SPRING 2009

the firm

A legal sector publication brought to you by Moore and Smalley Chartered Accountants and Business Advisors

Management Information – The difference between boom and bust?

Having timely and accurate information is essential

In these difficult economic times it is recommended that Practices manage their financial information more effectively. Management information includes a profit and loss account, balance sheet and in some cases a cash flow statement. However most legal Practices also require information on such issues as fees billed, work in progress movement, hours charged to clients, disbursements paid, unpaid debts.

We are also seeing that banks are updating their terms and conditions and requesting quarterly or monthly updates on management information. There has also been an increase in banks asking businesses to provide forecasts for the ensuing twelve month period. This is to ensure the business remains viable and will identify any shortfall in bank funding. It also provides them with a tool to measure the regular inflow of management information against performance.

Although some businesses may not be required to provide their financial information to banks it is still critical to any business in this current climate to have access to up to date, accurate management information.

It is now more crucial than ever that Practices are not waiting until after the year end date to bring in their accountant to prepare the year end accounts, and then sitting down with them well over a year after the beginning of the accounting period to look at what the results of the Practice are showing. This information is clearly out of date and business decisions that should have been made earlier may have been missed. It is imperative that all Practices are managed as a tight business and look to develop and maintain regular, timely and accurate financial information.

Analysing regularly produced financial information provides Practices with the ability to recognise potential problems and allows unexpected issues to be identified and dealt with earlier. This can avoid problems going undetected and allows making timely critical decisions that will ensure the continued success of the business. The production of such information is essential for controlling costs and for targeting completion and billing of work in progress.

If the management information is produced alongside monthly forecasts it will be easier for Practices to identify variances of actual results to those predicted, and help highlight potential areas that need to be addressed.

It may seem that developing and producing regular management information is too costly, especially with the current economic climate. However, doing so could be the difference between boom and bust.

Changes in ownership

Modifications to the Legal Services Act 2007 will offer a number of opportunities to Practices

A downturn in the economy with negative factors impacting on the business sometimes encourages business owners to think more strategically. That may be because they have time to think or have hit a level of panic over the reduction in day to day affairs. Recession may be the catalyst to make decisions about the future structure of your business.

There are a number of ways in which firms can change ownership, and important modifications in the Legal Service Act 2007 will offer alternatives to the sector immediately and in 2011/12.

Legal Disciplinary Practices (LDPs)

LDP Day is 31 March 2009. From this date, law firms will be allowed to admit different types of legal practitioners, and non-lawyers, into ownership of the Practice providing legal services.

Licensed conveyancers, barristers, notaries public, legal executives, patent and trademark agents, and law costs draftsmen will be able to join the Practice as a partner, member (in an LLP) or director (in a limited company). Partner, member, director are referred to as "managers" by the Legal Services Act.

The major change to regulation allows non-lawyers to join as manager of a Practice. The individual has to apply to the SRA for approval to join. Part of the SRA review includes a Criminal Records Bureau check. At the moment, only individuals can be admitted to an LDP. The changes planned for ABS's will allow corporate bodies to become owners.

There is a further restriction on non-lawyers. This stops the non-lawyer owning more than 25% of the Practice. It also stops more than 25% in number of managers being non-lawyers.

If Practices are planning to move to LDP status then there is also a fee payable to the SRA depending upon what date the status change is required. Fees are quoted at £60, £120 and £180. There is also a £250 fee payable upon application for admission of a non-lawyer manager.

Firms may wish to consider merging or admitting other legal service providers as a measure of diversification of activities. The "new" managers may be able to generate leads for new work to the Practice as a whole, which they may have sent to competitor firms in the past. There may be costs savings, for instance, in admitting in-house law costs draftsmen. As in all merger situations, there should be economies to be made from sharing overheads.

Alternative Business Structures (ABSs)

Expected to be authorised in late 2011/early 2012, an ABS will allow non-lawyers such as accountants and estate agents to be able to own a share of a law firm. Commercial organisations will also be able to own firms that provide legal support. This allows outside investment to buy into the firm and provide the opportunity for cash rich firms to quickly increase turnover. The ABS will also permit Practices to offer legal services and non legal services, creating a number of opportunities for legal firms to offer a holistic service to their clients. The Legal Services Board will regulate any alternative business structures to ensure the market offers healthy competition to all customers.

So although firms cannot yet take up this opportunity, it does present a fresh approach to legal and professional services provision that may become attractive for some.

Mergers and Acquisitions

It has also been predicted that there will be an increase in mergers and acquisitions in the legal sector this year. This is mainly due to smaller firms struggling in the economic climate and being bought out by larger firms, or making the decision to get together with similar firms so that overhead running costs are saved. Mergers and acquisitions provide an opportunity for firms to increase their turnover quickly as well as increasing their client base and competitiveness. It may offer the chance to enter another geographic area which was previously out of the catchment area for the firm.

Owner Investment

However the firm is structured, this is the time to review the capital invested by its owners. Where the Practice is finding cash flow more difficult to manage, then the partners/members/directors could be asked to increase their funding. Ways to do this include reducing monthly drawings, paying your own tax bills out of private sources, or taking out new practice loans to put lump sums into the business.

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Reducing your tax payments

In this economic downturn it is essential you know exactly how your business is performing. As mentioned in the 'Management Information - The difference between boom and bust?' article, the production of timely management accounts information is a vital part of this process as they give you the information needed to plan your cash flow and identify at an early stage if your profits are falling or rising.

Traditionally many partners have waited until the year end accounts have been prepared before looking at their tax payments. Your payments on accounts for the current tax year ended 5 April 2009, payable on 31 January 2009 and 31 July 2009, are based on your last year's reported profits, so if your current year's profits are falling, your payments on account for 2008/09 are likely to be overstated. This can mean that valuable cash will be paid over to HM Revenue & Customs unnecessarily through the payments on account system. If your annual accounts are not produced soon after your year end, the overpaid tax could sit with HM Revenue & Customs for many months.

Our preferred approach is to produce and review management information before the end of a tax year to see if there is any opportunity to reduce the tax payments before they become due. We also encourage the early completion of the final accounts so you know your final tax position before the 31 July 2009 and can plan your cash flow accordingly.

Good management information can also enable us to identify opportunities for tax and financial planning. For many professionals pensions are an essential part of retirement planning, but they can also provide additional tax planning opportunities especially if you pay higher rate tax on part of your income.

In the current tax year you can make payments into a pension scheme up to the lesser of £235,000 or your profit share for that year. For every £80 you contribute to your pension scheme the government will add an extra £20 and if you are a higher rate tax payer you can also reclaim tax of £20 when your tax return is prepared.

Your pension plan can be provided by an insurance company who will invest and manage your pension fund. Alternatively you could make pension payments to a Self Invested Personal Pension or SIPP, where you have a greater say about how your funds are invested. In some circumstances it may even be possible for your SIPP to own your business premises releasing valuable cash to your practice.

Whilst cash flow can affect the size of pension contributions you are able to make, making pension payments before the end of a tax year can serve to significantly reduce the higher tax you pay on your profits.

It is recommended you speak to your tax and financial planners to make sure you do not miss opportunities to plan for your retirement and at the same time reduce your tax bills.

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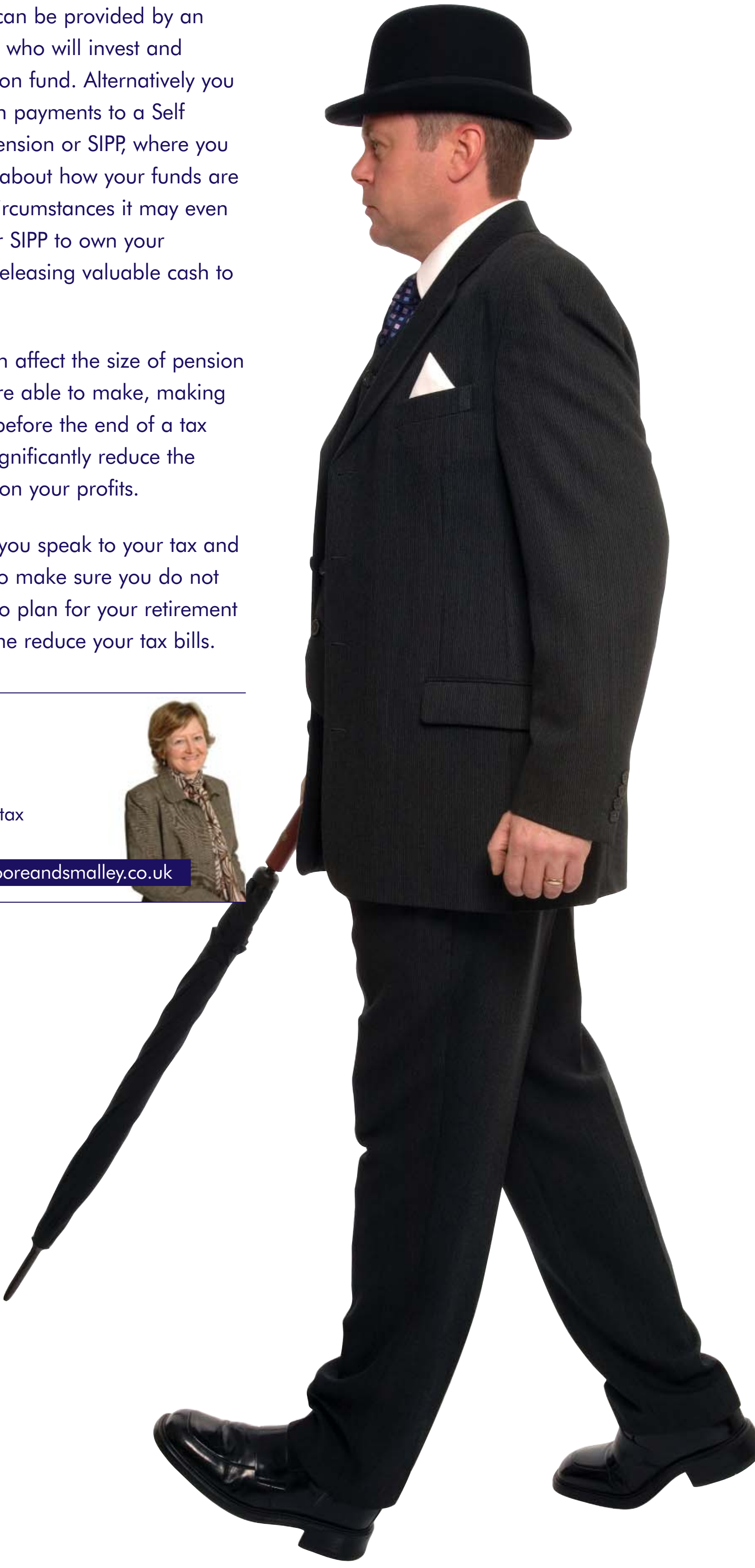

Don't miss out on opportunities to reduce your tax bill

Corporate Protection – Are you paying too much?

The credit crunch continues to hit many businesses hard and in these challenging times any way of reducing costs needs to be considered. Whilst most businesses will regularly review the cost of their motor and general insurances, corporate protection policies tend to get overlooked. Corporate protection policies play an important part in protecting businesses, and those involved in a business, from the financial losses that would arise from the death, or extended incapacity, of key people involved in a business. There are many different types of cover available including:-

- Loan Protection Insurance
- Keyman Insurance
- Shareholder/Partnership Protection Insurance
- Executive Income Protection Insurance

As with any other type of insurance the costs of providing the different types of cover can vary dramatically both from the different providers offering the same type of cover, and from rate changes over time. For example the current cost of a Loan Protection policy for £500,000 for a 45 year old male smoker over 10 years would be £65.84 pm with one of the cheapest providers or £118.43 pm with another provider. The two policies provide the same benefits but one would cost £6,310.80 more over the term of the policy than the other.

Similarly, in the above case, most people are unaware that if the insured person has not used any tobacco products for 12 months or more, then they can apply for non smoker terms. If accepted at ordinary rates, then the above premiums would decrease to £34.44 pm with the cheaper provider, or £56.92 pm with the other provider. Again the same cover is provided but the second policy would cost £2,697.60 more over the term of the policy.

Finally, as with motor and general insurance, corporate protection providers change their rates periodically. This means that if you have an existing policy it may be possible to replace the existing cover for a cheaper premium, or alternatively, obtain more cover for the same premium.

If you would like to discuss the costs of your existing cover please call Laurence Kelly on 01772 821021.

Reduce your insurance policy costs

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