



Summer 2011

Menzies Legal Team Update

Welcome to the latest update from the Menzies legal team.

In this edition we cover the Pension Legislation Changes that came into effect a couple of months ago, our Legal sector LinkedIn group, a summary of the proposed Solicitor' Accounts Rules and our autumn seminar.

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For further information, please contact Peter Noyce at pnoyce@menzies.co.uk or your regular Menzies LLP Relationship Partner.

Pension Legislation Changes affecting Legal firms and partners

We are now a couple of months into the new regime and thought a reminder of the changes would be useful to yourselves and your clients.

Annual Allowance

With effect from 6 April 2011 the annual allowance which restricts maximum pension contributions with full income tax relief will be reduced from £255,000 to £50,000. Contributions paid in excess of £50,000 will be subject to an income tax charge at the members' marginal rate of income tax. Whilst these rules are easy to manage for defined contribution pension schemes, the same cannot be said for final salary, or defined benefit, pension schemes. We recommend that members of final salary pension schemes seek either independent financial advice regarding their contribution levels or alternatively speak to the scheme administrators.

New Carry Forward Rules

With effect from 6 April 2011, it will be possible for individuals to carry forward unused pension relief going back three tax years and claim full income tax relief in the year the contribution is paid. Importantly, the individual must have sufficient taxable income in the year the contribution is paid to secure full tax relief on the contribution at their highest rate.

The Lifetime Allowance

This will reduce from £1.8 million to £1.5 million on 6 April 2012. Furthermore it is understood that this limit will not be indexed in years to come as was the intention in the A Day legislation. The significance of this change is that any pension funds accrued in excess of the lifetime allowance on death and when a decision is taken to draw pension benefits will be subject to a 55% income tax penalty. Provision has been made for individuals who had been planning to fund to the £1.8 million allowance to apply for protection so that their allowance is fixed at that level. This will be conditional on no pension contributions being paid for them, or no further pension benefits accruing for them, after 5 April 2012. Individuals requiring fixed protection will need to submit a completed application form that must reach HMRC by 5 April 2012.

Income Drawdown Rules

The ability to draw down income directly from a pension fund rather than purchasing an annuity remains. The rules have however changed. Currently, there are two types of income drawdown, one for those over 77 years old and one for those less than 77 years old. With effect from 6 April 2011 there will be one set of rules for all. The new rules will limit the maximum income an individual may draw to 100% of the rate determined by the Government Actuaries Department (the GAD rate) which is broadly equivalent to a single life annuity rate. This will be reset every three years. This presents a planning opportunity for those drawing the current maximum income (120% of the GAD rate) from their pension fund.

Flexible Income Drawdown Rules

This is a significant change to legislation and presents significant planning opportunities, but is subject to very tight restrictions. In order to qualify for Flexible Income Drawdown an individual must be able to demonstrate that they have a Minimum Income Requirement of at least £20,000 per annum. The criteria for minimum income is very tight and essentially means only State pensions,

pensions from registered pension schemes (generally, final salary schemes) and pension annuities.

Pension contribution tax relief

It has been confirmed that individuals making pension contributions may receive income tax relief at their highest marginal rate of income tax.

Planning Opportunities

This new pension legislation presents both threats and opportunities and therefore needs very careful consideration with your IFA. Alternatively, please contact Eric Norman-Walker of Menzies Wealth Management on 020 7387 5868 or at enormanwalker@menzieswm.co.uk or your usual Menzies representative.

Our next update will comment upon auto enrolment into pensions for employees which comes into affect from October 2012.

LinkedIn Legal Sector Group

Have you joined our LinkedIn Legal sector group yet? Having launched our initiative eight months ago we have had very positive feedback and now have over 100 members and rising.

The group provides a forum for our Legal team and members to comment on topical news issues that may be of interest to Solicitor firms including in recent weeks discussions on Legal software, tax implications on the Olympics and corporate hospitality, the Times article "Milk bread and legal advice" together with our Menzies legal updates and details of future seminars.

Below is the link for you to join the group and please feel free to pass it on to any colleagues or contacts that may be interested in joining our Legal Sector Group.

<http://www.linkedin.com/groupRegistration?gid=3681120>

Proposed Solicitors' Accounts Rules changes - Summary

A significant number of the changes deal with the widening of the scope of the rules, such as including references to licensed bodies, multi-disciplinary practices (MDPs) etc, to deal with the introduction of alternative business structures (ABSs).

The following are affected:

- **Interest rules** - a requirement for the firm to have a written policy which provides for a fair outcome.
- **Electronic signatures** - The changes allow for an electronic signature to be the only form of authority for a withdrawal from client account, as long as suitable safeguards are in place.
- **COFAS** - As the SRA Authorisation Rules require all firms to have a Compliance Officer for Finance and Administration (COFA), this is also taken up in the amendments, for example Rule 6 requires that the COFA reports to the SRA any breaches of the accounts rules as soon as reasonably practicable.

- **Overseas practices** - The rules for an office outside of England and Wales are incorporated as part G.
- **Damages monies** - New rules 15(e) and 19(e) which deal specifically with receipts of money for damages and costs, received under the Law Society's Conditional Fee Agreement, paid into client account with a requirement to transfer the costs element within fourteen days

More detail will be given at the legal update seminar.

Autumn Seminar

We have noticed in recent weeks a growing number of enquiries regarding firms interested in merger or acquisition opportunities. It is therefore fitting that this is one of the topics of our upcoming autumn seminars along with the Solicitors' Accounts Rule changes and topical tax issues arising.

The seminar will be held across various locations in the South East of England with Menzies Corporate Finance team commenting on the M&A activity in the legal Sector and Peter Camp, a well-known and respected speaker on regulatory matters, presenting on the new Solicitors' Accounts Rules being implemented in October 2011.

Dates & Venues:

- Woking Holiday Inn, Woking – 15 November 2011
- Hilton London Euston, London – 17 November 2011
- The Solent Hotel, Solent – 24 November 2011

The seminar will qualify for CPD and is an excellent way to keep up-to-date with the latest issues and a chance to network with industry experts. Invitations will be sent out in due course but should you wish to reserve your place, please email Prabs Sidhu on psidhu@menzies.co.uk