Lawyers offered tips on taxes, getting paid at solo conference

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Small-firm lawyers and sole practitioners received tips on how to get clients to pay up and other aspects of financial management at the Law Society of Upper Canada's Solo and Small Firm conference late last month at the Metro Toronto Convention Centre.

Family lawyer Andrew Feldstein of the Feldstein Family Law Group and TaxChambers lawyer Vitaly Timokhov took turns at the podium as they gave colleagues an overview of effective billing systems and tax strategies during a May 23 conference session.

Here are some of their tips:

1. Don't oversell: If you promise something you can't deliver, you're asking for an angry client who won't willingly pick up the tab, said Feldstein. "Never oversell. If anything, undersell. Clients might come to you and say other lawyers told them they could do a certain thing but if what they're asking for seems far-fetched, don't guarantee it," said Feldstein.
2. Select the right tax form: Different tax forms for things like sole proprietorships, limited-liability partnerships, and professional corporations qualify you for particular benefits, said Timokhov. Know their differences and choose the one with the maximum benefits, he told lawyers. Once you select a form, follow the formal rules, which is something many people fail to do.
3. Be very cautious about giving quotes: Always make sure your clients know it's impossible to determine exactly how much their case will cost them, Feldstein warned lawyers. "If you do give a quote, do it in writing," he added, noting the written quote should indicate the possibility of exceptions. Clients might say their case is an easy one, but experience has taught Feldstein they're not always right. He gave an example of a man who retained him for an "easy" divorce. That client went to the doctor's office that same afternoon, found out he had contracted a sexually transmitted disease because his wife was unfaithful to him, and got arrested after a confrontation ensued between them. As a result, the case was no longer so straightforward.
4. Consider a professional corporation: "Lawyers are not proactive when it comes to professional corporations," said Timokhov, who noted the "huge benefits" of that option. If a lawyer has a net practice income of $130,000 and has personal living expenses tallying up to $70,000, the tax will be $39,600 under a proprietorship but only $31,000 as a professional corporation, he said. There's also a possible 15.5-per-cent combined federal and provincial tax rate on the first $500,000 of net income under a professional corporation, he said. The capital gains exemption, which is currently at $750,000, is on tap to go up to $800,000 in 2014.
5. Don't start work without a retainer: "I'm a firm believer in getting the retainer signed before you do any work on the file," said Feldstein. Lawyers who do work on a file without a signed agreement may have to chase clients to pay up later, he said. Make your retainer easy to understand and if you provide unbundled services, have a list clients can check off depending on which services they want, added Feldstein. Lawyers should always think about ways they can amend their prepared retainer based on feedback, he suggested.
6. Pay tax only on already-received income: Don't pay taxes on income you will or may receive in the future, said Timokhov, who also noted not all expenses are deductible. Lawyers should also run all invoices from a trust account and claim work-in-progress deductions, he said.
7. Bill every month: Preparing your bills can be a real pain, but you're still better off invoicing your client every month rather than less frequently, according to Feldstein. "If you bill every month, you will find you have better collections and less clients asking for [volume] discounts," he said. Clients also want to know how much they're spending. If the bill comes as a shock after four months, good luck getting paid the full amount, he added. There's also a bonus to this strategy as having legal costs tallied up also forces people into settlement, according to Feldstein. When they see the bill, "clients behave reasonably, [become] less litigious. . . . They listen to us."
8. Be transparent: The less your invoice says, the more questions clients will ask. "I originally believed in as little information as possible on accounts," said Feldstein, who called this belief a mistake. In a detailed statement of accounts, link every penny on the tab to the work you've done and how long it took you to do it, he suggested. Redacting information also invites questions and suspicions, which can make it difficult for you to get your money.
9. File two forms for a professional corporation: A professional corporation is a separate and distinct taxpayer, said Timokhov, noting that lawyers working under a professional corporation must file two returns: one for the professional corporation and another for the lawyer acting as an employee of it. And remember, Timokhov added, that the professional corporation isn't liable for all holdings.
10. Prepare a billing memo: Along with the retainer, give your client a memorandum outlining your billing system. This will "reduce calls you get about how you charge," said Feldstein, who added the strategy is also a good way to protect yourself "when a client later says, 'You never told me about this.'"
11. Don't forget the HST: "When it comes to HST, you're James Bond," Timokhov told lawyers. "You are an agent of Her Majesty the Queen with power to collect and remit" taxes within the statutory periods, he said.
12. Don't make the collection call yourself: When a client isn't paying up, don't be the one to call about it. "If you've been working with them, you develop this relationship and you have sympathy for the client," said Feldstein. Get your account manager or law clerk to make collection calls, he suggested. **LT**