Hawsons Chartered Accountants
Latest News

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Legal Insight

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Big firm expertise,
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Latest News

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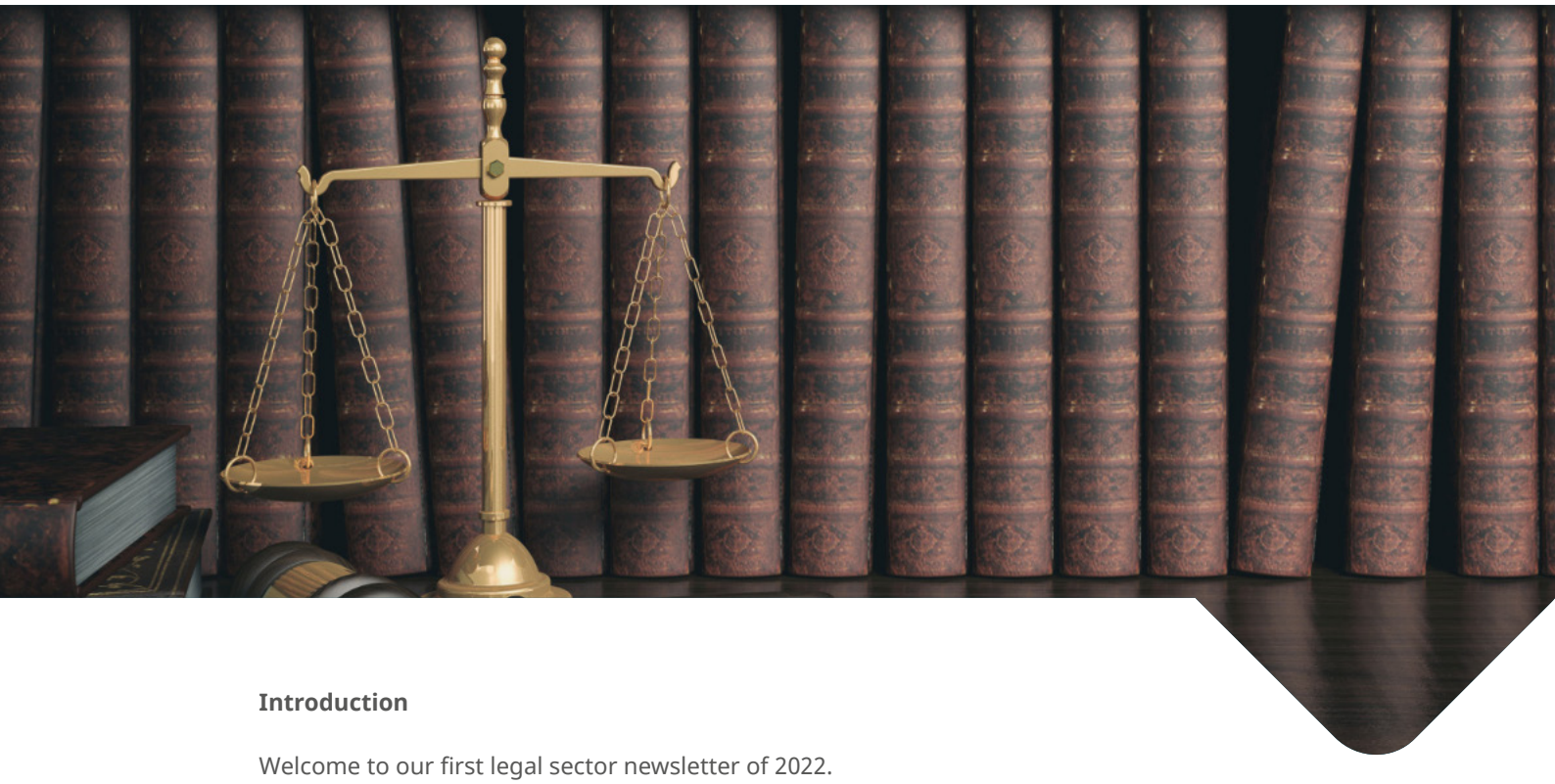

Introduction

Welcome to our first legal sector newsletter of 2022.

As we see the back of 2021 in our rear view mirror many of us could surely be forgiven for wanting a slightly calmer and less eventful 2022. However, the emergence of the Omicron variant has clouded the outlook for economic growth. This combined with increasing inflation plus worker and material shortages are leading forecasters to predict limited growth in GDP. There are signs for optimism though. Current opinion appears to suggest the latest Covid strain should cause far less economic disruption as we hopefully reach a 'pandemic endgame', which will hopefully lead to an upturn as we emerge from the winter months.

In this edition of our legal sector newsletter we focus on potential salary increases for the sector, new proposals coming from the SRA as well as some important extensions put forward by HMRC. We hope you enjoy the contents of this newsletter and as ever if you have any questions then please do not hesitate to get in touch.

Legal sector salaries set to climb in 2022

It's no secret that many sectors are facing severe wage inflation with many locked in ongoing battles to retain their best staff. Indeed, as the economy begins to open up as Omicron-related restrictions are eased, many legal firms in particular are facing a backlog of demand for services which were delayed during the pandemic. A recent survey by recruitment consultancy firm Robert Walters found that many in the professional services sector are planning to increase their pay rise budget by 10-15% in 2022. These sort of levels have only been seen in recent times when inflation has been much higher than currently reported.

New hires receive increased salary offers

The current success of the Covid-19 vaccine programme and the gradual easing of restrictions in 2021 had an understandably positive effect on business confidence. However, as demand for services increases, a shortage of candidates combined with bottled-up demand for people and renewed investment now means a power shift towards candidates as firms work even harder to convince the best talent to join them. Inevitably that has meant an increase in salary offers which can have a domino effect on existing pay structures.

Existing employees also set for pay rises

Whilst new employees are seeing increased salary offers to convince them to join, many existing employees' salaries have not increased as rapidly over the past 12-18 months. However, this is expected to change throughout 2022 at most levels with some significant increases expected. Recent reports have also found that existing staff are being put under increasing pressure due to staff shortages which can lead to time off work or even looking for alternate opportunities, compounding the issue.

What do professional staff look for?

Over the past two years, the main questions potential joiners want answered center around remote working, flexible working arrangements, holiday entitlement, and compensation. In professional services, the trend has been toward compensation packages, especially in the past 6-12 months where many recruits take the ability to remote work and flexible hours as expected, especially in the legal sector where many roles can be done through a combination of on-site and off-site working.

SRA seeks greater fining power

The SRA is proposing a major increase in their fining powers and has developed a new fast track system for 'fixed penalties' for low-level offenses.

The SRA has begun a consultation on increasing the maximum fine they can issue to law firms from £2,000 to £25,000. In addition, they are also considering taking into account the firm's income when setting out fines. This will enable the SRA to penalise larger firms up to a limit of 5% of their annual turnover and aligns with some other regulatory bodies. Furthermore, senior equity partners would face much larger fines for breaching rules than junior solicitors for similar rule breaches. Therefore, larger firms and more responsible employees will be punished to a greater extent for breaching the rules.

Finings powers have been an issue with SRA for some time now. The £2,000 limit currently in place means that more serious cases must be dealt with by the Solicitors Disciplinary Tribunal which increases costs significantly. It is argued that raising the limit to £25,000 should significantly reduce costs and speed up the process.

The SRA says that increasing its fining powers for 'fixed penalties' would enable them to deal with lower-level misconduct much more easily and effectively. Which would provide them with greater transparency and consistency with how they apply penalties. Solicitors will be able to appeal any decisions made.

Fixed penalties may be suitable in situations where there has been non-compliance with the ombudsman, failure to undertake administrative activity, or breaches where the act is not specific to a certain client or individual.

The SRA will be inviting feedback on the current consultation proposals for the period to 11 February 2022.

The SRA proposes to end indemnity cover for retired solicitors

The SRA has proposed to end the provision of post-six-year run-off cover because they judge the protection as disproportionately expensive. Run-off cover is insurance for claims made against a law firm after it has stopped doing business. This change would mean that the Solicitors Indemnity Fund would effectively close. Indemnity insurance protects solicitors against claims of possible negligence or failure to perform. However, if the Solicitors Indemnity Fund were to close the remaining funds would be handed to the Law Society.

If this were to happen and run-off insurance was to end, the profession would be left with two choices. The first would be to ask solicitors to pay for cover to reduce the expense. The second would be to leave retired practitioners to deal with any and all claims themselves.

Based upon the last ten tears, the SRA's forecasts show that an average of 31 clients are likely to gain from the Solicitors Indemnity Fund each year. This results in an average of £34,600 being paid out which includes defense costs. Up to £2.4m a year will be required from the profession to continue the ongoing funding to the Solicitors Indemnity Fund each year. This expense would most likely be passed onto clients.

The SRA feels that they cannot keep extending the Solicitors Indemnity Fund as they have done in recent years. There will be a 12-week consultation where a discussion will be had about what will happen with the remaining reserves of the Solicitors Indemnity Fund if the six-year run-off cover is no longer provided. Transferring the remaining funds to the Law Society would at least enable them to use the funds to benefit the profession.

HMRC give self-assessment taxpayers one-month waiver

HMRC have announced that they will be waiving late filing and late payment penalties by one month for Self-Assessment taxpayers. This is to give them additional time to complete their 2020/21 tax return and pay any due tax if needed.

However, HMRC are still encouraging Self-Assessment tax payers to file and pay on time if they can. The department have announced that out of the 12.2 million people that need to submit a Self-Assessment tax return by 31 January 2022 nearly 6.5 million have already submitted.

HMRC have said that with Covid-19 affecting the capacity of some tax-payers and their agents it is making it increasingly difficult for taxpayers to meet the 31 January deadline. Therefore, HMRC have made the decision to implement a one-month waiver for late filing and late payment penalties.

This is a very welcome concession.

What are the new rules for self-assessment taxpayers?

The official deadline for filing and paying your tax return remains as 31 January 2022. The waiver implemented by HMRC will have two fundamental changes:

Firstly, anyone who cannot file their tax return by the 31 January deadline will not receive a late filing penalty if they file online by 28 February. Technically the return will have been filed late but the tax-payer will be treated as if they had a reasonable excuse and so the automatic £100 penalty will not be charged.
Secondly, anyone who cannot pay their Self-Assessment tax bill by the 31 January deadline will not receive a late payment penalty if they pay their tax in full, or set up a Time to Pay arrangement, before 1 April.

However, it is important to note that interest will be charged with effect from 1 February 2022 for those that miss the 31 January deadline. Therefore, we recommend that you pay on time to avoid any interest payments if you can.

Stamp Duty Land Tax: Consultation launched to reduce percieved abuse of the rules

HMRC has launched a consultation into the methods used to calculate Stamp Duty Land Tax ("SDLT") on purchases of mixed-use property. A mixed-use property is where a property is considered as both residential and non-residential. In addition, there may also be a reform on multiple dwellings relief when two or more dwellings are purchased. HMRC considers that these two areas can lead to unfair outcomes, incorrect claims, or abuse of the rules.

Mixed property type

Currently, properties which include elements of residential and non-residential property are subject to the non-residential SDLT rates, which can give a substantial SDLT saving.

HMRC has said that some purchasers of property are taking advantage of the rules for mixed-use property, despite the property not having any relevant non-residential features. This enables purchasers to unfairly reduce the amount of SDLT paid. Therefore, the aim of this consultation is to amend the rules to ensure that they are fairer and reduce attempts to abuse the provisions of the relief.

In the consultation, HMRC is currently looking at introducing a new apportionment method for calculating SDLT on mixed-use property cases. This new method would mean that the residential portion of the mixed-use property would be taxed as a residential property with the remaining being taxed as non-residential property. An alternative option would be to introduce a threshold where a property can only be treated as a mixed-use property if the non-residential element of the property is more than a certain proportion, for example, more than 50%. HMRC is currently looking for views on this new method.

HMRC has said that if they were to use this method, they would need to ensure that the threshold would be high enough. This is to prevent purchasers from adding small amounts of non-residential land to class the purchase as a mixed-use property type and reduce their SDLT bill.

Currently...

Stamp Duty Land Tax: Consultation launched to reduce percieved abuse of the rules (Continued)

Multiple dwellings relief

Currently, if a property contains more than one dwelling there is an averaging method which can reduce the overall SDLT liability. There have been a number of cases on this recently where the tax-payer has tried to argue that an annexe is a separate dwelling and therefore the relief can be claimed. However, HMRC have been successful in many of these cases.

In order to reform multiple dwellings relief, HMRC has put forward a number of options.

- Only allow multiple dwellings relief where all dwellings are purchased for a 'qualifying business use'
- Only allow multiple dwellings relief in respect of the dwellings purchased for a 'qualifying business use'
- Restrict multiple dwellings relief by introducing a 'subsidiary dwelling' rule
- Only allow multiple dwellings relief for purchases of three or more dwellings

It will be interesting to see the outcome of these consultations.

Changes to VAT penalty regime delayed until 2023

The government has announced that the new penalty regime for VAT, which was due to be introduced from 1 April 2022, will now be delayed until January 2023.

The delay is to provide HMRC with extra time to ensure their IT systems are ready and well tested. The new scheme will reform the penalty regime for late submission of VAT returns and late payment of VAT.

Under the new regime, HMRC will issue a single penalty point for each late submission of a VAT return and once a business has exceeded a points threshold for multiple missed returns, a flat penalty of £200 will be charged.

There will also be penalties for late payments. The first charge will be imposed at 2% of the outstanding tax if the tax due on a return remains unpaid 15 days after its due date. After 30 days the penalty increases to 4%. The second late payment penalty is a daily penalty (set at 4% per year of the tax still outstanding at that point), starting from 31 days after the due date until the business pays the tax that is due. Late payment interest will be calculated at 2.5% above the Bank of England rate and will be payable on tax outstanding after the due date.

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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