Hawsons Chartered Accountants
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Legal Insight

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Big firm expertise,
small firm personal attention

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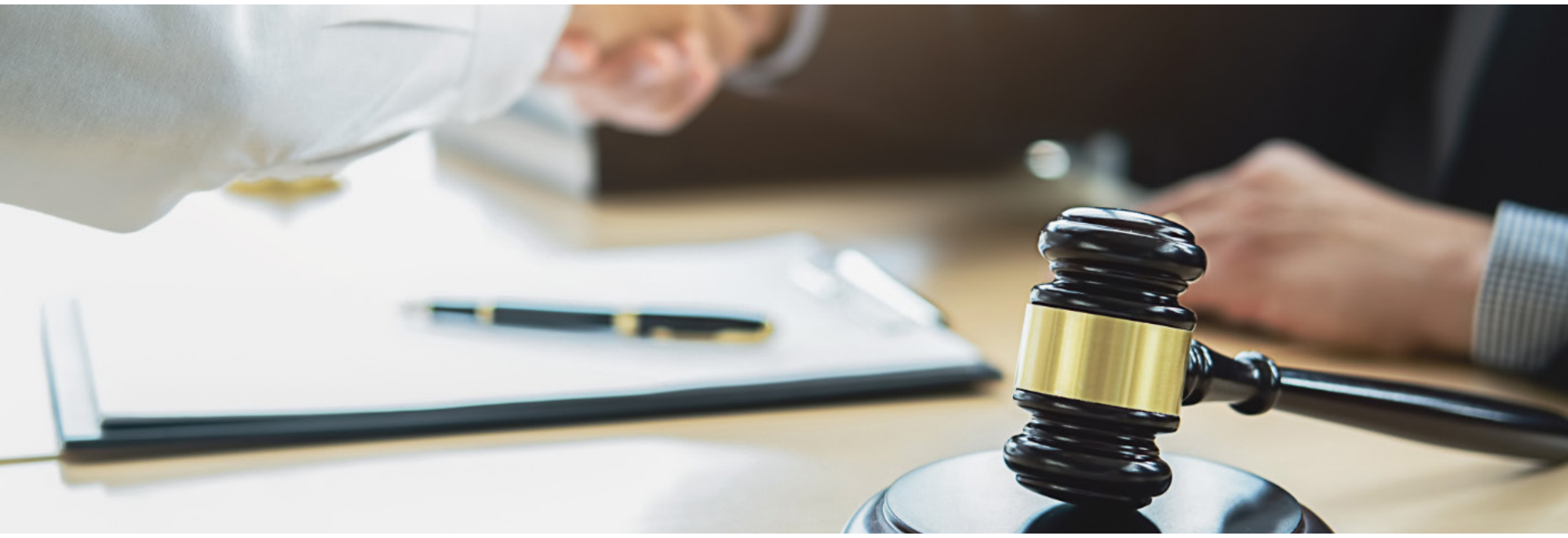
Introduction

Welcome to our latest legal newsletter. Since our last edition, most of the long standing Covid-19 restrictions have been lifted as life slowly returns to some sort of new normal.

In this edition we look at the levels of borrowing by law firms during the pandemic. We also consider the impact of home working and the potential implications for law firm compliance. Finally, HMRC have announced plans to change the timing of assessing partners which will cause potentially more number crunching in the long term if firms opt not to allign their year ends with the tax year.

We hope you enjoy the articles in this newsletter and as ever if you have any questions please do not hestitate to get in touch.



Law firms increase borrowing during COVID-19

During the course of the Covid-19 pandemic law firms have borrowed nearly £700m via the government's various Covid-19 support schemes.

Research conducted by Hazlewoods, a firm of chartered accountants within our HLB International group showed that UK law firms borrowed £694m through emergency loan schemes within the first 12 months of their introduction. The amounts borrowed in each scheme were roughly split:

£515m from the Coronavirus Business Interruption Loan Scheme (average loan worth ~£319,000)
£179m from the Bounce Back Loan Scheme (average loan worth ~£36,000).

Most of the loan applications were made in May and June of 2020 with a minor spike in the autumn, perhaps unsurprising when you consider that this is when many firms renew their professional indemnity insurance with the market being particularly volatile over the past 18 months.

Although many law firms did borrow relatively large sums of money during the course of the pandemic a surprisingly small number actually needed to make full use of the borrowings. Generally speaking, law firms were able to respond quickly to any potential disruption caused by the pandemic and successfully adopted remote working. This meant that, from an economic viewpoint, the legal sector performed far better than initially expected. Whilst the government-backed loans and deferring costs such as various tax payments have given many law firms reassurance and have assisted with cash flow, not many have actually needed to make substantial use of it.

Rules for taxing partners due to change

What changes are being proposed?

Partners will be taxed on the profits arising in the actual tax year instead of the current position where partners are taxed on the profits of the accounting year ending in the tax year.

For example, if your accounting year-end is 31st December, a partner is currently taxed on their share of the profits for the accounting year to 31st December. However, under the proposed new rules, a partner's tax bill for the 2023/24 tax year will be based on 9 months' worth of profits from the accounting year to 31 December 2023, and 3 months' worth of profits from the accounting year to 31 December 2024.

In the transition year (the 2022/23 tax year), the partner in this example would be taxed on the profits of the accounting year to 31 December 2022 plus 3 months' worth of profits of the accounting year to 31 December 2023, but partners will be able to deduct 'overlap profits' (profits taxed twice in earlier tax years due to the tax rules). As a result, this will mean that partners can be assessed to tax in 2022/23 on over one year's worth of profits, so it is proposed that the tax due on the excess may be spread over 5 years.

Why are these changes proposed?

The aim is to simplify tax legislation and put an end to the creation of overlap profits where a non-31 March year-end is in place. The main driver behind this is Making Tax Digital (MTD) for income tax which is the government programme requiring electronic real-time reporting of profits to HMRC. HMRC has found it challenging to input the current tax rules into the new reporting framework for MTD, with partnerships being particularly difficult. HMRC believes that these changes are needed to enable MTD to be implemented from April 2023 as planned. The Chartered Institute of Taxation have reservations over the pace of the change and are urging the government to defer the start date of MTD for income tax.

Should partnerships change their year-end date to 31 March?

The change will have little or no impact on businesses who already use either 5 April or 31 March as their year-end, but will introduce complexity for businesses with a different year-end.

Some partnerships have historically used a 30 April year-end so they can benefit from the inherent tax deferral on rising profits. However, partnerships will be unable to obtain this benefit under the new regime which may cause some firms to consider changing their year-end to 31 March for the sake of ease.

Some businesses will want to continue to use their existing year-end date for commercial reasons (such as the seasonality of the business) and will need to weigh up the costs and benefits of changing.

The final legislation is expected to be published later this year. Please do get in touch if you would like to know more.

HMRC launches 13,000 investigations into COVID-19 support schemes

HMRC has launched nearly 13,000 investigations into alleged abuse of the government's coronavirus (COVID-19) financial support schemes.

A freedom of information request revealed that, up to the end of March 2021, HMRC opened 12,828 investigations into alleged cases of fraud. 7,384 of these investigations related to abuse of the COVID-19 support schemes.

5,020 investigations were launched into the alleged misuse of the Self-employment Income Support Scheme (SEISS).

Commenting on the matter, a spokesperson for HMRC said:

'It is vital we support businesses to recover by ensuring a level playing field, so the majority are not undercut by the few who tried to cheat the system.

'We are taking tough action to tackle fraudulent behaviour. We have now opened more than 12,000 inquiries into claimants we suspect may have kept more than they were entitled to. We have also begun a handful of criminal investigations.'

Apprenticeship cash boost

The government has confirmed that employers of all sizes in England can now apply for £3,000 in extra funding to help them take on new apprentices.

The boost to the apprenticeship incentive scheme was confirmed by Chancellor Rishi Sunak in the Budget in March.

The claims portal opened on 1 June and businesses can apply for £3,000 for each new apprentice hired as a new employee from 1 April until 30 September.

The cash incentive is designed to help more employers invest in the skilled workforce they need for the future as part of the government's Plan for Jobs.

The government says the scheme builds on action already underway to protect, support and create more jobs while bringing the UK's skills and education system closer to the employer market.

The Chancellor commented:

'Young people have been hit especially hard by the crisis – which is why our Plan for Jobs, launched last year, is focused on helping them get the skills they need to get the jobs they want.

'By boosting the cash incentives for our apprenticeship scheme we're improving opportunities for young people to stay in and find work – this could not be more important in our economy's recovery.'

Find out more and apply at www.gov.uk/guidance/

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Is Compliance Being Overlooked Due to Homeworking?

A recent survey involving 3,500 law firms conducted by Access Legal recently reported that many law firms are overlooking updating their cybersecurity policies or conducting adequate data protection impact assessments.

Analysis of the data found that more than 40% of law practices had failed to completely update their cybersecurity policies since switching to predominantly remote working from March 2020. In addition, 49% of firms confirmed that they had not completed a data protection impact assessment designed to identify potential data risks. Not completing a data protection impact assessment increases the risk to both client and staff data. Additionally, around 25% of law firms had not reviewed their health and safety assessments when remote working was enforced with 40% not reviewing or updating their anti-money laundering risk assessments.

In June the Solicitors Regulation Authority (SRA) began to enforce action against firms that were not fulfilling their anti-money laundering obligations. The SRA fined six firms that took over twelve months to comply with new regulations.

It should also be noted that 85% of law firms said they were planning to introduce a hybrid working model with staff spending their week mixed between home and office working. In those situations, the SRA are warning firms to extra vigilant as those that work at home are at higher risk of being targeted by cyberattacks.

Access Legal survey

What next?

We would welcome the opportunity to work with you and your business and are more than happy to come out and speak to you to identify where we might be able to help.
If you would like further details on any of the above, please get in touch.

Get in touch

Our legal experts

Hawsons is one of the few accountancy practices with a dedicated team of solicitor accountants specialising in the needs 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 understanding of the unique issues that many in the sector are facing, combined with our technical experience, allows our solicitor specialists to provide you with proactive, commercial and informed accountancy and tax advice.

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