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Now Is the Perfect Time to Review Business Plans

Michele Lipson, Daily Business Review

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Year-end is a perfect time to review your business plans to ensure success for the future. These Top 10 year-end planning strategies for law firms will help you address your short-term and long-term goals to lay the groundwork for future growth and profitability.

1. Accounts receivable and work-in process review: At year-end, partners should review their accounts receivable and work-in-process and write-off any uncollectible accounts receivable or unbilled time. This will reduce the bottom line, which will reduce the tax bill. In addition, a careful review of the client costs account should also be done prior to year-end. Keeping your books in order will make sure you don't pay tax on accounts that will never be billed or collected.
2. Financial outlook: Partners should meet to review their financial results for the year. This is important as it will directly affect partner compensation and bonuses for those that are deserving. Helping partners understand the financial side of the business is an essential factor in planning ahead. Monthly or quarterly meetings to review the firm's financial situation helps the management team make the proper decisions for the future. The partners should also review items of income and expense for any material variances. Successful firms analyze their financials with their advisers to be sure their profitability is improving.

3. Budget preparation: Prior to the end of the year, a budget should be prepared for the following year, taking into account each partner's goals, including expected chargeable hours and billings for the next 12 months. This is a great time to look for growth opportunities or potential issues surrounding contingent fee cases. Cash flow planning, which includes planning for your expenditures for the upcoming year, is a critical exercise to make sure you don't end up with a cash shortage. Projected top-line revenues by partner is the best place to start, as this is the driving force for what will be possible in the upcoming year. A careful balance between year-end compensation and securing enough cash to comfortably guide you into the new year must be reviewed.

4. Meals and entertainment analysis: M&E is a high-cost expense for many law firms, and firms may be unaware that certain of these expenses may be 100 percent deductible and not subject to the 50 percent limitation. A careful review of these accounts and the categorization on the firm financials may be significant in reducing taxes. Some exceptions to the 50 percent limitation include expenses for recreational or social activities for the benefit of the employees, expenses incurred in certain business meetings and employee achievement awards. Keep in mind, proper substantiation is necessary to prove the expenses incurred qualify.

5. Collections: Most professional service firms make a major push at year-end to collect fees for work done over the prior 12 months. This is usually when partners wish they had been more on top of collections all year. Collections will help improve financial results to pay for bonuses for employees and partners. You can also encourage clients to pay their bills by Dec. 31 to secure deductions on their own tax returns.

6. Trust account analysis: This is a good time to meet with clients and review their accounts. The annual account cleanup helps ensure funds are handled and documented properly. This will ensure the firm is not holding monies that should be recognized as fee income. There are minimum trust accounting procedures that must be followed, and accounting records must be properly maintained and retained.

7. Capital spending: Plan to review any capital improvements made during the year to determine if any are currently deductible under the new repair regulations. Depending on the law changes, law firms may also want to look at whether any capital expenditures should be made prior to year-end to take advantage of bonus depreciation or IRC Section 179 expense, if extended.

8. Succession planning: Many law firms overlook the importance of building the next generation. The changing of the guard may create a dramatic shift in future revenue and should be carefully planned. Once you have conducted the demographic analysis of your team and the associated revenues, transition plans may need to be developed. Involving younger partners in management early in their careers will assist with transitioning later. Younger partners may also be guided into the areas of practice where succession may be more imminent to ensure there is no loss of future revenue when senior partners retire. This is also a good time to review your shareholders'

agreement or partnership agreement. Be sure to include succession planning discussions in your future meetings.

9. Cybersecurity: Keeping information safe has become a major challenge for professional service firms and can be very costly. A review of internal controls and cybersecurity protocols in the ever-changing IT environment is critical for long-term success. Law firms are aware that unauthorized users could compromise sensitive client information if proper security systems are not in place. Developing the appropriate policies and security procedures is the only way to minimize risk to your firm.

10. Tax planning: In addition to the cleanup of the firm's books and records, consider accelerating deductions, such as state taxes, and deferring income until next year to reduce your tax bill. Charitable planning and retirement contributions should also not be overlooked as tools to reduce your taxable income. A year-end meeting with your accountant is recommended to review and take advantage of tax planning opportunities.

Michele Lipson is an accountant and tax and business services partner at the accounting firm Marcum LLP in Miami.

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