Solicitors

Specialist Solicitor Accountants

Newsletter
Spring 2016

www.hawsons.co.uk

Introduction

Welcome to our Spring 2016 solicitor newsletter

It looks set to be an interesting year for the sector. We are starting to see a slight upturn in both fee income and profitability within law firms, although now more than ever it depends on the work types engaged. There are certainly opportunities for growth out there for law firms that are able to bring a quick and flexible approach to market opportunities. Diversification is also key.

In this issue we look at:

- Deregulation of the legal sector…where next for solicitors?
- Changes to pensions tax relief for high earners
- Latest changes to the SRA Accounts Rules
- Under the radar – the new PSC Register requirements
- Budget news 2016
- Cyber security seminars for 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.

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

Deregulation of the legal sector… Where next for solicitors?

The legal sector in the UK is currently finely balanced; the SRA Accounts Rules are undergoing unprecedented and radical change, the age profile of the sector is rising, there are mounting regulatory burdens and changing consumer needs are transforming the once rigid and inflexible business models that law firms had in place for many years.

The legal sector is in a period of both challenging and exciting change, but even greater deregulation may be just around the corner.

The government announced in December that there will be a consultation in the Spring to discuss deregulation of the legal sector, including plans to remove barriers to entry for Alternative Business Structures (ABSs) and ensure the legal regulators are independent from their representative legal bodies.

In the publication document announcing the proposals, the government said: "This will create a fairer, more balanced regulatory regime for England and Wales that encourages competition, making it easier for businesses such as supermarkets and estate agents among others, to offer legal services like conveyancing, probate and litigation."

Removing barriers to entry and allowing ABSs – such as supermarkets and estate agents - to offer legal services in England and Wales will of course ensure greater choice and opportunity for consumers, but what does it mean for solicitors and legal professionals?

Catherine Dixon, Chief Executive of the Law Society, commented: "People who are the most qualified and trained (solicitors) are the most regulated, and people who may not have any legal qualifications or training are the least regulated. We think that regulatory rules which should set the minimum rules and necessary protection for clients have become confusingly mixed up with professional standards."

Comment

Simon Bladen, Partner at Hawsons, commented: "The implications of such major deregulation of the legal sector would of course be significant and, to be honest, it would raise some very real concerns about the future. This will be an extremely important issue over the course of the next five to ten years."

The legal sector was for many years a largely closed, self-regulated market, but that all changed under the Legal Services Act 2007.

Since that reform some 400 ABSs have now entered the market – particularly (initially) in the personal injury field - and that number is likely to increase considerably if the new ABS legal services proposals go ahead. So, where next for the legal sector?

Simon added: "The legal sector is a highly qualified and highly regulated sector and protecting the prestigious reputation of a 'solicitor' is absolutely fundamental. If there is a true opportunity to make the current regulatory system simpler and more pragmatic then reforms should be welcomed, but they should certainly not lead to a dilution of professional standards."

"The government and SRA must take a holistic approach to any deregulation of the legal sector and be careful to not invoke a consumeristic approach; making legal advice as inexpensive and as accessible as possible. That would bring more harm than good, to law firms and their clients."

"We have to wait and see what the outcome of the consultation is later this year, but one thing is for sure: business as usual is not going to be an option for many if the ABS legal services proposals do go ahead."

Changes to tax relief on pensions for high earners

If you are a higher earner, pension contributions can be a very tax efficient way of saving for your future. However, changes are due to come into force from 6 April 2016 which will reduce the relief available for some individuals with high incomes.

The changes

Generally personal pension contributions, whether you are a basic, higher or additional rate taxpayer, receive basic rate tax relief of 20% (subject to the maximum requirement of the higher of £3,600 per annum or 100% of net relevant earnings, which is explained below). The basic rate relief is paid directly into your pension pot by the government, i.e. £8,000 paid in by you equates to a total gross contribution of £10,000.

Higher or additional rate taxpayers can claim further tax relief up to a total of 40% or 45%, i.e. a further £2,000 or £2,500. Following the previous example, this means you could receive total tax relief of £4,000 or £4,500 on a net contribution of £8,000.

Pension contributions can also mitigate the loss of your tax free personal allowance. If your income exceeds £100,000 you lose £1 of your allowance for every £2 of that excess, meaning you could be paying at a marginal tax rate of 62%! Pension contributions reduce what is known as your 'adjusted net income' for these purposes. Therefore, you could potentially retain all of your personal allowance if you make large enough relievable contributions.

Similarly, if your income exceeds £50,000 and you are affected by the child benefit clawback charge, pension contributions will reduce your adjusted net income for these purposes and could therefore mitigate the loss of your child benefit.

The amount of personal contributions you can receive tax relief on is restricted firstly by your 'net relevant earnings', which includes income from employment, self-employment, partnerships, etc. but not things like income from investments, rental properties, etc. You can receive tax relief on pension contributions up to the gross equivalent of your net relevant earnings each tax year.

The annual allowance also limits the tax relief you can receive on your contributions. It is currently £40,000 (having previously been as high as £255,000 in 2010/11). You can carry forward unused amounts of annual allowance from the previous 3 tax years, providing you were a member of a registered pension scheme during the earliest year. Employer contributions are also included when calculating total contributions made for the purposes of the annual allowance.

From 6 April 2016, the annual allowance will be reduced for those with incomes exceeding £150,000 by £2 for every £1 over this threshold. The minimum annual allowance will remain at £10,000, therefore even if your income exceeds £210,000 you will still be entitled to £10,000 of allowance. Income for these purposes includes employer contributions and some types of personal contributions.

The amount of annual allowance available for each tax year was previously calculated by reference to the 'pension input period' ending in the relevant tax year. The Summer 2015 Budget announced that these periods would be aligned with the tax year end from 6 April 2016. Transitional rules were also announced for the 2015-16 tax year, which means that individuals can **potentially** benefit from up to £80,000 of annual allowance before 5 April 2016.

Action points

If you do not already have a pension scheme, you may wish to consider setting one up to take advantage of the tax relief which is currently available. If you are already contributing to a pension, you should review the level of your contributions before 5 April 2016 in order to take advantage of unused allowance brought forward and the potential £80,000 annual allowance, if it is applicable to you.

We would be very happy to assist and discuss how the changes to tax relief on pensions for high earners impact you, so please contact us.

The latest changes to the SRA Accounts Rules

You may remember some of our previous articles regarding the changes to the SRA Accounts Rules following the announcement in May 2014 that the regulatory body were reviewing the requirement for all firms of solicitors who hold client money to submit an annual accountant's report. Following that review, the SRA proposed that the significant changes to the SRA Accounts Rules would be implemented using a three-phrase approach of regulatory reform, which commenced in October 2014.

We discussed Phase Two, the relaxation of Reporting Accountants' requirements, in detail when the initial plans were announced in July 2015. Those changes to SRA Accounts Rules were, however, subject to approval from the Legal Services Board.

Rule 39 now replaced by Rule 43A

That approval has subsequently been granted, meaning that these further changes to the SRA Accounts Rules (Phase Two) will take effect for accounting periods ending on or after 1 November 2015.

Rule 39 was previously removed and replaced by Rule 38, as noted in our last newsletter. However, since then, Rule 38 has been reinstated as it was under the old rules and Rule 43A has been added.

The new Rule 43A brings changes to the SRA Accounts Rules that will be welcome news for the majority of UK law firms, as accountants will now be encouraged to exercise their professional judgment, to provide a more risk-focused, audit style approach to reporting. Rule 32A will see changes that may benefit smaller law firms, through additional exemption in regards to the requirement to have an external accountant's report.

In short, you will no longer be required to obtain or deliver an accountant's report if:

- All client money held or received is from the Legal Aid Agency or;
- In the accounting period, the balance of client money you have held or received does not exceed:
    - An average of £10,000 and;
    - A maximum of £250,000.

What will the changes to SRA Accounts Rules mean in practice?

This announcement is the latest step in the process of simplifying the SRA Accounts Rules, moving away from the obligatory 'one size fits all' process and towards proportionate and targeted regulation. The SRA has acknowledged that Rule 39 was prescriptive and now, with the new Rule 43A, is encouraging the use of professional judgement rather than mandatory regulation.

Both of the key changes arising from this approval – the relaxation of regulatory burden on smaller law firms who are relatively low risk and the requirement for accountants to exercise professional judgement in their reporting – will be welcome news for the sector.

Of particular benefit to law firms will be the greater emphasis on accountants exercising their professional judgement which will give greater scope when deciding what to report on. This change, along with the removal of the need to qualify reports for trivial breaches of the accounting rules, will give accountants the flexibility to assess the risks to client money, giving law firms greater value for money.

You should now start talking to your accountant about what these latest changes may mean for your law firm moving forward.

Overall the changes to SRA Account Rules, which are a fundamental reconsideration of the rules as a whole, bring welcome news. Further changes to SRA Accounts Rules are also planned and remain in the pipeline. We will keep you updated with ongoing developments.

SRA Accounts Rules Training Courses

For more information please contact your local office specialist.

If you would like to attend one of our SRA Accounts Rules training courses in Sheffield, Doncaster or Northampton please contact Simon on slb@hawsons.co.uk to book your place.

Under the radar – the new PSC Register

With less than one month to go before the new PSC Register comes into force, company directors and indeed partners within law firms need to start planning now for their PSC Register, if they have not already done so.

The Small Business, Enterprise and Employment Act 2015 (the Act), which passed into law early in 2015, brings some significant changes to UK company law which will impact on UK companies and LLPs of all types and sizes. In this article we look at one of those changes, the new PSC Register; a register which law firms which are LLPs must keep of persons with significant control (PSCs).

The information on the new PSC Register will need to be filed at Companies House from 30 June 2016, but companies and LLPs must have their PSC Register in place from 6 April 2016. This is an important issue for many law firms in the UK.

The new PSC Register

In summary:

- The changes introduce a public register of people with significant control (PSCs) over UK companies
- Broadly, a PSC is a **person** who directly or indirectly owns more than 25% of the company or has the right to exercise, or actually exercises, significant influence or control over the company
- Companies have to keep a register of PSCs and file information about the PSCs at Companies House
- Filing this information will be done via an annual check and confirm process which will replace the requirement for an annual return
- Companies are required to send notice to known/suspected PSCs requiring their confirmation of their PSC status
- PSCs also have obligations to inform the relevant company of their PSC status
- Breach is a criminal offence with sanctions of fines or imprisonment

Key dates

- To keep a PSC Register from 6 April 2016
- To file PSC information at Companies House from 30 June 2016

At present companies record only the immediate, legal owners of their shares.

In future, following the introduction of the new PSC Register, companies will have to look through that and also through however many layers of ownership there are above that to identify relevant persons who ultimately have significant control of the company, and keep a register of such people.

Further information

The deadline for establishing a PSC Register is less than a month away so companies and company directors need to start planning and putting in place the necessary processes and procedures now if they have not already done so. Completing and maintaining the new PSC Register may not always be a simple task, so please contact us if you want to discuss the requirements in more detail.

We also have additional information on our website, including:

- What is the PSC Register and who is a PSC?
- How will the new PSC Register work?
- Preparing for the new PSC Register – what you need to do

You can find out detailed article at www.hawsons.co.uk/new-psc-register-2016

Budget news 2016 – summary of the key points

George Osborne presented the first Spring Budget of this Parliament on Wednesday 16 March 2016.

In his speech the Chancellor reported on 'an economy set to grow faster than any other major advanced economy in the world'.

Towards the end of last year the government issued the majority of the clauses, in draft, of Finance Bill 2016 together with updates on consultations. Publication of draft Finance Bill clauses is now an established way in which tax policy is developed, communicated and legislated. The Budget updates some of these previous announcements and also proposes further measures. Some of these changes apply immediately, others in April 2016 and some take effect at a later date.

Our summary concentrates on the tax measures which include:

- Reductions in the rates of capital gains tax
- Introduction of a Lifetime ISA for under 40s
- Changes to Entrepreneurs' Relief
- Abolition of Class 2 NIC
- Reduction in the corporation tax rate
- Reforms to corporate tax losses.

More information

You can find more information on the 2016 Budget at www.hawsons.co.uk/guide-2016-budget

Our summary includes the key Budget announcements and the 2016/17 tax rates and allowances.

Cyber security seminars for law firms

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. Cyber attacks are a threat to all businesses and law firms are certainly no exception.

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.

Are solicitors prepared to protect against cyber attacks?

A study earlier this year indicated that solicitors are not prepared for cyber attacks, with more than half of UK legal professionals suggesting that their companies were not doing enough to prevent data breaches. The research also found that one in ten lawyers admitted to having no measures at all in place to prevent against the risk of data loss.

Those are very worrying numbers, particularly with financial and reputational damage a cyber hack is likely to have on a law firm.

Free seminars in Sheffield and Northampton

As this is such an important topic for the legal sector, we are hosting two free seminars with presentations from the solicitor team at Hawsons and the experts from QPI Legal. The seminars will run from 9am to 12:30pm, with lunch and refreshments provided.

28 April 2016 – Room Yorkshire 3, Copthorne Hotel, Sheffield S2 4SU

5 May 2016 – Sunley Conference Centre, Boughton Green Road, Northampton, NN2 7AL

For more information and to book your place at one of these events please visit www.hawsons.co.uk/legal-seminar-2016

This event is for solicitors and legal professionals only.

www.hawsons.co.uk

Spring 2016

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.

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

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

Disclaimer: All information in this publication is of a general nature and may not be applicable to your own specific circumstances. We will be pleased to discuss your specific circumstances or requirements in more detail. If you would like to discuss anything with us, please contact us. Whilst every care has been taken to ensure that all information in this publication is accurate, no liability is accepted for any loss or damage, howsoever arising from the use or non-use of any information on this site.

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