Legal Focus

DRIVING LIFELONG PROSPERITY

Spring 2021

SPOTLIGHT ON LEARNING FROM 2020

SIGN UP TO RECEIVE OUR BUSINESS UPDATES

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.

SIGN UP/UPDATE ONLINE: **http://bit.ly/hazlewoods**

INSIDE

HAZLEWOODS
DRIVING LIFELONG PROSPERITY

Emerging from challenge – create the win-win now

Whilst March 2020 might feel a long time ago, we wanted to start this article then, as the majority of law firms were looking forward to ending their 2020 accounting years with another strong performance. In fact, for lots of firms, the last five years or so have been a run of strong performances.

However, whilst financially things were looking positive, looking back, for many life was in fact somewhat less perfect, with:

1. Lots of law firm staff not enjoying the work intensity in their firm, as everyone coped with increasing client, regulatory, and IT security demands;
2. The daily commute had become a real chore for many people, with packed public transport, difficulty parking near to the office, the time commitment of commuting getting longer and longer, or the fact that commuting has become expensive for so many people.
3. Despite the majority of law firm offices having modern IT, and all necessary equipment, many were not making best practical use of the available technology.
4. Lots of law firm offices had become quite short of space as firms have grown and taken advantage of maximising available space.
5. Service levels not always being what clients expected to receive, with ongoing challenges to find lasting ways to further improving it.

The first lockdown commenced on Monday 23 March 2020, and by the end of that week the majority of law firm offices lay fairly empty.

It was completely natural for law firm owners to worry about how work could be completed, at least to a satisfactory standard/timescale, and in our experience, the majority of firms set about producing what turned out to be overly pessimistic financial budgets for the next 12 months – easy to say now of course – we did the same in our business.

With the first lockdown came the new concept of furlough, and throughout our law firm client base, the average proportion of staff who were subject to furlough at some point or other was almost 25%.

Throughout the summer months of 2020 workflows were better than expected. There were exceptions of course, including residential property work, business sales and purchases and anything reliant on the court system.

Following schools re-opening from 1 June 2020, and high-street shops and many leisure venues following suit from 15 June, workflow in the sector increased quite quickly, particularly residential conveyancing, fuelled by the stamp duty land tax (SDLT) incentives which commenced on 8 July 2020. In fact, only a few weeks later, law firms were reporting that they had more conveyancing instructions than they were able to easily cope with. This was a situation that continued right up until November or December 2020, and even though the number of new instructions has fallen from January 2021 onwards, the run up to the ending of the SDLT incentive on 31 March 2021 (now 30 June 2021 in its current guise and 30 September 2021 in a lesser form), more or less all law firms carrying out residential conveyancing work are set to continue to be extremely busy.

The gradual un-furloughing of staff by law firms started from around July 2020, and many had very few (or even no) staff left on furlough by the time schools opened their doors at the beginning of September. Additionally, those firms who had felt the need to cut pay for staff who were working, reinstated normal levels of pay.

During the months of September through to Christmas, the majority of mainstream law firms were operating at or near to pre-COVID-19 levels, or better. Many firms implemented salary reviews and promotions in either October or November, to tie in with their half-year end.

It is true to say that there have been redundancies in the sector, but nothing particularly widespread, and for many, it is fairly likely that COVID-19 merely gave rise to an opportunity to reassess staffing needs in certain teams, to a certain extent. Fee-earners, in particular, are still leaving one firm to join another, and it remains challenging to recruit quality solicitors.

THE WIN-WIN

We all know that COVID-19 forced almost all law firms into a place where they are now able to operate effectively with either all or part of their workforce working remotely, either all of the time, or part of the time. The way in which firms have been able to make a success of this is nothing short of tremendous.

As a result, the level of confidence in feeling that a more flexible way of approaching work in the longer-term is not only feasible, but desirable, has increased dramatically.

Given this, firms are now turning their attention to some very significant emerging opportunities for themselves, including:

1. Genuine belief that the new efficiencies that remote working part of the time can bring are real.
2. Noticing that the wellbeing and motivation of many staff is higher with more flexible arrangements.
3. Expectations of many clients have altered away from what can be long face-to-face meetings every time, and more towards swifter overall service levels.
4. The upskilling in the use of technology by so many people really has paved the way for greatly improved ways of both sharing and executing legal documents electronically.
5. Communication methods have become more auditable with improved electronic working, thereby improving service levels and reducing risk.
6. Savings in certain overheads can continue in the longer term;
7. There is a new willingness within those working in law firms to try new approaches, and as a result, belief has accelerated that they do give rise to efficiency gains, better service and a generally improved working life.
8. The natural caution of law firm owners towards different ways of working has noticeably changed too, and therefore those running practices are far more open to new ideas and ways of thinking as to how legal services can be delivered.

As a result of all of this, many firms are now starting to focus on designing client experiences to actually suit the client, and not just to suit themselves, and in doing this are finding that delivering services that suit the client better are actually more efficient anyway.

THIS IS THE WIN-WIN SITUATION.
Therefore, if you have not done so already, start to ask yourself questions like:

1. Is the format of the advice I provide to clients the easiest for them to understand and process?
2. Can we use a completely different technology or process to produce it?
3. Is my communication with my client as frequent as they would like?
4. Am I communicating to clients in the way that they want to receive it (and have I asked them)?
5. Do they really understand what exactly I am doing for them?
6. And do they understand why?

Now is the time to reappraise both work delivery and service levels in your firm. The easiest way to improve your firm's financial performance will always be to efficiently provide the best possible client service, and charge for it accordingly.

Taxation - the end of the tax year is coming round again...

Before we know it, we will be at the end of another tax year. Here are some things that you and your family may wish to consider in advance of the end of the current tax year on 5 April 2021.

INCOME TAX

The differing tax rates and allowances

For most people reading, the most relevant income tax thresholds are:

A. Taxable income of £50,000 and above – it is here that the standard rate of income tax increases from 20% to 40%*, and the rate of tax attributable to dividend income increases from 7.5% to 32.5%.

B. Taxable income of £100,000 to £125,000 – taxable income in this band is subjected to income tax and an effective rate of 60%* as a result of the gradual removal of the personal allowance, making it exceedingly expensive from a tax point of view.

B. Taxable income above £150,000 – the standard rate of income tax now increases to 45%*, and 38.1% for dividend income.

Therefore, reducing taxable income below any of these thresholds can result in significant tax savings, particularly so far as the £100,000 to £125,000 band is concerned.

PENSION CONTRIBUTIONS

Anyone who is a higher rate taxpayer will receive the benefit of tax relief at their highest marginal tax rate for any contributions into pension schemes that fall within their annual permitted contribution levels.

The standard maximum annual contribution level is £40,000 and has been for many years now.

The maximum contribution level is reduced on a sliding scale as the level of income increases. For the current tax year, this tapering arrangement does not begin until total taxable income of £240,000 (including the pension contribution), and after that, the available pension contribution maximum reduces at a rate of £1 for every £2 of income until it reaches a maximum contribution level of £4,000 at a total taxable income level of £312,000 (or more).

In addition to the above, individuals may make use of unused pension contribution allowances for the previous three tax years, meaning that in certain cases the maximum contribution level can be as high as £160,000.

The legislation relating to all of this is quite complicated, so specific advice needs to be taken before making any decisions.

GOVERNMENT BACKED INVESTMENT PLATFORMS

All of the following are Government backed investment platforms giving the incentive of income tax relief in exchange for the underlying investment carrying a varying degree of commercial risk.

A. Enterprise incentive scheme (EIS): This allows qualifying unquoted trading companies to raise up to £5,000,000 each year, with individual investors qualifying for income tax relief at 30% up to a maximum individual investment of £1 million per tax year, or £2 million if the amount above £1 million is invested into 'knowledge intensive' businesses.

B. Seed enterprise investment scheme (SEIS): In many ways this is similar to EIS, except the companies receiving the investment are less than two years old. The maximum investment by an individual is £100,000 per tax year and income tax relief is available at a rate of 50%.

C. Venture capital trust (VCT): The principal difference between a VCT and an EIS investment is that VCTs are offered in a fund structure, whereas investments are required to hold individual company shares with EIS. Therefore, under VCT, there is an element of commercial protection in that you are effectively investing into a pooled fund.

As with EIS, the rate of income tax relief is 30%. The maximum investment you can make in a tax year is £200,000.

D. Social investment tax relief (SITR): This arrangement is used by eligible social enterprises, charities and community businesses to raise capital for their trading activities only. Investments of up to £1,000,000 per person per tax year qualify for income tax relief at 30%. SITR is due to end on 5 April 2021.

* Plus a further 2% of national insurance for earned income.

In addition to the income tax relief, any gains realised on the eventual disposal of shares in all of the above investment categories may be exempt from capital gains tax, and there may also be the possibility to defer pre-existing capital gains from the disposal of other assets into EIS, or SITR (although only for gains made before 6 April 2021 for the latter).

In addition to needing specific taxation advice before making an investment into any of the above, advice from a suitably qualified independent financial advisor is also strongly recommended. Hazlewoods Financial Planning is always delighted to work alongside us here.

CHARITABLE DONATIONS

Income tax relief at your highest rate is available for cash donations to all UK registered charities and certain non-UK charitable organisations too.

Charitable donations in cash need to be made under Gift Aid and are paid after deduction of income tax at the basic rate. By way of example, if you are a 40% taxpayer and make a cash donation of £10,000, you will pay £10,000 to the charity, the charity will reclaim £2,500 from HMRC and you will claim a further £2,500 via your self-assessment tax return. The effect of this is that the cost to you will be £7,500, and the charity will receive £12,500.

In addition to making cash gifts under Gift Aid, it is also possible to obtain income tax relief at your highest rate on donations made in specie. The rules here are quite prescriptive, and it is principally UK land/property and certain types of shares that qualify.

Again, this is a complicated area, so you need to take advice before proceeding.

EXEMPTIONS FOR OTHER FAMILY MEMBERS

Tax planning is always something that is best considered in the round, and we thought it would be useful to include details of the other reliefs and exemptions.

STAKEHOLDER PENSIONS - UP TO £3,600 PER ANNUM PER PERSON

All UK residents under the age of 75 can contribute up to £3,600 per annum into a stakeholder pension scheme each tax year. This is irrespective of their level of income, and therefore contributions can be made for both non-working spouses and also children.

Contributions are made net of basic rate tax. Therefore, to contribute £3,600 the actual payment into the pension will be £2,880, with the pension scheme reclaiming the difference of £720 from HMRC.

As with other pensions, the amounts invested will not be available until the individual for whom they are invested reaches the minimum pensionable age as prescribed by the Government. This is presently 55, but it is set to increase in the future.

INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

The maximum investment limit for an ISA in the current tax year is £20,000 per person. This can be invested via a mixture of cash, UK stocks/shares, corporate bonds, overseas shares and various other permitted investments.

ISAs are only available to UK resident individuals aged 16 or over (cash ISAs only), or 18 or over (all other types of ISA).

Junior ISAs are also available for children under 18 up to a maximum amount of £9,000 in the current tax year. The monies can be invested in either cash or stocks and shares, and the funds are tied up until the child reaches the age of 18, at which time they will naturally default into a normal ISA.

The investment of monies by a parent into a Junior ISA avoids the need for the parent to pay income tax on interest in excess of £100, although achieving interest of £100 is challenging at present.

We can help with both pensions and ISA advice, working alongside Hazlewoods Financial Planning.

INHERITANCE TAX ANNUAL GIFTS EXEMPTION

All individuals can make gifts totalling up to £3,000 each tax year without any inheritance tax implications at all.

In the first year of making such a gift it is possible to also utilise the previous year's exemption, i.e. the total gift can be as high as £6,000.

Hazlewoods Financial Planning

We set up a small Financial Planning team in 1994 in response to hearing from many clients that they were not receiving truly independent financial advice relating to investments, pensions and so on.

To begin with we had a single adviser and an assistant. The remit was simple: to provide a service whereby our clients feel completely confident that they are receiving truly independent financial advice, not linked to any particular provider or larger 'umbrella' organisation, given by individuals who are not incentivised by receiving any form of commission.

We now have a team of 15 individuals working on exactly the same basis, and offering the following services:

- Investment management
- Planning for retirement
- Maturing benefits and retirement
- Employee benefits
- Succession and inheritance tax planning
- Family cashflow lifetime modelling

Any of our advisers would be delighted to spend some time with you on a no obligation no cost basis, or you can ask your normal Hazlewoods contact. Alternatively, visit: **www.hazlewoods.co.uk/services/financialplanning**

MEET THE TEAM

KYLE NETHERCOTT
01242 680000
kyle.nethercott@hazlewoods.co.uk

STEPHEN DICK
01242 680000
stephen.dick@hazlewoods.co.uk

GARY COOK
01242 680000
gary.cook@hazlewoods.co.uk

ANDY HOGARTH
01242 680000
andy.hogarth@hazlewoods.co.uk

Forensic Accounting and Litigation Support

Over the years we have built an extremely experienced team of individuals dealing in forensic work.

By combining accounting, tax, auditing, corporate finance and business valuation knowledge with investigative skills, we are very well placed to support the needs of your firm with expert witness advice in all of the following areas:

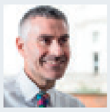
- Professional negligence claims
- Commercial disputes
- Matrimonial disputes
- Personal injury and insurance claims
- Fraud and false accounting
- Loss of profits and income claims

Unlike many other providers we have vast expertise in certain business sectors, which is extremely hard to find elsewhere.

Follow this link to find out more:
www.hazlewoods.co.uk/services/forensic-accounting-and-litigation-support

MEET THE TEAM

RUTH DOOLEY
01242 680000
ruth.dooley@hazlewoods.co.uk



JON CARTWRIGHT
01242 237661
jon.cartwright@hazlewoods.co.uk

DAVID MAIN
01242 237661
david.main@hazlewoods.co.uk

MARTIN HOWARD
01242 237661
martin.horwood@hazlewoods.co.uk

resolution member

Business Restructuring

With further economic challenges expected as we gradually move away from the COVID-19 related restrictions, our Restructuring team specialises in working with businesses to deliver support to management teams in order to generate liquidity and protect value.

Our services include the following:

- → Financial modelling
- → Debt advisory
- → Restructuring
- → Corporate simplification
- → Business recovery and insolvency
- → Solvent liquidations
- → Corporate finance advice

Our lead partner, Peter Frost, will always be pleased to offer initial advice without cost or obligation and can be contacted on 01242 680000. Alternatively, you can find out more by following:
www.hazlewoods.co.uk/services/business-restructuring

MEET THE TEAM

PETE FROST
01242 680000
pete.frost@hazlewoods.co.uk

PAUL FUSSELL
01242 680000
paul.fussell@hazlewoods.co.uk

JOHN LUCAS
01242 237661
john.lucas@hazlewoods.co.uk

MEET THE TEAM

JON CARTWRIGHT
Partner
01242 237661
jon.cartwright@hazlewoods.co.uk

PATRICIA KINAHAN
Partner
01242 237661
patricia.kinahan@hazlewoods.co.uk

ANDY HARRIS
Partner
01242 237661
andrew.harris@hazlewoods.co.uk

SIGN UP TO RECEIVE OUR BUSINESS UPDATES

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.

SIGN UP/UPDATE ONLINE: **http://bit.ly/hazlewoods**

Windsor House, Bayshill Road, Cheltenham, GL50 3AT
Tel. 01242 237661
www.hazlewoods.co.uk / @Hazlewoods

HAZLEWOODS
DRIVING LIFELONG PROSPERITY

HLB
WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY AND ACCOUNTING NETWORK