

Legal Focus

DRIVING LIFELONG PROSPERITY

Spring 2018

SPOTLIGHT ON OUR ADVISORY SERVICES TO THE LEGAL PROFESSION

Welcome...

Welcome to the spring edition of Legal Focus. In this edition we look back at some of the project work undertaken by our Legal Team in 2017, and look at the differences in tax reliefs when leasing or buying a car.



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Hazlewoods LLP and Hazlewoods Financial Planning LLP produce regular updates, using our expert commentary to provide you with information about our services, events and topical premium business news.

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HAZLEWOODS

DRIVING LIFELONG PROSPERITY

Cars: Should you lease or buy? And, what tax breaks remain?

The answer to this question will depend on your personal circumstances, so first work out which option is the best deal financially. This will not necessarily be the option attracting the most tax relief.

For a cash purchase of a car, tax relief on the cost of the car is given as a capital allowance and spread over the period the car is owned. However, claims are restricted to the business use of the car and an adjustment is made based on the proportion of personal mileage relative to total mileage.

If a loan is taken out to buy the car, tax relief will be given on the loan interest, in addition to capital allowances on the cost of the car. As with the capital allowances, the deduction for the loan interest is restricted to the business use proportion.

Acquiring a car on hire purchase is similar to acquiring a car using a loan, with capital allowances for the cost of the car and a deduction for interest, both of which are restricted for business use.

The tax rules for leasing a car are different, because the lessor retains ownership of the vehicle during the term of the lease. Capital allowances are not available because the lessor owns the vehicle, but tax relief may be claimed on the rental payments. Again, this will be subject to a private use adjustment.

Cars with a CO₂ emissions figure exceeding 130g/km are subject to a further 15% restriction. For example, for a lease rental of £1,000 per month with 80% business use and CO₂ emissions of 140g/km, the tax deductible amount is £680 per month ($£1,000 \times 80\% \times 85\%$).

If there is an option to buy the vehicle with a single payment at the end of the lease, tax relief is available on the rental payments during the lease term and capital allowances may be claimed on the final purchase payment.

Whichever option is chosen to acquire the car, tax relief on the running expenses is the same. In a limited company, the benefit in kind arising on directors who have their fuel paid by the business is a flat rate linked to the emissions rate of the vehicle. Very often this is not found to be worthwhile. As a general indication, your private mileage would need to exceed 11,000 miles per annum driving a modest car, and more if the engine size increases.

Alternatively, a mileage allowance can be claimed for all business miles, which includes a contribution towards the servicing and maintenance. Currently payments up to 45p for the first 10,000 miles and 25p thereafter can be claimed without any benefit arising.

In a partnership or LLP, any private elements of a partner's motor running expense paid for by the practice is disallowed in the business tax computations.

Practices trading as partnerships may also be entitled to tax relief on repairs to a partner's car when it is a personal asset used within the business, even if the cost has been paid for by the partner themselves. Again, an adjustment for personal use is required.

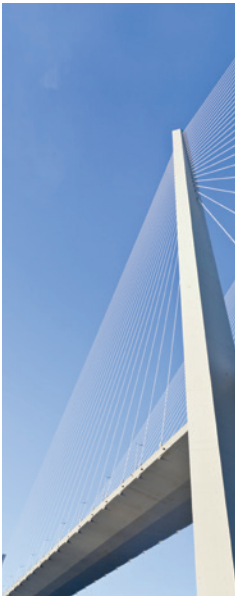
Cars can be a bit of a minefield when it comes to lease or buy decisions, and we are here to help.





COMPANY SECRETARIAL SERVICES

With the growth in alternative business structures, some of our clients have asked for our assistance with their company secretarial needs. We regularly advise on the benefits and logistics of company incorporations, name changes, share issues and transfers, appointment of directors and shareholders and changes of accounting dates.



CHOOSING THE RIGHT BUSINESS STRUCTURE

10 firms assisted with limited company incorporation.

The total number of law firms registered in the UK increased by 114 in 2017; limited companies were 44% of the population, with unincorporated entities reducing to 41%.

Whilst the number of obvious tax benefits for limited companies over partnerships appears to be falling, this structure is still growing in popularity.

MAKING INTRODUCTIONS



Over the years, we have built strong relationships with a number of reliable, professional advisers and brokers. When our clients are looking for an improved level of service from their bank, lender, insurer or bookkeeper, we have recommended from our own trusted providers.

VAT

VAT on disbursements became a hot topic in legal practices during the autumn when the Brabners tribunal overturned accepted VAT treatment on electronic search fees. This brought into question the treatment of VAT on all disbursements and our VAT experts Julian Millinchamp and Andy Connolly have been busy answering in detail the particular queries specific to individual practices.

REMUNERATION AND DRAWING PROFITS

Each year we advise hundreds of law firm owners how to meet their cash requirements in the most tax efficient way. For each individual we consider the options for salary, dividends, interest and pension contributions, and devise a structured plan which anticipates their changing circumstances.

MORTGAGE APPLICATIONS

100+ MORTGAGE REFERENCE LETTERS

Remuneration planning is becoming more complex for the self-employed, and with stricter requirements imposed by lenders, taking out a mortgage needs to be considered much earlier in the house buying process.

For those individuals with an investment property portfolio, and new tax legislation restricting the tax relief available on mortgage interest, we advise on the best course of action to help minimise the impact of future tax liabilities.



Hazlewoods Legal Team sums up 2017

Our team, specialising in all strategic, financial and taxation matters connected with the legal sector, grew to 27 by the end of 2017. Collectively we have amassed over 185 years' service in advising the legal profession, advising solicitors and law firms of all shapes and sizes, across the UK and further afield.

We are well known for taking care of the production of statutory accounts in compliance with Companies Acts, carrying out audits under the SRA Accounts Rules, and satisfying HMRC regulations through the submission of tax returns and computations. But what else did we turn our hands to in 2017?

SRA COMPLIANCE AND COMMUNICATION

- 100 SRA Accountant's Reports prepared
- 6 specialist reports to the SRA following client money frauds
- 10 applications to the SRA, including ABS applications, change of legal entity for businesses who were incorporating, and approval of new recognised bodies
- Continuing tailored services for clients including COFA support and cashier training



BUSINESS MODELLING

Helping to predict the future and answering your 'what if' questions:

- What if I want to retire in 5-10 years' time?
- What will we need to borrow to pay a retiring partner?
- What should the contribution be from introducing new partners?
- How much should we pay to acquire another practice?

STRATEGIC PROJECTS AND PRACTICE MANAGEMENT

We often have hands on involvement in various aspects of clients' practice management, either alongside the Financial Director or directly with the Partners. This can relate to specific projects or be a more integrated role as the need arises.

SUCCESSION PLANNING AND RETIREMENT

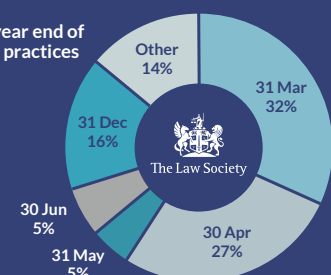
Exiting a practice can be a stressful process and requires detailed planning by both the retiring partner and the practice itself. Our experience enables us to provide detailed financial strategies, for the practice and the individual, that will make the process as hassle free as possible.

BENCHMARKING YOUR PRACTICE AGAINST YOUR PEERS

We are into our ninth year of preparing the Law Society's LMS Financial Benchmarking Survey. In 2017, 169 practices took part, which provided

meaningful benchmarking on key financial data including fee income, employment costs, profitability, working capital and financial stability.

Accounting year end of
participating practices





EXPERT WITNESS AND LITIGATION SUPPORT

Andy Harris, Associate Partner, appeared as an expert witness on SRA Accounts Rules audits. The fraud case was won by our client who, in turn, secured multi-million pound damages for their client. On a smaller scale, he has taken on the role of mediator in partnerships where working relationships had irreparably broken down.

NEW PRACTICE START-UPS

7 individuals assisted with setting up their own law firm

No stone was left unturned in helping these individuals to realise their dream of owning their own practice. This included incorporating new companies, applications to the SRA for recognition and assisting in setting up their accounting records.

SALES AND ACQUISITIONS

6 firms assisted in preparation for acquisition

Our brief extended to identifying and making introductions to potential acquirers, drafting an Information Memorandum for the practice, advising on negotiations, and supporting them through the whole process.

FEE EARNER TRAINING

All practices focus on improving their profitability. We have helped some achieve this by ensuring all their fee earners understand key performance indicators and metrics within law firms, such as working capital, recovery, and productivity. Providing fee earners with these additional tools demonstrates the importance of effective time recording, regular billing, and credit control.



MANAGEMENT REPORTING

We are engaged to prepare monthly and quarterly management accounts for a number of practices. Beyond the standard record keeping you would expect, our staff have the knowledge to provide commentary on key performance measures and variances against budgets, which can bring your management reports to life.

PRACTICE VALUATIONS

20 practice valuations

Whatever the circumstances, there are many methods of valuing a business. Our niche sector experience means our clients receive comprehensive options and consequences of all possibilities available to them. We have also been able to offer practical suggestions of how a practice can improve its performance or financing arrangements.

MERGERS

13 practices assisted with mergers

Organic growth can be challenging to achieve consistently, and many practices are now looking to expand through mergers or acquisition. We can support initial introductions, preparation of supporting financial data for discussions, attending merger discussions, providing all the necessary support relating to the implementation of new controls and processes, and ensuring efficient transition in all matters financial.

ATTENTION ALL NEW PARTNERS

Becoming self-employed for the first time can be a daunting experience, so here is a brief checklist to get you started.

- ✓ Remember to register for self-assessment. You must notify HMRC within 3 months of becoming self-employed.
- ✓ Your first payment will be 31 January following the end of the tax year in which you ceased being employed. This could be as much as one and a half times your annual tax bill.
- ✓ Start saving now (we can help you plan what to put aside) unless your practice saves for you.
- ✓ Record any personal business expenses.
- ✓ Keep a log of business miles travelled in your car.



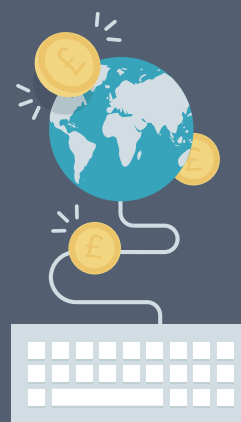
VISIT OUR WEBSITE: CASHIER COURSES WEBINAR LAUNCHED

The first in our series of cashier courses
is now live on our website

<http://bit.ly/legal-webinars>

SRA Accounts Rules - The background

A useful tool for individuals to familiarise themselves with the fundamental principles behind the rules and some simple steps they can follow to ensure the rules are complied with.



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