the law

Autumn 2019

Endorsed by

The Law Society

Armstrong Watson's specialist publication for the legal profession

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Welcome

Welcome to the Autumn 2019 edition of The LAW, the specialist publication for the legal profession from the legal sector team at Armstrong Watson.

Specialists are available from all of our 17 offices, to provide pro-active support and advice to lawyers in compliance and business improvement matters. This publication is designed to allow us to share our collective experience in acting for lawyers throughout the UK.

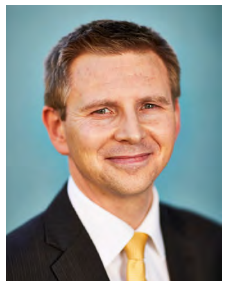
Following our Glasgow acquisition, we are now helping many more law firms in Scotland and have just launched our Breakfast Briefing events in Glasgow and Edinburgh. The first events are on maximising income from existing clients with Simon McCrum and pricing strategies with Nigel Haddon. If you've not had an invite, please let me know.

For England and Wales firms, we are also looking forward to the **new SRA Accounts Rules,** which are due to come into effect on 25 November 2019. We have started our series of formal public training courses on the new rules and the feedback from delegates in London, Leeds, Hull, Carlisle, Liverpool and Manchester has been excellent. We are also being engaged by firms for **in-house courses** for their fee earners and finance teams. Please contact me if you would like to be included.

There is a distinctly tax feel to this edition of The LAW, based on receiving so many requests from lawyers for tax advice – either for themselves or their clients. In this edition we cover:

- Topical tax planning tips
- Tax benefits of changing your year end
- Tax on property held by partners in law firms
- A guide to investing
- Regional focus - Scotland

To find out more on any of the above, including how we can work with you to help you and your clients, please do get in touch with me.



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Topical tax issues, allowances and reliefs

The world of tax is ever changing with new legislation being brought in and changes being made. Here we discuss some topical tax areas we have seen so far this year.

IR35 for the Private Sector

After the introduction of the IR35 or "off-payroll working rules" to the public sector in 2017, HMRC are now rolling these out to the Private sector from April 2020. This will have an impact on legal practices engaging any contractors through Private Service Companies ("PSC").

The aim of the legislation is to ensure that individuals who work like employees, pay broadly the same amount of employment taxes and National Insurance contributions. Conversely as this is a deemed employment status, it is the contractor who will suffer the tax burden without any entitlement to statutory payments or employment rights.

Up to now businesses in the private sector have not been required to determine the employment status of individuals working through their own service company, the burden and risk was passed to the PSC.

Under the new rules the responsibility for ensuring that the taxable status of the contractor is correct, and any resulting tax exposure, will now fall upon the engager. This determination will need to be made and provided to the contractor prior to work being undertaken and certainly within 31 days of the contract being entered into or the services commencing.

The tool to help with the determination is the HMRC "Check Employment Status for Tax" tool ("CEST") and for anyone who has used this tool you will know that it does not always give a helpful outcome. However, we understand that this is being worked on with a view to making it more robust/enhanced and helpful to businesses pre 2020.

Is there any good news? The rules will only apply to medium or large sized companies within the private sector and so small companies (less than 50 employees, turnover of £10.2m or less or balance sheet of less than £5.1m) escape the rules – for now.

Investor's Relief

Although relatively new to the tax scene, Investors Relief ('IR') is an important Capital Gains Tax ('CGT') relief which many individuals may not have considered.

IR provides a reduced CGT rate of 10% for individuals who make qualifying disposals of shares in a trading company. There is a lifetime limit of £10 million of qualifying gains per individual.

IR may be easier to claim for certain individuals as unlike Entrepreneur's Relief ('ER'), the conditions for IR do not require an individual to be an employee of the company, at least at the time the shares are acquired. There is also no requirement to have at least 5% of the voting rights as there is for ER.

IR however is only available on new ordinary shares issued on or after 17 March 2016 and these shares must be held continuously for at least three years, meaning that this tax year will be the first year in which we will see relief claims being made.

It is possible to use a combination of both ER and IR which could provide individuals, with significant gains, up to £2 million of tax savings throughout their lifetime. IR is potentially a useful relief for new company start-ups, especially for individuals who don't wish to be involved in the day to day management of the business and where ER may not be available as the conditions are not met.

Capital Allowances changes

There have been significant changes to capital allowances which have had an impact this year.

Annual Investment Allowance ('AIA')
From 1 January 2019 to 31 December 2020 the 100% AIA for qualifying expenditure on plant and machinery has been temporarily increased from £200,000 to £1 million.

The key to being able to maximise the AIA is down to strategic planning on the timing of investment in qualifying assets.

Enhanced Capital Allowances ('ECAs')
Companies that make qualifying purchases on energy efficient or water saving plant and equipment can currently claim 100% Enhanced Capital Allowances on top of 100% AIA. However, this relief is being abolished from April 2020.

Any expenditure incurred up to this date will still be eligible and so the message is use it before you lose it.

Loss of Lettings Relief

As well as various changes to income tax, the last Finance Act also brought changes to the CGT reliefs available when selling a residential property.

When selling a property, Private Residence Relief ('PRR') is an extremely attractive relief for taxpayers. PRR can reduce a chargeable gain on sale to nil depending upon the periods of occupation and periods of 'deemed occupation' as long as the property was a person's main residence at some point.

As well as PRR, letting relief is also available on the sale of a property which at one time had been occupied as a main residence and has since been let out. The amount of letting relief available is the lower of:

- £40,000
- The gain attributable to the let period
- The amount of PRR

For disposals from 6 April 2020 however, letting relief will only be available to those who share occupation of the property with the tenant throughout the letting period, making the relief much more restrictive.

Shorter Time Limits to Pay Capital Gains Tax

Not only are CGT reliefs being reduced, HMRC are also looking to reduce the deadline for payment of CGT for residential properties.

From 6 April 2020 any disposal of a UK residential property will have to be reported and the tax paid on any gain arising within 30 days. A 'residential property return' will need to be completed and a payment made within the 30 days, however where PRR reduces the gain to nil no return will be required.

This 30 day window runs from the date of completion, not the date of exchange for a normal disposal for CGT purposes.

Currently, CGT is not payable until 31 January following the end of the tax year in which a disposal is made. Therefore this new deadline will cause a major reduction in timescales and compliance could prove a challenge.

Residence Nil Rate Band

As well as being able to set off the Inheritance Tax ('IHT') Nil Rate Band of £325,000 against the value of an individual's estate, the Residence Nil Rate Band was also introduced on 6 April 2017.

The Residence Nil Rate Band is an additional £100,000 allowance that is available to individuals from 2017/18 to be used against a residential property held within their estate. This allowance is set to increase by £25,000 each year until 2020/21 when it will reach a maximum of £175,000.

As with the IHT Nil Rate Band, the Residence Nil Rate Band is also transferrable between spouses on death. As a result, by April 2020/21, spouses with estates valued at £1 million could be exempt from paying any IHT - saving tax at 40%.

Where a deceased's estate exceeds £2 million the amount of Residence Nil Rate Band is reduced by £1 for every £2 it exceeds this amount. Reliefs such as Business Property Relief are ignored when calculating the value of the estate, therefore an individual's estate may be valued higher than they anticipated and as a result the relief is tapered.

Many of these changes have either come into effect or are due to within the next few months and so taxpayers should be aware of these and should also seek tax advice quickly to utilise any reliefs and allowances before they are lost.

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Regional Focus: Scotland

With Armstrong Watson now having been present in the central belt of Scotland for almost two years, Jim Lockhart, Tax and Accounting partner based in our Glasgow office gives his thoughts on the Scottish legal sector market and the issues and opportunities that it is currently facing.

The sector

The Scottish legal profession is made up of almost 1,200 private law firms, employing 24,000 people and an annual economic contribution of more than £1.5 billion. This is made up of a large number of smaller firms and an ageing partner demographic which suggests that there may be succession issues in the short to medium term.

The sector has encountered significant change over the last few years through consolidation at all levels, new entrants to the market and some high profile firms falling by the wayside.

At the largest end, there have been some high profile mergers and acquisitions that have brought more international firms into the Scottish market, examples of such being Denton's merger with Maclay Murray and Spens , and Addleshaw Goddard's merger with HBJ Gateley, both in 2017. The impact of this is that the number of significant players in the worldwide market has increased and it would suggest that the Scottish space has both the work and expertise to support these firms.

On a similar note, the middle market has also experienced activity in the mergers and acquisitions space with firms such as MacRoberts, Gilson Gray and WJM making acquisitions over the past couple of years, and the sector signalling its intention to continue along this path.

This trend points towards a market that is increasing in terms of value and expertise, whilst experiencing consolidation at all levels. It would be expected that as technology and the digital economy continue to change how services are provided, and who these firms are competing against, then the trend will continue.

The sector has also seen some high profile firms disappear from the market over the past few years with McClure Naismith, Pagan Osborne and Morisons LLP no longer being in business. The latter two failed in September 2017 and March 2019 respectively, with Thorntons Solicitors, the Dundee based law firm, acquiring some or all of the trade and assets of each.

These were, by all means, not the only casualties in recent times.

Alternative Business Structures

Another issue on the agenda is that of Alternative Business Structures ('ABS') which would allow external ownership of legal firms in Scotland. This is being considered at both regulatory and government levels under proposals that would allow external ownership of up to 49% of a Scottish legal firm, an arrangement that is not possible under current rules.

ABS is currently available to firms in England and Wales, and with the current trend of large English firms entering the Scottish market, it seems that ABS may be being introduced to the by the back door. One would expect that this should accelerate any changes to the rules to ensure that Scottish firms are competing on a level playing field.

The Scottish Government have also indicated that Scottish Law firms should be able to accept external investment, which they are unable to do under current rules.

Demographic makeup of the profession in Scotland

On another note, in December 2015 for the first time the number of female practising solicitors in Scotland overtook that of males. This hasn't yet filtered its way through to senor positions, but it is an indication that in the coming years we can expect a change in the gender balance of senior positions of the Scottish legal sector.

Regulatory

The Scottish legal market has also experienced some activity at the regulatory level, with the Roberton review being published in October 2018, which looked at Legal Services regulation in Scotland and made some recommendations in this respect, with the overriding one being that there should be a single, independent regulator for all providers of legal services in Scotland.

This has sparked some disagreement from the current regulatory bodies as it would ultimately see the Faculty of Advocates and the Law Society of Scotland losing their regulatory powers.

In a recent article responding to the proposals, Alison Atack, president of the Law Society of Scotland, said that this move 'would see the setting and enforcing of standards....carried out by an inexperienced organisation...[whereas] the Law Society of Scotland is best placed to continue to regulate the solicitor profession'. The Scottish Government response to the report recognises that the main proposal has polarised opinion.

This debate is currently ongoing, hence is very much a hot topic.

The Law Society of Scotland itself has lobbied to protect the term 'lawyer' and limit the use of this to qualified and regulated people, and have looked at an overhaul of how complaints against solicitors are handled and provided.

A review is also taking place to determine whether the current mutual professional indemnity insurance scheme should be replaced with each firm requiring separate insurance.

Total premiums may reduce across the profession as they appear to have done in England and Wales after the end of the mutual scheme there. However, this would presumably mean that closing firms would require PII run off cover at considerable cost, making it more difficult to close a firm, as it is in England and Wales.

Conclusion

The Scottish legal sector is very dynamic and is experiencing significant change in respect of consolidation through merger and acquisition and one would expect that trend to continue for the foreseeable future.

The Roberton report has also raised a number of issues that are being hotly debated, and I would expect to see some change at a regulatory level over the next few years as a result of this.

All in all, the Scottish legal sector market is living in interesting times...

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Tax planning with accounting reference dates

What's in a date?

When you are setting up or running your legal practice, the choice of accounting date may not be high on your list of considerations. But, it can make a substantial difference to the financial cashflow position of the business, and with some careful planning, changing the accounting date can provide an opportunity to make savings in certain circumstances.

For many years now, sole traders and partners in unincorporated businesses and LLPs have been assessed to income tax on their taxable profits arising for the 12 months to the accounting date ending in the relevant tax year. This is relatively simple to understand if the business has an accounting date of 31 March, not necessarily so straightforward if it is 30 April!

Depending on the choice of accounting date, new businesses and individuals joining existing partnerships may see some of their profits taxed twice because of the way in which the rules operate. Profits taxed twice are known as "overlap profits" and in simple terms, anything other than a 31 March (or 5 April) year end will lead to these overlap profits arising. They can also occur if an accounting date is changed to an earlier point in the tax year and for those of us old enough to remember, transitional overlap profits were created when the basis of assessment was changed in the 1996/97 tax year.

Relief for overlap profits can only be utilised in certain circumstances such as when a business ceases, when a partner retires or when an accounting date is changed to a later point in the tax year. This may seem like a bad thing but it all depends on circumstances.

Having a 31 March accounting date means that there is a reasonably short gap between making profits and paying the income tax liability on those profits whereas a 30 April accounting date extends that period significantly allowing firms to plan ahead. If we look at the 2019 financial year as an example, 31 March 2019 profits are assessable to tax in 2018/19 and tax will be payable in January and July 2019 with a balancing payment due 31 January 2020. Move that accounting date forward one month and the profits are instead taxable in 2019/20 and all the payment dates have moved forward a year.

Unfortunately this doesn't mean that no tax is paid in the 2018/19 tax year, so why change from one to the other?

Changing from a 31 March accounting date to a 30 April accounting date can certainly give rise to a significant cashflow advantage when profits are increasing. Although this move would create new overlap profits, it also pushes the payment date for the larger tax liability forwards and means that the profits are assessed in a later tax year giving more opportunities to undertake tax planning to mitigate the income tax, such as making pension contributions.

The reverse to this also applies. It can be difficult to pay tax on previously high profits where there is a sudden downturn in the business or there is a need for unplanned large expenditure meaning cash is tight, particularly if accurate tax provisioning has not been undertaken. By changing a 30 April accounting date to 31 March, it is possible to utilise those existing overlap profits to reduce the amount of tax payable. For many businesses, the administrative simplicity of aligning the accounting year with the tax year is also advantageous reducing the complexity of explaining accounting profit, distributable profit, taxable profit and tax provisions.

As you can see, there is no one right answer to the accounting date question. Each firm should review their future plans and circumstances on a regular basis to see whether a change in accounting date may be advantageous.

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Tax on property income held by partners in law firms

All things rental

Do you have a property, other than your main home, anywhere in the world, which you rent out? Does HMRC know? Not informing HMRC of your circumstances could be considered tax evasion, and the penalties could be severe. It is best to advise HMRC of your position as soon as possible, as penalties can be substantially reduced for unprompted disclosure.

HMRC require that you advise them of any rental income you receive over £1,000 through your Self Assessment Tax Return, even if your total income in the year is below your tax free personal allowance.

Is the property owned by you and your spouse/civil partner? The general rule is that the ownership will be shared equally, unless the property was purchased in different ownership proportions, e.g. if the house was purchased by one person before they got married, then the property would be in that person's sole name unless transferred.

If the property was purchased whilst married, you are deemed to share ownership equally. If you wish the property to be owned in a different proportion, then a declaration of trust can be written up setting out the ownership percentage and the date the declaration came into force. This document cannot be backdated. You may want to consider this option if the property is rented out and your spouse/civil partner's income is taxed at a lower rate than you or vice versa.

Property income allowance

Since 6 April 2017 HMRC have allowed you to earn £1,000 of income from your residential property without notifying them.

This is to cover small amounts of ad hoc rental income, for example, you let your spare parking space for a minimal weekly amount, or you rent your home out for a couple of weeks per year. If your annual gross property income is £1,000 or less, from one or more property businesses you will not have to tell HMRC or declare this income on a tax return.

If your income receipts exceed £1,000 in the year but your expenses are less than £1,000, then the allowance can be claimed instead of the expenses, giving a reduction of £1,000 against the rental income receipts. In this scenario and if your rental income, before deduction of costs, exceeds £1,000, HMRC must be notified and a Tax Return completed.

If the property is owned jointly then both owners can each claim £1,000 on their share of income.

Unfortunately this allowance in not permitted for commercial property or property held in a partnership/company.

The minefield of allowable costs you can use against your rental income

Some of the costs that may be allowable against your rental income are included below. This is a rough list and by all means not comprehensive:

- Letting agent/management fees
- Accountancy fees
- Building and contents insurance
- Mortgage interest (although this is now restricted – see below)
- Maintenance and repairs to the property (but not large/capital improvements – see below)
- Utility bills, like gas, water, and electricity
- Rent, ground rent, service charges, council tax
- Services you pay for, like window cleaning or gardening
- Other direct costs of letting the property, like phone calls, stationery and advertising

Capital expenses

If the expenditure is a replacement or repair of an item, it is usually allowable as an expense. On the other hand, if you are enhancing the property by making it better or replacing an item with a better quality item or fixture, it is usually classed as a capital expense and therefore not allowable as a rental expense against your income. This cost can be taken into account as an enhancement cost, and added to the cost of the property and tax relief will then potentially be obtained when you come to dispose of the property when calculating any capital gains liability.

Finance cost deductions on residential letting

We are now more than half way through the HMRC phasing stages, from allowing mortgage interest as an expense in full, to allowing the mortgage interest as a reduction of tax at 20%.

The tax year 2018/19 sees only 50% of the interest being allowed as an expense against rental income (this reduces further in 2019/20 to 25%, and nil from 2020/21).

The other 50% of interest is currently used as a tax reduction calculated at 20% (75% of the costs will be treated this way in 2019/20, and the full amount from 6 April 2020).

Those who are higher rate or additional rate tax payers will suffer additional tax due to this change.

For example
A landlord has the following rental income in 2018/19 and is a higher rate tax payer (40%).

Rental income after deductible expenses	£10,000
Less: mortgage interest (total £3,000 x 50%)	(£1,500)
Total taxable income	£8,500
Tax due at higher rate 40%	**£3,400**
Mortgage interest deduction (total £3,000 x 50%) £1,500 Tax deduction (£1,500 at basic rate 20%)	(£300)
Total tax due 2018/19	**£3,100**

The landlord then has exactly the same income in the 2019/20 tax year to compare.

Rental income after deductible expenses	£10,000
Less: mortgage interest (total £3,000 x 25%)	(£750)
Total taxable income	£9,250
Tax due at higher rate 40%	**£3,700**
Mortgage interest deduction (total £3,000 x 75%) £2,250 Tax deduction (£2,250 at basic rate 20%)	(£450)
Total tax due 2019/20	**£3,250**

As an additional warning, if your income was previously just under the £50,000 mark, and you were in full receipt of Child Benefit, your income will be increased due to this change and so you may have to repay some or all of your Child Benefit should the £50,000 mark be exceeded. The repayment of Child Benefit must be declared on your Self Assessment Tax Return.

Rent-a-room and Airbnb

Rent-a-room is a valuable tax relief allowing you to let furnished room/s within your home and covers total gross rents up to £7,500 in the year. These days, this can slot nicely into Airbnb or Bed & Breakfast type income.

If your total rental income is £7,500 or lower, you are not required to complete a Tax Return but you will if it exceeds this amount.

HMRC state rent-a-room can not be claimed if the room is -

- not part of your main home when you let it
- not furnished
- used as an office or for any business - you can use the scheme if your lodger works in your home in the evening or at weekends or is a student who is provided with study facilities
- in your UK home and is let while you live abroad

The above rules should be considered with regard to your Airbnb, and whether it will qualify for the rent-a-room relief, as an example, an outbuilding would most likely not qualify.

Letting Relief changes from 6 April 2020 on the disposal of your rental property

Changes are due to come into effect from 6 April 2020 with regard to letting relief when you dispose of your property.

This could apply for example if you own your own home as a single person and then find the love of your life, who you subsequently move in with and enter into marriage or a civil partnership, but you retain your original home and rent it for an income. Currently, when you come to sell the property you may be able to claim letting relief, and if the property is owned jointly this is worth up to £40,000 tax relief each so a very worth while claim to make if your property has increased in value over the years.

However, HMRC has announced that lettings relief will be reformed so that it only applies where an owner is in shared occupancy with a tenant. These changes will take effect from 6 April 2020.

If you are looking at disposing your rental property and this scenario applies to you, you might want to consider selling before the new reforms take place, but in any case please take advice before those signs go up.

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Our Guide to Investing

We recently published 'Our Guide to Investing' and within this document we aim to convey both our investment philosophy and the main factors we believe are important, whatever your level of knowledge and experience.

So what are the key factors that we believe sit behind a carefully planned long term investment decision?

Risk

Whatever one does with capital there is risk involved. If funds are placed in a savings account then the risk is inflationary - as time goes by if the rate of return is lower than the rate of inflation the buying power of the funds will diminish. Where funds are invested in real assets then the risk exists that the fund value can fall.

Through a combination of focused discussions and employing a risk profiling questionnaire, we are able to help ensure each client invests within their own comfort level and to minimise the chance of nasty surprises. The level of risk taken also needs to be regularly reviewed.

Diversification

It is unrealistic to believe that it is possible to consistently select the best performing asset classes and avoid the worst performing ones, so it makes sense that all the main asset classes are utilised, but in proportions that take account of the client's risk outlook. As well as asset classes, geographies and industries need to be diversified to maximise the chances of returns in line with expectations.

Time horizon

Risk is proportional to time. The longer one's timeframe the more chance there is of meeting the investment objective. Downside volatility has the best chance of being overcome with a longer term outlook.

Taxation

I cannot over emphasis the importance of sound tax planning to run alongside any investment. Using this approach it is possible to generate a substantial retirement income and pay little or no income tax.

For example, we recently helped long standing clients enter full retirement and worked for some years to equalise their pensions and build up a good sized ISA portfolio. This has enabled them to take £16,000 per annum each from their pensions, where £4,000 is tax free and the £12,000 sits within their personal allowance, so it attracts no income tax. They draw £5,000 each from their ISA portfolio and overall this provides them with £3,500 per month with no tax liability whatsoever. When their State Pensions kick in they will reduce their pension drawings and still only pay a small level of income tax.

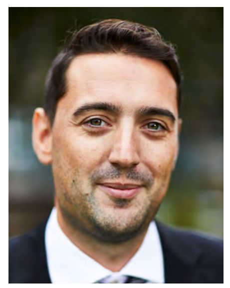
Whether you are building up funds for the future, approaching retirement or considering how best to pass funds on to the next generation, it is important to review all of the above regularly. We do this by employing cash flow forecasting, where we look at inflation, investment returns, life expectancy, income requirements now and in the future and all sources of wealth and income, then produce a forecast, setting out to what extent client aspirations are realistic. This is repeated at each review to ensure that plans remain on track.

Our central commodity is advice based on long term trusted relationships for both individuals and businesses. A good proportion of this advice involves the investment of capital within a wide range of wrappers, such as pensions, ISAs and General Investment Accounts (GIAs).

Every situation is different of course and clients' overall aims and objectives vary considerably. We take into account the client's level of knowledge and experience as well as their personal objectives.

We take full account of the investor's views, whether we are dealing with an investor with entrenched views, for example, someone wanting to include ethical considerations, or perhaps with a preference for passive rather than active fund management; or an inexperienced first time investor with little investment knowledge who needs to be carefully guided through the experience. We work hard to really understand the level of support required at each stage of a client's life cycle.

Our Guide to Investing hopefully articulates in simple terms how we support clients through their own investment journeys, to achieve prosperity, a secure future and peace of mind. A copy is available on our website https://www.armstrongwatson.co.uk/download-our-guide-investing



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An interview with...

An interview with Qamar Anwar, Managing Director at First4Lawyers, the UK's largest independent legal marketing collective...

1. You have a track record of developing caseloads for law firms, and personal injury lawyers in particular. Given the current changes in the personal injury market, what do law firms in that sector need to be focusing on right now?

Claimant solicitors we surveyed recently predicted that the Civil Liability Act – which is due to come into force in April 2020 – will lead to a sharp contraction in the market, with firm closures and staff redundancies. There were also signs that the changing PI market is already having a negative impact, with 42% saying their firm had seen profit decrease over the past year (it had increased for 30%), while 46% said cashflow had worsened and 40% had seen staff numbers reduce. Almost half said the cost of doing business had increased.

On the plus side, only 13% of respondents believed the reforms would lead to their firm closing, with a good number saying their firm was sufficiently diversified to cope.

In the short term, the deadline has already produced greater competition for work, adding further pressure to the PI market in recent months as firms look to make the best of the current regime. Though there is speculation that the new regime may be delayed, at least by a few months, time is running out for law firms to decide how they are going to face the future and adapt to meet the challenge of handling low-value cases.

The reality is that many claimants will still need and want their assistance, and we know that solicitors are looking at ways of delivering this in an efficient and effective way – but with cases running in the small claims court, meaning no costs recovery, and damages lower than now, the model will have to change significantly. Some firms will look to other areas of work unaffected by the reforms, and so we can expect competition to stiffen here too – and firms must ensure they have the expertise to diversify.

2. What are the best ways for law firms to work with external marketing agencies?

To start with, both sides need to do their due diligence. For law firms, compliance is a top priority. They need to ensure that their marketing partner complies with the SRA's rules and with LASPO, and be happy with the way in which it acquires and qualifies leads. Firms obviously want to avoid fraudulent and spurious claims, and particularly in high-value areas like clinical negligence, it is important that leads are strong – a high failure rate from poor-quality cases can impact severely on profitability.

Equally, the marketing partner should have their own statement of values and service standards, and be satisfied that the law firms they work with meet those high standards. If it's just looking to pass on leads to just anyone, then firms could be putting themselves in danger by dealing with them.

Then there are the more straightforward issues like competitive pricing terms and knowing exactly what you are getting for your money. The marketing partner should also be able to provide regular management information, and be available for conversations and meetings. Two-way communication is vital.

Ultimately, though, both should be focused on looking after the injured person. That has to be the starting point.

3. How do clients tend to decide which law firm to appoint?

It is well established in retail markets such as personal injury that consumers assume lawyers have the technical expertise to handle their case, and low-value PI is especially unusual in that there is no real price competition. So, the quality of service, from the moment the phone rings or the email pings, is crucial. This is especially important given legal regulators' efforts to encourage consumers to shop around for legal services.

It is important to realise that the dynamics between lawyer and client are changing. Consumers are just one click away from seeing a competitor brand. Firms now need to be doing everything they can to stand out from that competition.

But when we carried out mystery shopping research last year, we found that many PI firms are missing out on significant amounts of business because of the way they handle incoming enquiries from potential clients.

Following up contacts was the most striking problem: where firms had to call back the mystery shopper, 23% of them did not do so for more than two days – or at all. By contrast, 35% called back within 15 minutes, a world-class level of response.

In the main, the mystery shoppers were happy with their interactions with law firms. Four in five found their overall treatment warm and engaging, and there were virtually no complaints about having to wade through jargon.

But what was lacking was a sense that the firm really wanted the work – asked whether they felt the firm attempted to add value or 'go further' for them, only 52% said yes. There was also evidence that many firms failed to 'sell' the value of using them to the caller and usually did not offer either to send further information or arrange to make a follow-up call.

One of the solicitors we interviewed for the report described incoming enquiries as "the single most important call that comes into the office". As he put it: "If you don't treat that phone call with the respect it deserves, you might as well burn £5-600."

4. How are firms and clients responding to the new price transparency requirements? What help is there for firms in this regard?

Compliance is certainly a mixed bag, if SRA research is anything to go by. The regulator recently reviewed 447 law firm websites (it looked at 500, but 53 didn't work!) and found that 17% were not compliant at all, and a further 58% were only partially compliant.

The 78 firms that were not complying at all were given two months to do so, or face enforcement action. The partially compliant firms have been asked to add the missing information. The SRA will then target those firms in future websweeps, which it plans to carry out a least twice a year.

The most widespread failing was not displaying information on how to complain. Other areas included not specifying the amount of VAT applied to costs and not displaying information on key stages or likely timescales. Many firms were also not providing a description or estimated costs of likely disbursements, and again not specifying where VAT applied.

As to how clients have responded, it is simply too early to tell, but on the face of it transparency is a good thing; if you're searching the internet for a solicitor one evening, the odds are that you will be keener on the firm that gives you all the information up front than the one that makes you call or send an email.

There is advice on compliance from the regulators themselves, while in conveyancing you see quote generators, which are useful tools. But what we have still to see take off in legal services is comparison websites. There are various reasons for this, but such sites can help regulators achieve their aim of more choice and greater transparency from providers.

The ideal legal comparison website will enable consumers to garner enough information about a legal matter and potential law firm to give them the trust and assurances that they are making the right choice, rather than just looking at price alone. In essence, like all of your marketing, you're warming up the client, making it easy for them to approach a law firm and saving the law firm time by giving them more tangible enquiries.

Understandably, a lot of lawyers do not like the idea of comparison sites – legal services are not as easily priced as a holiday or car insurance, and that is reflected in the limited range of work types to which the SRA transparency rules apply. It remains the case that, outside of so-called commodity areas of practice like conveyancing, will-writing and probate, pricing is bespoke – but lawyers need to adapt to the demands of the consumer age and at the very least have grown-up conversations with clients about fees and ensure it is an ongoing dialogue – costs continue to be one of the main causes of complaint to the Legal Ombudsman, but most of these issues are easily overcome by being open and prompt in addressing them.

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