

Brief

A Newsletter for Solicitors

morris crocker
Chartered Accountants

Autumn 2010

Welcome

Vertical text on the left margin: Gavin Whitter, Senior Manager



to the **Morris Crocker** newsletter for legal practices. Our aim is to provide you with concise and practical advice from our specialist team.

Morris Crocker are:

- Local
- Independent
- Cost Effective
- Specialists in the Legal Sector

Your practice could benefit from being looked after by our solicitors team. As members of the Institute of Chartered Accountants Specialist Interest Group for Solicitors, we are able to provide a specialist service to your practice.

Planning in a Time of Uncertainty

The UK is officially out of recession but, somewhat paradoxically, history shows that more businesses fail as the economy comes out of recession than during it.

This is because during a recession, firms tend to use up their financial resources (reserves, borrowings, own capital etc) and to get 'lean and mean'. Consequently, as the economy starts to recover, they don't have the capacity to meet the demand for their services as additional working capital is needed to finance an increasing amount of debtors and work in progress.

Should a law firm start noticing a growth in demand for its services then it must firstly remember to keep tight control over work in progress and debtor levels. Do not fall into the trap of concentrating too hard on getting the business in, at the expense of the proper management of "lock up".

Secondly, it will be important to speak to your bank to ensure that there is flexibility to provide the working capital you need. Whilst banks are more selective about lending money, and their terms are less generous, they will lend to businesses that are properly prepared.

However, many businesses (including law firms) will be feeling that recovery from recession is still some way off.


The housing market remains unpredictable and the full range and effect of the new Government's spending cuts remains to be assessed.

Factor in increases in tax and VAT and forecasting a practice's ability to grow (or the likelihood for shrinkage) becomes an exceptionally difficult task.

The 'elephant in the room' of succession planning then becomes even harder to resolve in such periods of exceptional uncertainty.

In addition, alternative business structures are on the way and law firms will have to at least regard this as a medium term planning consideration.





'It is fair to say that over the last couple of years, most law firms have been sitting tight and weathering the storm'.

'We are now moving to a time to look ahead and assess what reserves a law firm needs to position itself in readiness for growth and to protect itself if the planned for growth does not materialise'.

'A medium term plan should then be produced to position your practice as attractive for incoming partners or for an acquisition'.

Managing Tax Increases

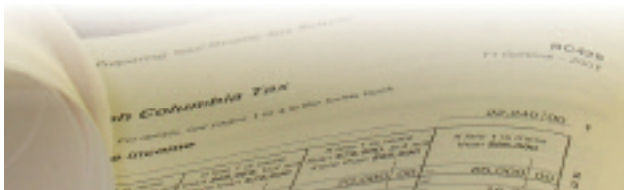
Profits currently being earned will be taxed at the 50% rate of tax if taxable income is in excess of £150,000. The withdrawal of personal allowances for taxable income over £100K means that some profits are, in fact, taxed at 60%. There is, of course, also the 1% increase in National Insurance as an added burden.

Payments on account for 2012 will be based upon the increased 2011 liability, and so there will be a substantial cash flow effect starting on 31 January 2012.

However, corporation tax rates remain either static or are reducing. The avoidance of National Insurance, the lower corporation tax rate and the ability to defer part of the tax liability on undrawn profits means that the use of limited liability companies is particularly attractive at the moment.

This could be either via the introduction of corporate partners or by transfer of the practice to a limited company. Substantial additional savings are often possible on transfer to a limited company if a goodwill valuation can be justified. In addition, there may be a substantial gain in cashflow as a result.

Please contact me if you would like a free, no obligation meeting to discuss tax planning for your practice.



Significant Changes in Solicitors' Regulatory Fees

The Law Society and the SRA will be introducing a radically different way of charging solicitors for funding the cost of regulation.

Until now most of the costs of regulation have been apportioned more or less equally among individual practicing solicitors through the practising certificate fee.

In 2011 the practising certificate fee element will reduce to 40% with 60% being attributed through a new firm based fee.

The amount paid will depend among the turnover of each firm, using a banded approach.

Firms with a high proportion of unqualified or paralegal staff are likely to see an increase in their costs.

There are some limited provisions to ensure that, if a turnover has decreased substantially since 2009, the charge is mitigated.

Further information is available from www.sra.org.uk/solicitors/pc-registration-renewal/fees.page

PII Renewals

It is expected that the usual difficulties will continue this year for some solicitors trying to obtain an appropriate level of cover at a reasonable cost.

The Law Society has a helpline open from 09.00 to 17.00 Monday to Friday and the number is **020 7320 9545**.

If you would like advice on any other accountancy or taxation concerns you may have please contact **Gavin Whitter**
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