Spring 2015

Legal Focus

Guiding you to lifelong prosperity

Contents:

New SRA Consultation on Accountant's Reports

Year end tax planning checklist

HAZLEWOODS

DRIVING LIFELONG PROSPERITY

New SRA Consultation on Accountant's Reports

On 19 November 2014 the SRA issued its latest consultation document on the SRA Accounts Rules and the role of the Reporting Accountant.

In short, the SRA is now proposing the following:

- A redefinition of the circumstances in which accountant's reports are qualified;
- Changes to the format and content of the accountant's report;
- Removing rule 39 of the Accounts Rules (Test Procedures) in its entirety, and replacing it with a new rule requiring reporting accountants to use their professional judgement;
- Exempting some practices from the requirement to obtain an accountant's report;

Why is the SRA doing this?

First of all, the SRA feels that too many accountant's reports are qualified for fairly trivial reasons, and as a result most do not reveal any significant risk to client monies. The SRA acknowledges that much of this is due to the levels of precision required by the Accounts Rules, and also the fact that reporting accountants are currently required to report on what they see, rather than reporting only the most concerning items.

The SRA is therefore proposing to redefine the circumstances in which accountant's reports are qualified, so that far fewer reports are qualified in future. Presumably, most of the breaches that are currently considered "material" will in future be deemed "trivial".

Secondly, the SRA wants reporting accountants to use their professional judgement when carrying out their audits and completing their accountant's reports. Currently, Rule 39 lists over 20 tests that reporting accountants have to perform, such as reviewing two sets of client account reconciliations, testing a sample of client money receipts and testing a sample of client money payments.

Under the SRA's proposals, the whole of Rule 39 will be removed, and replaced with the following:

- The accountant should exercise his or her professional judgement in adopting a suitable work programme for the firm they are instructed to obtain the report on. This should cover the checks and tests that the accountant considers is appropriate to enable completion of the report referred to in Rule 42 below.

In their report, accountants will be required to examine whether a practice has incorporated the following elements into its client money accounting system:

1. The segregation of client and office monies;
2. A robust system of controls and checks to ensure accuracy and protect against fraud;
3. Effective oversight by management;
4. Appropriate authorisation of transfers and payments out of client account;
5. Ledgers and other entries are maintained on a timely basis;
6. An appropriately designed double-entry accounting system;
7. That proper office and client bank account reconciliations are performed;
8. Adequate segregation of duties (for example, one person to prepare the client account reconciliation, but another person to check and sign it off);
9. Controls over incoming funds.

Any significant deficiencies in any of the above will need to be flagged up in the report.

Finally, the SRA wants to remove more lower-risk practices from the requirement to obtain an accountant's report. According to the consultation document, the SRA is keen to ensure that they strike the right balance between retaining a degree of oversight of client money while minimising unnecessary burden on firms.

What will a qualified report mean in the future?

Presumably, once the SRA has redefined the term "qualifying breach", far fewer accountant's reports will be qualified. Where reports are qualified in future, it will be because the practice has insufficient internal control procedures, or there is concern that client funds may not be properly safeguarded.

Therefore, if your report is qualified, you may be more likely to hear from the SRA.

I'm a COFA. How will this impact on me?

COFAs will need to have a very close look at their internal systems to ensure that they are as water-tight as possible. This should involve a review of each element of dealing with client monies, including actions taken by everyone in the practice. The COFA should also go through the above list of elements that reporting accountants are going to be asked to report on and ensure that they do not have any exposure there.

Is it possible that my practice won't need an audit anyway?

Yes. As part of the consultation the SRA are proposing the introduction of risk-based criteria to exempt practices with a certain profile from the requirement to obtain and deliver an accountant's report. The changes introduced in October 2014 exempted 115 pure Legal Aid practices, and the SRA are looking to exempt many more.

According to the consultation document, the SRA has calculated that if they were to exempt practices that held an average client account balance of less than £10,000, then a further 995 practices could be removed from the requirement to obtain and submit an accountant's report. If the threshold was increased to £50,000, then 1,957 practices would be exempted.

The consultation closed on 28 January 2015.

Year end **tax planning checklist**

With Christmas over and tax returns for 2013/14 perhaps only just filed thoughts of checking your tax position for the 2014/15 tax year may not be top of your list. However, with just a month or so to go before the end of the current tax year any potential tax planning needs to be considered sooner rather than later.

We have devised a checklist of the top 10 year end planning ideas which include some quick wins and some more complex ideas to ensure that full advantage of the allowances and reliefs provided by the Government are taken.

1. Additional rate payers

Done?

Q Do you have income over £100k? If so, you could be paying tax at an effective rate of up to 60%.

A Taxable income could be reduced if you:

- [ ] Make pension contributions
- [ ] Make gift aid payments
- [ ] Defer income such as dividends to 2015/16
- [ ] Accelerate expenditure such as capital expenditure to 2014/15
- [ ] Transfer investment property to spouse (even if you only transfer 1% both will be taxed on 50% of income) or other income producing investments (e.g. shares, savings) to utilise their personal allowance/basic rate band to the extent it hasn't been used already.

2. High Income Child Benefit Charge

Q Are you a higher rate payer and receiving Child Benefit?

A This could lead to a claw back of your Child Benefit and a requirement to register for self assessment (if you have not already).

- [ ] Ways to reduce taxable income include those as set out above for additional rate payers.

3. Business mileage claim

Q Does your employer reimburse your business motoring costs at less than 45p per mile (for the first 10k miles and less than 25p thereafter) or not at all?

A Reduce your taxable income by claiming a deduction for the difference between the mileage rate your employer reimburses and the 45p/25p statutory rate. ☐

4. Company cars

Q Are you due to renew your company car?

A The benefit in kind rates are increasing depending on the emission levels of the car. To save tax it might be time to look at the more eco friendly options, although from 1 April 2015 even they are no longer completely free of tax! ☐

5. ISA allowances

Q Have you used your full allowance for 2014/15?

A Up to £15,000 can be invested, all of which can now be in cash if desired. Although making the investment itself doesn't attract any tax relief, any income generated from it will be tax free. ☐

6. Investments

Done?

Q Have you considered making a tax efficient investment?

A Consider investing in Enterprise Investment Schemes, Venture Capital Trusts, Seed Enterprise Investment Schemes or qualifying Social Investments to shelter tax at higher rates and potentially defer capital gains arising in the current year. ☐

7. Annual Investment Allowance

Q If you are a sole trader or partner in a practice have you made full use of your annual investment allowance?

A With the £500k allowance only available for a limited amount of time, and reducing to £25k from January 2016, if you are planning any large capital expenditure then now may be a good time to bite the bullet whilst 100% allowances are available. ☐

8. Capital Gains Tax allowance

Q Have you used your full CGT allowance for the year?

A The CGT annual exemption for all individuals for 2014/15 is £11,000, which you should try and use, if possible. ☐

Consider a transfer of assets between spouses so that both can benefit from the £11,000 annual exemption. ☐

9. Inheritance Tax exemptions

Q Have you made use of your IHT exemptions?

A Take advantage of the annual gift exemption of £3,000 where possible. If you have not used it in the previous year then £6,000 can be claimed in the current year and can offset one or more gifts. ☐

There are also other exemptions for certain other small gifts, certain gifts for a marriage and gifts to charitable and political organisations. ☐

10. Undeclared income

Q Have you declared all of your income?

A HMRC have ever increasing powers to obtain information about taxpayers, and a sophisticated system to link into many public resources. As tax avoidance is top of the agenda, if you have any undeclared income or capital gains then speak to your tax contact to decide how best to proceed. ☐

Conclusion If only it was as easy as a simple tick list but unfortunately tax is complex and any planning needs to be carefully considered. The above ideas only provide a very high level snapshot of what could be done, but if you are looking to review your current tax position and want to know if you could be paying too much tax we would advise that professional advice is sought.

We are very happy to discuss matters arising from this newsletter,
as well as any other issues relating to your business or personal financial affairs.

The services we provide include:

- Audit under the SRA Accounts Rules
- Accounting
- Practice strategy planning
- Partnership mergers/acquisitions
- Taxation - compliance and planning
- Practice structure planning, including LLP conversion, limited company incorporation and combinations
- Practice finance and performance reviews
- Improving fee earner and non fee earner efficiency
- Benchmarking against similar practices
- VAT and Stamp Duty Land Tax
- Partnership changes
- Remuneration planning
- Goodwill valuations
- Expert witness work
- Business plans (including financial forecasts)
- New practice start-ups
- Raising finance
- Advice on practice administration software
- Financial services
- Trusts and estates

HAZLEWOODS
DRIVING LIFELONG PROSPERITY

Windsor House, Bayshill Road, Cheltenham, GL50 3AT
Tel: 01242 237661 Fax: 01242 584263

www.hazlewoods.co.uk