 2015, the changes to the format of the accountants' report for solicitors' practices are set to relax from the existing rigid requirements. This should be a welcome announcement for law firms across the UK, both small and large.

The principle changes planned are as follows:

- Accountants will no longer need to qualify reports for trivial breaches of the rules but will instead be able to focus on risk to client money.
- A further tier of low risk firms will be exempt from the requirement to obtain an accountant's report.

Accountants encouraged to use their professional judgement

The first of the planned changes announced by the SRA will see accountants given more scope to exercise greater professional judgement in the detailed testing that they undertake, as well as the removal of the need to qualify reports for trivial breaches of accounting rules.

Accounts burden to be lifted from over 1000 small law firms

The second change, benefiting smaller law firms, will see the SRA expand the exemption (which currently only includes firms dealing exclusively with legal aid) to include all firms with an average account balance of less than £10,000 over a year and a maximum account balance of £250,000.

What does this mean for law firms in the UK?

Simon Bladen, Legal Partner at Hawsons, said: "The changes, if approved by the Legal Services Board, will indeed give accountants the scope to provide a more risk-focused, audit style approach to reporting; advising firms on potential risks and ensuring greater value for money for law firms. The changes will move away from the obligatory 'one size fits all' approach which was, and is still, viewed as disproportionate and one that adds an additional regularity burden on law firms. Moving away from this disproportionate approach is the principle aim of the three-phase process."

"These planned changes to the SRA Accounts Rules are certainly a step in the right direction, particularly the mitigation and relaxation of the mounting regulatory burden on smaller firms who are relatively low risk. The SRA are working towards an approach which is significantly more proportionate and fit for purpose, and these are welcome changes in meeting that goal."

"The SRA also confirmed that Phase Three, which is likely to involve a fundamental reconsideration of the Accounts Rules as a whole, will begin in Autumn 2015. The next 12 to 24 months promise to be particularly important for both accountants and their solicitor clients and it is crucial that your principles, COFA and staff stay up-to-date with the rules in this period of significant regulatory reform."

If the planned changes are approved by the Legal Services Board, the amendments would form part of Version 15 of the SRA Handbook, which is set to go live on 1 November 2015, and will apply to firms whose accounting periods end on or after that date.

For more information please contact your local office specialist.

Autumn 2015

Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

Your local specialist:

Sheffield

Simon Bladen
Partner
0114 266 7141
slb@hawsons.co.uk

Doncaster

Martin Wilmott
Partner
01302 367 262
maw@hawsons.co.uk

Northampton

Richard Burkimsher
Partner
01604 645 600
richardburkimsher@hawsons.com

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

Please call your local office or visit:

www.hawsons.co.uk/solicitors

Sheffield
0114 266 7141

Pegasus House, 463a Glossop Road, Sheffield, S10 2QD

Doncaster
01302 367 262

5 Sidings Court, White Rose Way, Doncaster, DN4 5NU

Northampton
01604 645 600

Jubilee House, 32 Duncan Close, Moulton Park, Northampton, NN3 6WL

HLB International

INVESTORS IN PEOPLE

Register to receive this edition quarterly:

www.hawsons.co.uk/newsletter