



ECONOMIC IMPACT OF COVID 19 ON LAW FIRMS: CERTAIN PROBLEMS AND POSSIBLE SOLUTIONS

Portuguese and foreign law firms will be more affected by this pandemic crisis, particularly in their non-labour areas. Customers postponed decisions, services are closed and the suspension of procedural deadlines was ordered, removing irreplaceable activity and income from them.

All law firms may already be considering measures and decisions that we are able to anticipate.

Based on more or less conservative and responsible projections, in the midst of global uncertainty, the measures to be adopted will be similar and convergent – for an eventual period between four to six months and by the end of this year –, seeking to protect immediately, with shared sacrifices, both their financial sustainability and the human resources best suited to this period and for the period ahead, when everything returns to normal. The motives behind the decisions, both internal and external, will derive from a disruption in the budget plans and a foreseeable drop in annual revenue.

Few firms will dismiss lawyers, employees and administrative staff, except in very specific situations and segments (e.g., term and trial agreements, trips and journeys). Nevertheless, all law firms will attempt to lower their costs and almost all will certainly suspend ongoing recruitment procedures, and suspend or postpone (as off know and for a period of four to

six months) promotions and salary upgrades. Many firms will also require and request to its associates, employees and administrative staff, to adjust part of their holidays and other absences for them to take place before the end of August. as it is already the case among some foreign firms.

Additionally, in law firms, partners receive an advance distribution of profits, which is the standard procedure for monthly payment for their work. In this sense, it will be difficult for any law firm to apply to the simplified lay-off regime approved by the Portuguese Government as it determines, as an applicability condition, that no profit distribution occurs. Nonetheless, (more) flexible work solutions will be required and offered, and even a reduction in working hours and service provision, for example, from five to four days a week, with a proportional percentage remuneration reduction, as it is already the case in some of the largest foreign firms.

In this context it is also expected that Law firms begin to consider to postpone, or reduce, the payment of bonuses and other variable remuneration and perhaps later on to apply these methods to the fix remuneration, in identical or various percentages, to lawyers, employees and staff. Most certainly they will, also, consider suspending or postponing the distribution of profits to their partners.

Nonetheless, most of the lawyers' tax obligations start in the beginning of the second semester, which this year will overlap with the foreseeable end of the pandemic. Regarding this tax obligation, it is to be notice that the next three payments on account of IRS would have their amounts fixed with reference to the taxable income of previous years, which will most likely mean that for this year of 2020, especially in what concerns the partners, and if no legislative measure is taken until the payment of such tax obligations is due, a tax advance on IRS much higher than the tax due in the end of the correspond tax period.

The Government has adopted a range of measures to assist independent workers that benefit from the State's social security regime. However, this measure left out the lawyers that, despite being qualified as independent workers, benefit from a special and private social security regime. In this sense the Portuguese *Ordem dos Advogados* and *Caixa de Previdência* have also requested support and measures, but the legislator merely authorized them to delay, for those who request it, the payment of quotas and contributions, without any other relevant direct support.

This year, more than ever, will be a challenging year for law firms and lawyers in general, especially for those who intend to maintain all of their tax and legal obligations and not resort to dismissals, suspensions, lay-offs, postponements, moratoriums, or loans. Nonetheless, the toughest measures will undoubtedly be postponed until June and further in the summer.

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Rogério M. Fernandes Ferreira,
Lawyer, managing and founding partner of RFF & Associados
www.rffadvogados.pt



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Legal 500 – Band 1 Tax “Portuguese Law Firm”/ Band 1 Tax “RFF Leading Individual” and highlighted in “Hall of Fame”, 2013, 2014, 2015, 2016, 2017, 2018, 2019
Chambers & Partners – Band 1 Tax “RFF Ranked Lawyer”, 2013, 2014, 2015, 2016, 2017, 2018, 2019 and Band 1 “Private Wealth Law” - HNW “RFF Ranked Lawyer”, 2018

International Tax Review – “Best European Newcomer” (shortlisted) 2013 / “Tax Controversy Leaders”, 2014, 2015, 2016, 2017, 2018, 2019 / “Indirect Tax Leaders”, 2015, 2016, 2017, 2018, 2019 / “Women in Tax Leaders Guide”, 2015, 2016, 2017, 2018, 2019 / “European Best Newcomer”, 2016 / “Tax Firm of the Year”, “European Tax Disputes of the Year” and “European Indirect Tax Firm of the Year”, (shortlisted) 2017
Best Lawyers – “RFF Tax Lawyer of the Year”, 2014 / “Recommended Lawyers”, 2015, 2016, 2017, 2018
Who’s Who Legal – “RFF Corporate Tax Adviser of the Year”, 2013, 2015, 2016 / “RFF Corporate Tax Controversy Thought Leader”, 2017 “Corporate Tax: Advisory and Controversy”, 2017, 2018, 2019

Legal Week – RFF was the only Portuguese in the “250 Private Client Global Elite Lawyers” 2018

STEP Private Clients Awards - RFF “Advocate of the Year 2019” (shortlisted)

IBFD Tax Correspondent Angola, Mozambique and East-Timor, 2013, 2014, 2015, 2016, 2017, 2018, 2019