



Legal Update

July 2009

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CFAs, WIP, Tax and Cash-flow Planning

This latest e-shot looks at the recent announcement regarding contingent fees and opportunities for tax planning and cash-flow management.

Contingent Fee Arrangements

The Accounting Standards Board (ASB) has recently looked to clarify the accounting treatment of Contingent Fee Arrangements (CFAs). The issue, since 2002, has been whether related expense (time cost) on such assignments should be expensed or can be recognised as Work-In-Progress (WIP) at a year-end.

The ASB has now agreed that either is permitted and where the amounts are material "those responsible for the financial statements should apply their professional judgement to select the accounting policies most appropriate to the particular circumstances".

The ASB letter as addressed to the Chief Executive of The Institute of Chartered Accountants in England & Wales is attached.

Work-In-Progress Valuations

We would though recommend against being too aggressive with WIP valuations at either this year end or subsequent as H.M. Revenue & Customs have and will continue be very interested in the valuations. They would take a dim view of an increase to smooth (otherwise not so impressive results in the current climate) which could then have the happy coincidence of reducing tax that might ultimately be taxed at 50% in a subsequent tax year.

Change Accounting Reference Date?

Another tax planning consideration that could be open to professional firms is changing their year-end. It could be that overlap relief (not insignificant in some cases) is available and if

timed correctly, with a change of accounting reference date, could be relieved against 50% rates of tax commencing 6 April 2010. If your view is that the higher rates are temporary (we are not necessarily expressing an opinion) this could be a one-off opportunity of some benefit?

Cash-flow Assistance

With profitability, cash-flow and tax payments on account due at 31 July 2009 affecting all Solicitor firms the above are key and important issues to address.

Further matters to assist cash-flow could be:

- Use H M Revenue & Customs' Business Support Service. This dedicated service which deals with requests for deferral of tax, National Insurance, VAT and other payments for businesses is available for individuals and Partnerships too.
- Communicate with your Bank and other finance providers and plan for likely requirements to meet any known shortfalls.
- Internal communication to ensure the appropriate focus on, say, debtor collection so that your practice avoids any projected short or medium term cash flow problems.
- Interest being received on bank accounts. Banks are generally very keen to have your clients' funds so always ensure the rate of interest you are receiving is competitive, albeit very low!

Please do take the opportunity to refer to our website and in particular the Professional Services sector which contains our dedicated Newsletter and e-shots already produced in this calendar year to assist you and your business.

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