

Legal Insight

Autumn 2018

Hawsons Chartered Accountants



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Introduction



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Welcome to our Legal Newsletter

Welcome to our final newsletter of 2018. The long nights are drawing in and Christmas is right around the corner. Before we know it we will be well and truly into the Christmas party season indulging in the usual excesses it inevitably brings.

Overall it appears as though the UK economy is holding up fairly well with a steady expansion throughout the year. However Brexit uncertainty seems rife and there are hints of tougher times on the horizon. Not a week passes by that there aren't new forecasts or estimates predicting wildly different outcomes depending on the type of deal struck with the EU. Where it will all end up, only time will tell so in the meantime, to all our clients and contacts, have an enjoyable festive season and a prosperous New Year!

We hope you enjoy our final newsletter of 2018 and, as always, please do get in touch if you would like any further information.

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, partners, partnerships, companies 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 warning after two firms are conned out of £7million

The Solicitors Regulation Authority (SRA) has warned law firms that they are being targeted by fraudsters who give offers of new work in order to get access to client money.

There have so far been two reports that the SRA is aware of where legal firms are branching out into new work areas but with the reality being that the new colleagues have infiltrated the firm to defraud the clients. It is estimated that these frauds have created a loss of more than £7 million.

The way in which the fraud works is that fraudsters approach the law firm with an offer to expand the services they currently offer and then provide false credentials to support their claims of expertise. The fraud then takes place after they are appointed by the law firm and have access to client money which they then proceed to misappropriate.

Solicitors should be aware of any unusual aspects to the proposal when dealing with offers in this regard.

Solicitors are reminded to check the credentials of individuals who are approaching them with offers to expand the business. The SRA states that this can be done by:

- Getting as much verification as possible from third parties such as banks and other professional firms. Carrying out just one check or reference from another firm is not sufficient because the fraudsters may control more than one firm.
- Conduct internet searches to gain information.
- Checks on official websites such as that of the SRA and other regulators.

Paul Philip, SRA Chief Executive, said: "Many law firms handle large amounts of money, making them an attractive target for fraudsters. We know that most firms have strong systems in place to make sure they are employing the right people, as well as protections to make sure staff are properly supervised and money in the client account stays safe"

He continues: "But these recent cases show that there is no room for complacency and that undertaking careful due diligence for any potential employees is essential. Leaving the door open for fraud is damaging to both the firm and public trust in solicitors."



Government Reveals Contingency Justice Plans For No-Deal Brexit

The Ministry of Justice has published a technical notice about its plan for civil judicial cooperation in the unlikely event of a no-deal Brexit.

The UK currently abides by EU rules to decide which country courts hear civil, family and commercial law cases that occur cross-border. This also determines which country's laws apply and how judgments obtained in one country are recognised in another.

If there is a no-deal Brexit on 29 March 2019, the UK will most likely withdraw from the majority of civil judicial cooperation rules it had with the EU and follow domestic rules that are currently applied to most non-EU countries. However, international agreements, such as the Hague Convention, will continue to be enforced.

The ministry said: *"any party to a cross-border legal dispute, including businesses, consumers and families, would need to consider the effect that these changes would have on any existing or future cases involving parties in EU countries. Where appropriate you may wish to seek professional legal advice on the implications of these changes for your individual circumstances."*

The ministry adds that the UK would retain Rome I and II rules on applicable law in contractual and non-contractual matters, which do not rely on reciprocity. The UK would also officially re-join the 2005 Hague Convention.

Although the Hague Convention rules do not cover all areas of family law, such as divorce jurisdiction, the ministry still believes it can provide an 'effective alternative' method of ruling.

When a company or an individual is based in the UK, the UK will keep the EU rules that allow the UK courts to have jurisdiction over the matter. However, UK insolvency practitioners would need to apply under an EU country's domestic law to have UK orders recognised there.

The ministry says it would seek to provide 'legal certainty' for those involved in ongoing cases on 29th March.

They said: *"Broadly speaking, cases ongoing on exit day will continue to proceed under the current rules. However, we cannot guarantee the EU courts will follow the same principle, not that EU courts will accept or recognise any judgments stemming from these cases. Individuals with cases in progress on 29 March are encouraged to seek legal advice on how this may affect them."*



Trends that are reshaping the legal industry

A number of trends have emerged in the legal industry that help law firms become more productive, efficient and competitive in the global market. We take a look at some of these trends and how they affect the legal industry.



1- Electronic Discovery

Federal Rules of Civil Procedure amendments make electronically stored information such as e-mails, voicemails, e-calendars and any other data on a handheld device discoverable in litigation. The discovery of electronically stored information (ESI) is known as electronic discovery.

The growth of ESI has increased the cost and complexity of the e-discovery process and forever changed the face of large-scale, complex litigation.



2- Multiple Generations

It is the first time ever that four generations are now working together within a workplace. The four generations are described as the traditionalists, Baby Boomers, Generation X, and Generation Y.

The Reason why we are seeing so many generations working side-by-side is that people in the legal profession are now choosing to work past retirement age.

The consequence of having the four generations working together in the same work environment presents new workforce dynamics and challenges with there at times being an age gap of 50 years between the youngest and oldest employee.



3- Social Media

Social media is growing fast and allows legal professionals to accomplish a variety of tasks in a number of ways. Social networking is changing how legal professionals recruit, job hunt, network and interact with clients as well as using social media tools such as LinkedIn, Facebook and Twitter as key marketing tools to promote their services.



4- Legal process outsourcing (LPO)

The delivery model for legal services has recently changed. The new model, which is known as legal process outsourcing (LPO), transfers the work legal professionals perform to external vendors located at home and overseas. Both onshore and offshore legal outsourcing is changing law practices because law firms and corporate legal departments are seeking to reduce costs, increase flexibility and expand their in-house capabilities.



5- Work-life balance

A growing number of employees believe they are having to sacrifice their personal life for work. This has led workers to demand a better work-life balance. In order to comply with these demands, firms are now incorporating new policies that allow employees to have more time for their personal life. These policies include flexi-time, telecommuting, part-time work, phased-retirement, and temporary leave.

6-Globalization



Law firms are now growing across borders, joining with foreign counsels, and forming intercontinental merges. Although globalization is not a new trend, it has in recent years gained more momentum. The reason for the increase in globalization is because of new technologies becoming available. This has led to more enhanced data security and the automation of some legal processes, both of which have enabled globalization to be more accessible.

7- Eco-consciousness



Being eco-conscious is becoming more of a global priority. This is instrumental in reshaping the legal industry as global warming, economic pressures and eco-conscious clients mean that law firms are now establishing a green initiative that reduces their carbon footprint, cut expenses and promote social responsibility. It is also apparent that an increasing number of law firms are now incorporating 'green law' into their work by launching niche sub-practices in climate change, fair trade, and renewable energy.

8- Virtual law firms



With technology such as mobile devices and secure web-based technology, lawyers are now able to work remotely from home. This enables lawyers to have flexible work hours which helps improve their work-life balance. It allows them to modify their work schedule to fit around their personal and family needs.

9- Alternative legal service delivery models

Clients are now seeking legal advice from non-lawyer professionals. Non-lawyer professionals that are providing legal advice include paralegal technicians, legal self-help sites and virtual assistants. This provides a more affordable legal service to some people and in some cases helps them address their own legal matters.

10- Alternative billing models



There has been increasing pressure on law firm to reduce their costs to meet the needs of their cost-conscious clients. The way in which firms are doing this is by trying new alternative billing methods. They are moving away from the traditional billable-ours models and going toward fixed, flat, blended and capped fees billing modes. This is with the aim to build long-term relationships with clients and to maximize value.

The Future of Audit?

It has been a difficult few months for the auditing industry – and in particular for the national firms that audit large listed companies and other ‘Public Interest Entities’. After the high profile collapses of BHS and Carillion, amongst others – where the question of blame was put at the door of the auditors by the press – last week parliament’s Business, Energy and Industrial Strategy (BEIS) committee launched an inquiry into what it called the ‘broken audit market’.

The BEIS committee’s inquiry is the fourth ongoing review into the audit sector or its stakeholders along with the Competition and Market Authority’s review of the audit market, the independent review of the FRC (the auditors’ regulator) led by Sir John Kingman and Project Flora, a government-backed review into the future of the audit industry.

The outcome of these reviews is not yet known – but one thing that we can say with certainty is that the future audit market will look different to the one that exists today.

So, what does this all mean for firms like Hawsons? The partners here see the potential future disruption as an opportunity.

Medium sized firms like ours are agile and have the ability to adapt quickly to the changing world around us. Our partners have a wider skill set than that typically found in ‘Big Four’ partners, who tend to specialise in a service stream and have more time to spend with our clients, meaning that we can develop deeper working relationships. David Grunberg, founding partner of Grunberg & Co,

said in his recent article in Accountancy magazine ‘A commonly heard remark from clients who leave the Big Four is that they felt a stronger bond being created with the partner and the team they joined at the new firm’.

This wider skillset and closer relationships mean that we really understand our clients’ expectations and can adapt and innovate to meet those expectations. Innovation has been important for us – evidenced by our partnerships with Xero and Quickbooks for online accounting and our ‘Making Tax Digital’ workshops – and will continue to be as the market and clients’ expectations change. Innovation is also important in the world of audit – making sure that we combine tried and tested methods with new technology to deliver efficient yet robust and effective audits.

Clients also expect us to be able to offer international expertise. Through our membership of HLB – the 12th largest global network of accounting firms – we have access to 25,000 professionals in over 150 countries. In any country that our clients want to do business in, we can provide guidance and expertise through the network. We currently do a great deal of work with the HLB network, so the service is seamless and the service level is similar to that offered by the Big Four networks.

The future of the audit market is unknown, but with our agility, close client relationships, ability to innovate and international network, Hawsons is well placed to be able to take advantage of any opportunities that arise.



Lords call for a delay to Making Tax Digital for VAT until 2020

The House of Lords Economic Affairs Committee have issued a scathing report on HMRC's Making Tax Digital ("MTD") for VAT program. The committee have voiced disappointment that on many issues raised by the committee in their 2017 report HMRC had taken "no meaningful action". The MTD for VAT program is due to be introduced in April 2019.

The 2017 report had suggested that the tax gap claimed by HMRC was "guesswork", the proposed timetable was "too tight" and that HMRC had underestimated the difficulties and costs faced by the "considerable number of people with limited digital skills or inadequate broadband access".

The tax gap

The committee found issue with the government's estimates that MTD will result in an increase in tax revenue of just over £1bn by 2020-23. They believe the benefits are overstated and highlighted that "reducing errors could reduce tax revenue as well as increase it".

The costs for taxpayers

Businesses using older software "face the cost of upgrading purely to meet MTD requirements". The committee criticised HMRC for believing that businesses would realise administrative savings that would outweigh any costs incurred in the transition to MTD. HMRC believe the average transition cost will be £109. However, this figure has been challenged by witnesses who appeared before the committee who suggested the average cost could be anywhere between £300 and £2,000.

The timetable

The committee said that HMRC "is alone in its confidence that all one million businesses will be ready for MTD for VAT in April 2019". They believe HMRC have "underestimated the time for research, planning, training and system changes that some businesses will need".

The committee continue to allege that HMRC are more motivated by the possibility of increased revenue for the government instead of the need for greater efficiency. The report suggests that the government should defer the introduction of mandatory MTD by a minimum of one year but encourage businesses to join voluntarily. They believe that HMRC should wait until at least April 2022 before they roll out MTD to any other taxes.

Communicating with businesses

The committee found that HMRC had communicated primarily with software providers, agent representative bodies and agents. They accuse HMRC of neglecting to inform taxpayers "until they were invited to join the pilot". Last month HMRC informed the committee that it was 'significantly increasing its communications activity' but the committee felt that with just five months until the introduction it was "too late to begin an effective communications campaign".

The pilot

Although HMRC extended their pilot to 600,000 businesses in October 2018, the committee said “there is too little time before 1 April 2019 to make up lost ground and respond to implementation issues identified by taxpayers”. There will be “no pause to allow the lessons learned in the pilot to be evaluated, particularly from the perspective of taxpayer readiness, and changes made before it is mandatory for most taxpayers”. They highlighted that the reliability and performance of “HMRC’s systems are still unproven at scale”.

Deferred for some

The committee criticised the deferral extended by HMRC on the grounds that it was given mainly to other public sector bodies and a selection of small organisations with the most complicated tax affairs rather than “to the smaller businesses for whom implementation will be most burdensome and who have the fewest resources to devote to implementation”.

Reaction

An HMRC spokesperson responded to this report, saying: “We are disappointed that the committee’s report does not reflect HMRC’s wide and significant engagement on MTD over the last three years, nor the changes made as a result for small businesses.”

Craig Walker, Senior Tax Manager at Hawsons commented “Despite this scathing report, HMRC have given no indication that the introduction of MTD for VAT will be delayed and therefore businesses should ensure they are ready for the new regime”.

The full report can be read here:

<https://publications.parliament.uk/pa/ld201719/ldselect/ldconaf/229/229.pdf>

How can Hawsons help?

We can help you to review your current VAT record keeping arrangements and identify the changes that will be necessary to comply with the requirements of MTD. If you wish to discuss the implications of MTD for you and your business, please get in touch with your usual Hawsons contact.

You are welcome to attend one of our FREE workshops that are running every month by signing up here: <https://www.hawsons.co.uk/making-tax-digital-workshops/>



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Due to the new General Data Protection Act (GDPR), that came into force on the 25 of May 2018, we need confirmation that you are still happy to receive our updates, newsletters and events.



What do I need to do?

Just fill in your details to confirm that you still want to receive our updates, events and newsletters. It only takes a minute, and will mean you stay in touch with us:
<http://www.hawsons.co.uk/newsletter/>



Anything else?

Not at all! Although...you can follow us on social media to stay even more up to date with everything that we're up to here at Hawsons.

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