



NEW LAW ON FINANCIAL REPORTING FOR LAWYERS

With the new law on financial reporting (nRLR) which came into force on 1.1.2013 free-lance professions have now lost their privilege of not being required to maintain a system of financial record keeping. Under Art. 957 Para. 1 CO [Swiss Code of Obligations] those working in the freelance professions (lawyers, doctors, etc.) who generate an annual turnover of at least CHF 500'000 are required to maintain a system of financial record keeping and must comply with the regulations on financial reporting (production of annual financial statements, valuations etc.) This poses a special challenge.

Turnover limit

The turnover limit of CHF 500'000 is relevant for lawyers and law firms. Turnover is deemed to be net sales excl. VAT, i.e. after deduction of discounts, rebates and losses on accounts receivable. Up to this limit the simplified accounting method continues to apply (see Practical Info 06 of the Swiss Federal Tax Administration, Value Added Tax Department). In addition, there is a requirement to maintain a 'normal' system of record keeping.

Special features of financial reporting for lawyers

The introduction of the nRLR establishes the requirement to maintain a system of record keeping if the minimum turnover limit is exceeded. In other words, compliance with the rules of proper financial reporting is required in accordance with Article 958c CO (clear, understandable, complete, reliable, containing the material facts, caution, applying consistent standards, gross principle/offsetting not permitted). In this context lawyers face the following challenges:

- *Non-invoiced services / Work in progress*
All business transactions which have occurred in the past and are available, are likely to produce a cash inflow and the value of which that can be reliably estimated, must be recorded as non-invoiced services (procurement and manufacture costs). All current projects, orders and services must be recorded as "inventories". A time registration system should enable this to be done. The hourly rate that can be applied must be defined in this context (e.g. salary portion + deductions + office flat rate + profit).
- *Taxes*
The initial capitalisation of the "inventories" gives rise to a surplus which must be taxed. The tax authorities accept a flat-rate value adjustment of up to 50% to even out this figure.
- *Production of the annual financial statements*
A system of record keeping must be set up in accordance with the rules of double-entry bookkeeping. Entries must be posted and documented on a



continuous basis. The new requirements in terms of minimum breakdown must be taken into consideration in the balance sheet, income statement and notes to the accounts.

Our program for record keeping and experienced accountants can illustrate all the specific characteristics and challenges. We can also complete the tax return for you. The new rules are mandatory for the business year with effect. 1.1.2015.

Please do not hesitate to contact the author if you have any questions or queries.

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