

LAWYERS STRENGTHENING TAX TEAMS AS DEMAND FOR ADVICE BOOMS

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An increase in M&A work coupled with new tax rules and moves to tackle tax evasion means law firms are desperately battling to recruit the best specialist lawyers

Due to the boom in demand for tax-related legal advice, many firms' tax departments are running at full capacity with the result that a "talent war" is currently underway as recruiters battle for first rate tax lawyers.

Firms have reported a dramatic increase in tax work since the onset of the economic crisis and this significant growth will be further supplemented by the surge in corporate M&A work. Indeed, new exclusive research published by Iberian Lawyer shows that nearly half (49 per cent) of partners expect their tax practice to grow in the coming year (see News Focus, page 16).

Tax has been a sensitive issue in Spain over the last few years. The era of austerity has meant that complying with the ever-changing tax rules, and their idiosyncrasies, has become a tough task.

However, the growing demand for tax advice is not only due to the tax burdens of Spain's regulatory regime – which has resulted in more governance and litigious work – it is also a consequence of the rise in transactional activity, which is creating more instructions as the economy continues to recover.

"We have seen our transactional and stand-alone tax work grow greatly since the financial crisis," says Rafael Fuster, the partner heading the tax department at Uría Menéndez. "In fact, the revenue for the firm's tax practice has increased by 50 per cent since 2007 and we're poised for double-digit growth in 2014." It's a similar story at Cuatrecasas, Gonçalves Pereira – partner Alejandro Escoda says his firm's tax department is increasing its revenues year-on-year.

Linklaters' tax partner Javier García-Pita explains that the increased demand his firm has seen for tax advice is a result of the rise in distressed assets and restructuring activity. "We are also seeing traditional M&A make a return in sectors such as real estate, energy, and telecoms, as well as an uptake in capital markets work, both in equity and debt transactions."

García-Pita adds that the types of deals Linklaters is seeing are becoming more complex, with the result that more intricate tax structures are required. This, coupled with new tax regulations, means handling tax issues is becoming more daunting for companies and consequently they are increasingly requiring specialist advice.

Escoda says the introduction of tax reforms, which come into force on 1 January, 2015, will create a lot of work for law firms. "For instance, corporation tax is being reduced from 30 per cent to 27.5 percent, which will then drop to 25 per cent in 2016," he says. "There are also provisions for a capitalisation reserve, which can effectively reduce the tax rate to 22.5 per cent, as well as tax credits, changes to taxable expenses and limits on tax related to capital gain from share – companies will need to review their tax structures and processes so we are expecting next year to remain busy."

Fuster adds that there will also be changes concerning procedures, collections and audits. Indeed, the new reforms coincide with a tougher approach from the tax authorities in tracking down outstanding tax, which will be another source of work for lawyers. This has seen an increase in private client-related instructions as well as more litigious work. Escoda says tax litigation continues to be an important stream of work for his firm: "The authorities are trying to collect as much tax revenue as they can and are targeting individuals and companies."

The most high-profile individuals to be targeted by the authorities include Barcelona footballer Lionel Messi and Princess Cristina, the sister of King Felipe VI. However, Lawyers say that the authorities may become less aggressive and more flexible in finding solutions. Some parties targeted have been close to insolvency so hitting them with a huge tax bill risked them going bankrupt.

Even so, individuals and companies are requiring law firms to advise on litigation, as well as compliance with other reforms, and the feeling is that the improved transactional markets and the new rules and regulations will create plenty of work for tax advisers. "Our lawyers are actually almost at full capacity and we're now planning on expanding the team," Fuster concludes. "A big challenge, however, is finding the right people to hire. The market is very competitive and many firms are targeting the best and brightest talent."

