

Accounting and Tax for Self Employed Barristers

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SILVER

LEVENE

1_Introduction

- **Silver Levene Chartered Certified Accountants**
 - Based in Warren Street, London
 - Act for over 2,000 Barristers
 - Junior members to QC's
 - AccountancyAge Winner - Medium Size Firm of the Year
- **Accounting and Taxation Issues for Barristers**
 - Entity Regulation and Alternative Business Structures
 - Four Taxes
 - The Self Assessment Regime
 - Making Tax Digital and Cloud Accounting
 - Income and Expenditure Accounts
 - How your tax is calculated and when it falls due
 - Financial Planning & Organisation

2_Entity Regulation and Alternative Business Structures (ABS)

- Licensed body regulated by the BSB to supply legal services
- An ABS can be wholly owned or managed by a non – lawyer
- Partnership, Limited Liability Partnership, Limited Liability Company
- Advantages of a Ltd Co structure
 - More flexible vehicle for retention of profits, employee ownership and succession planning
 - Limited liability and tax efficiency (dependant on individual circumstances)
- Limited Company – greater public transparency and increased compliance costs
- Single – person authorised body - can be a member of Chambers if permitted by your Chambers
- Seek advice from an Accountant when deciding on the right form of entity, applying for authorisations and assistance with the business plan for application

3_Class 2 National Insurance

- **Self Employment**
 - Deemed self employed from commencement of 2nd six pupillage.
- **Class 2 National Insurance**
 - Liable from end of pupillage.
 - Flat rate of £3.05 per week – payable through self assessment annually in January.
- **Silver Levene will register you for self employment.**

4_VAT

- **Registration**

- Voluntary or Compulsory
- Compulsory if turnover exceeds £85,000 in any rolling twelve month period or if likely to exceed limit in the next 30 days
- Quarterly VAT returns must be prepared and submitted once registered
- Clerks charge additional 20.0% VAT on fees

- **Standard Scheme**

- Detail VAT received on cases paid
- Less VAT reclaimed on business expenses incurred
- Net balance paid to Revenue and Customs

- **Flat rate Scheme**

- As a Limited cost business - 16.5% of Gross Receipts paid to HMRC
- Barristers will generally fall within the definition of a Limited cost business
- Amount spent on relevant goods is <2% of your turnover. Chambers costs are excluded as deemed to be a service
- Advantage of scheme administrative simplicity, financially disadvantageous vs standard scheme

4_VAT

- We would recommend joining the standard scheme for VAT
- **Advantages of VAT Registration**
 - Avoids non recoverable VAT problems between Barristers re the Revised Advocate Graduated Fee Scheme
 - Initial cash flow advantage
 - Claim back VAT on Capital items purchased for the business up to four years prior to registration e.g. Wig & Gown, Computer (require receipt)
 - Business looks more established
- **Disadvantages of VAT Registration**
 - Hassle Factor
 - Penalties and surcharges if filed late or incorrectly

5_Making Tax Digital for VAT (MTDfv)

- MTD is a flagship project for HMRC
- MTDfv introduced new digital filing and record keeping requirements for VAT.
- It is compulsory for all entities that are VAT registered and have an **annual taxable turnover > £85,000**
- Businesses below threshold will need to monitor their turnover and advise HMRC if they later exceed it. Once in MTDfv cant exit if below threshold at later date.
- MTDfv introduces new record keeping rules
 - VAT return data must be **DIGITALLY LINKED** and uploaded to HMRC using **FUNCTIONAL COMPATIBLE SOFTWARE**
 - VAT return figures submitted to HMRC using **API software**

6_Cloud Accounting Software

- VAT is the first tax subject to MTD. HMRC plan to extend this for VAT registered businesses below the £85,000 threshold from April 2022 and Income Tax from April 2023
- Main cloud accounting software providers are Xero, Quickbooks, Sage
- Bridging software is an alternative solution linking other software and / or excel spreadsheets to HMRC
- **Advantages of Cloud Accounting Software**
 - Ensures compliance with HMRC regulations
 - Collaboration – Barristers and their accountants can have access to the software anytime, anyplace and together
 - Real time - live back feeds and photo's of invoices and receipts update the software on a real time basis. Enter data “on the go”.
 - Integration – online systems offer seamless integration with other online software

7_Income Tax and Class Four National Insurance

- **Income Tax and Class 4 National Insurance**
 - Based on Profits of Self Employed Trade
 - Calculated separately, paid together
 - Tax must be paid by 31st January and 31st July each year
- **Tax Returns**
 - Fiscal year 6th April to 5th April
 - Submitted by 31st October if paper filing
 - Electronic filing, subsequent 31st January
 - Initially £100 penalty if Return is late, significant penalties for continued non submission
- **Income and Expenditure Account**
 - Prepared each year
 - $\text{Income less Business Expenses} = \text{Profit / (Loss) Before Tax}$

7_ New “Simplified” Cash Basis For Barristers

- **Overview**

- Can opt for Cash basis if turnover for the year is less than £150,000 (from all self employment trades, if relevant)
- Turnover calculation to assess relevant basis would include pupillage award and cases received payment for. If turnover exceeds £150,000 in first year, income assessable would also include closing aged debt – with no spreading relief
- Remain on Cash basis until turnover exceeds £300,000
- Move to “Earnings” basis in the year after exceeding the upper limit, unless turnover drops to below £150,000 the following year
- Transitional calculation required to move from Cash to Earnings basis after first year
- Adjustment income can be spread over 6 years beginning with the year a business leaves the cash basis

- **Practicalities**

- Basis of preparation to be assessed each year
- Worse case scenario – exceeding £150,000 turnover in first year
- Delay receipts towards end of first year if close to exceeding threshold

7_Self Assessment Regime

- **HM Inspector of Taxes**

- Sends acknowledgement on receipt of return
- Statement of account
- Taxpayer self assesses own liability
 - Open to fraud, system based on one of enquiry
 - Random and Deliberate Investigations

- **Record Keeping**

- Sufficient records of income and expenditure
- Source of income clearly identified
- Expenditure must be recorded and backed up with a receipt
- Making Tax Digital (MTD)

8_Business Income and Expenses

- **Income**

- Pupillage Awards and Guaranteed Earnings received in the 2nd six are taxable
- Advances or “draw down” of pupillage awards prior to commencing pupillage – treated as a loan and not income until pupillage starts
- Cases payment received
- Devilling

- **Business Expenses**

- Wholly and exclusively for business purposes
 - Excludes entertaining solicitors, Chambers disallowable expenses
- Allowable expenses
- Chambers rent, clerks fees, chambers expenses
 - Travel from Chambers to Court
 - Use of Home as Office
 - Subsistence
 - Motor Expenses – Business Use Apportioned
 - Mobile / Home Office Telephone & Internet – Business Use Apportioned

8_Business Income and Expenses

- **Allowable Expenses cont'd**
 - Writing materials
 - Computer running expenses
 - Research books and materials
 - Subscriptions
 - Indemnity Insurance
 - Accountancy fees
 - Training and CPD Courses
 - Court attire – Collars, cuffs and bands
 - Business bank account charges and interest
 - Interest on Business Development loans – from 2nd six onwards
- **Capital Items**
 - Wig and Gown
 - Computer, Laptop
 - Desk & Chair
 - Motor Vehicle
 - Books

8 Business Income and Expenses

- Income X
 - Less Business expenses (X)

 - Equals Profit X
 - Less Capital Allowances (X)

 - **Equals Profit Chargeable to Tax** X

 - **Income Tax Rates (20/21)**
 - £12,500 tax free personal allowance
 - £12,501 - £50,000 profits at 20%
 - £50,001 - £150,000 at 40%
 - Thereafter 45%
 - Start to lose personal allowance once profits greater than £100,000

 - **University Student Loan Repayments**
 - Paid via self assessment tax system
 - Plan 1 (pre 1/09/12 loans) - 9% > £19,380 profits ; Plan 2 - 9% > £26,568 profits
 - Postgraduate loan repayments 6% > £21,000 profits
- Class 4 National Insurance**
£9,500 - £50,000 at 9%
> £50,000 at 2%

9_Taxation Liabilities

- **Golden Rule**
- You must put away at least 20% of your net receipts into a separate interest bearing account for 'TAX' + student loan repayments.
- **Tax Payments Example**
 - Barrister commences 2nd six pupillage 6th April 2021
 - 1st Tax Return covers fiscal year 6th April 2021 – 5th April 2022
 - Tax Return submitted by 31st January 2023
 - 1st Tax payment 31st January 2023 consists of:-
 - 100% of tax liability for 21/22 tax year **plus**
 - 1st 50% payment on account (Against 22/23 Liability) based on this years tax liability
 - 2nd 50% payment on account 31st July 2023 (Against 22/23 Liability)

9_Taxation Liabilities

- **Tax Payment Example Continued**
 - **22/23 Tax Year**
 - 31st January 2024 payment represents
 - Actual liability less Payments on account made (Balancing Payment) **plus**
 - 1st 50% payment on account (Against 23/24 Liability) based on this years tax liability
- **Tax Planning**
 - Technique to push profits forward by one year every year into the future forever.
 - Provides significant ongoing cash flow advantage.
 - Illustrated in face to face meeting

10_Financial Planning

- Plan financially for unforeseen and foreseen events
- Seek advice from an Independent Financial Advisor
- **Pension Provision**
 - Saving for retirement
 - Significant tax benefits
 - Advantage of opening a pension – carry forward of unused pension allowances
- **Income Protection Insurance**
 - Self employed – generally no financial benefits or cover
 - Income security
 - Unable to work due to illness or accident
 - Cost effective for Barristers

11_Silver Levene's Offer to new pupil Barrister clients

- **First year free** Accountancy package includes:
 - Registration for self assessment and VAT
 - Preparation of 1st year's accounts and tax return
 - Annual face to face meeting with Partner to finalise year end accounts and tax return
- Initial meeting, no cost, no obligation
- Contacts

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Testimonials

“Silver Levene's advice and services over the past 20 years have been first-rate. They are genuine specialists for Barrister work. I have been looked after by Mason Bloom, who is always so approachable and most resourceful.”

Rodney Dixon QC – Temple Garden Chambers

“The service I have received from Silver Levene has been exceptional. As a young Barrister, I haven't had a lot of experience in financial matters and found the thought of preparing my first tax return a completely daunting prospect. However, my fear was quickly mitigated by the team at Silver Levene. Jackie Streat is at the end of a phone to answer any questions you may have, and I have found her assistance over the last few months to be incredibly reassuring. She takes the time to ensure that you understand everything, no matter how long it takes. Mason Bloom has also provided a first-class service. He is someone who I trust explicitly in the preparation of my financial accounts, and nothing is too much trouble for him to discuss with you. I would not hesitate to recommend Silver Levene to colleagues and friends alike. They have made a stressful period seem almost seamless.”

Laura Paisley – 9 King's Bench Walk

“I have entrusted my financial affairs to Silver Levene since Bar school. 11 years later and I continue to use them. I have always been very impressed by Silver Levene's professionalism and helpfulness. Their specific knowledge of the tax regime for Barristers is of huge value. I highly recommend them.”

Jacqueline Renton – 4 Paper Buildings

“Silver Levene provide a highly professional service, responding quickly and efficiently to client needs but with a re-assuring personal touch as well.”

Jamie Goldsmith - One Essex Court

“Peter and the team at Silver Levene have been an invaluable asset to me in developing my practice as a Barrister and also assisting my long-term financial planning. They have consistently put the achievement of my financial objectives at the heart of their service to me, which has invariably been of an excellent standard.”

Thomas O'Donohoe - 3 Paper Buildings