

Solicitors



GS **GLOVER**
STANBURY
CHARTERED ACCOUNTANTS



Industry Background

According to the Law society the number of Solicitors admitted to the Roll in England & Wales on an annual basis has doubled over the last twenty years to a figure of just less than 9,000 per annum. Practices range in size from sole practitioners operating from High Street premises to the vast international law firms with many partners. According to the Law Society, approximately 85% of solicitor firms have four or fewer partners. Although for many practices conveyancing work accounts for a considerable proportion of turnover, a wide range of services may be offered. The work undertaken by the practice may be:

Contentious - relating to court cases where proceedings have actually begun, or

Non-contentious - work that does not involve the courts, for example conveyancing, preparation of wills etc

As the law continues to play an ever more important part in virtually every aspect of private and commercial life, demand for legal services is likely to remain strong. However, the profession faces a number of issues which are likely to affect most practices in one way or another. These include:

- An increase in competition, which may intensify due to the Alternative Business Structures introduced by the Legal Services Act
- Competition from other solicitors, as numbers continue to rise, from licensed conveyancers and other organisations such as online legal services, estate agents and from unqualified 'legal advisers'
- The opportunity to acquire rights of audience in the higher courts
- A significant increase in recent years in staff and professional indemnity costs.
- The continuing difficulty firms experience in collecting payment from clients reasonably quickly
- The buoyancy of the property market
- Proposals to cap success fees in 'no win no fee' cases
- Pressure on fees. Clients continue to exert downward pressure on fees while demanding a quality service

Some Industry specific areas of advice from our experience

VAT: The Cash Accounting Scheme may be of cash flow benefit.

Do your accounting procedures etc. comply with the Solicitors' Accounts Rules?

How are contingency fees dealt with as regards valuation of Work in Progress?

VAT can be recovered on the fuel element of mileage expenses for business use of personal vehicles by staff.

What are your future plans? Exit strategy, are younger partners involved? Is there a plan to achieve this?

Is the partnership agreement sufficiently robust to deal with appropriate financial arrangements?

Wills: are they tax efficient particularly as regards the business?

Are arrangements of the receipt of interest on client monies as efficient as they can be?

Are profit shares/extraction of profits made in the most tax/NI efficient way?

Can tax efficient wages be legitimately paid and justified to family members?

Are owners and staff arrangements on vehicles maximising tax reliefs etc?



Some Industry specific areas of advice from our experience (cont'd)

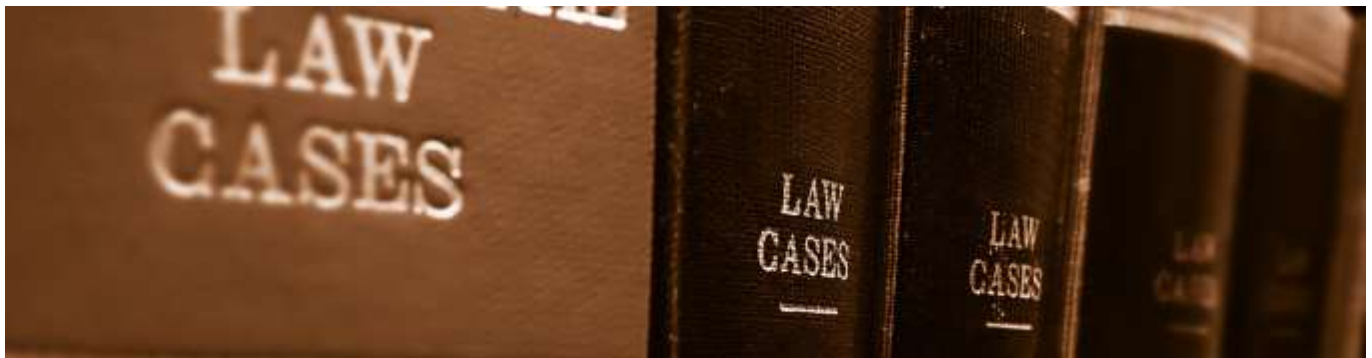
Where practical, part time workers can be considerably more cost effective due to employers NI savings compared to full timers.

Is a change of accounting date a good idea?

Are any loans (both business and personal) arranged in such a way as to maximise tax relief and minimise costs?

The practice of the future is likely to have:

- Clearly established its position in the market place and identified the range of legal services likely to be required by the local client base. There has been a clear move in the profession towards specialisation Introduced practice management systems with a view to improving profitability. This is likely to involve the use of computerised accounting and time recording systems.
- Taken steps to make sure that clients are billed on a regular basis and that collection procedures are effective
- Taken steps to improve chargeable hours worked by all levels of fee earner
- Strengthened risk management procedures, for example running credit checks on major new clients or limiting liability in contracts with clients



Use of Information Technology

How are you maintaining your books and records?

Are you reconciling cash and bank accounts regularly?

Do you know how much you owe or how much you are owed at any time?

The proper use of IT can provide you with regular and meaningful management information and save time and cost.

Would outsourcing your payroll and pension obligations be of benefit?

Would you welcome us maintaining or training you or your staff to operate a computerised accounting system, providing key financial and management information in a timely and understandable form?

- Recognised the importance of marketing the practice on an on-going basis. A high percentage of legal firms now have a website and many are interactive.
- Developed the necessary expertise to be able to advise clients on the legal aspects of e-commerce
- Considered the possibility of providing services in conjunction with non-legal firms as alternative business structures (ABS)
- Considered the possibility of extending the range of services offered.

Certain aspects of the VAT treatment of professional fees can be complex, for example, establishing when the tax point occurs, the correct identification and treatment of disbursements, the liability of services provided to overseas clients and so forth.



Key Performance Indicators

Many of the costs incurred by a solicitor's practice are fixed and bear little relation to the fee income earned. It is not therefore usual to express financial performance in terms of a gross profit rate or similar ratio. Financial performance is largely governed by:-

- The number of productive fee earners and the chargeable hours achieved
- The workload of the practice
- The charge out rates used
- The nature of the services provided
- The ratio of establishment costs to fee income
- The ratio of wages/salaries to fee income
- The ratio of communication costs to fee income

An individual practice's performance may also be reviewed in relation to gross fees for size of firm and overall average turnover index for the sector.

Ask us how your numbers compare for your type of activities.

Ask about our own award winning "tax tools" software including "business profitability analyst" based on key driver information.



Tax Investigations

Approximately 10% of all investigations carried out by HM Revenue & Customs (HMRC) will be selected at random but these random selections will be targeted at trade sectors where tax is thought to be at risk. HMRC's stated aim is to spread the investigation net to cover all sectors, including solicitors. Additionally, HMRC may have their own program of investigations targeted at this sector because of local knowledge, often the result of information obtained in the course of successful investigations into the same or a related type of business in the area.

When a business is selected for investigation other than at random, the most common reasons are:

- Information provided to HMRC by a third party
- Low and/or fluctuating Gross Profit Rate, or some other inconsistency in the accounts
- Low and/or fluctuating Drawings
- Unexplained introductions of cash into the business
- Technical offences, including failure or late notification of liability

Since HMRC is allowed only one enquiry into a return, added to the above reasons for selection for investigation will be an enquiry into a technical matter (e.g. the capital/revenue repairs argument).

You can pay a small premium to ensure your professional fees are covered in the event of an investigation – be VAT, PAYE or tax affairs generally.



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