
Initial Expenses of a New Law Practice

The financial demands of starting a law practice fall into three categories:

Capital expenditures

Capital expenditures are expenditures for items which are not consumed immediately, but over a period of years. They include such things as furniture, equipment and tenant improvements. You cannot claim a current income tax expense deduction for capital expenditures, but instead must write them off over the period of their use through the capital cost allowance expense (see below re leasing).

One-time start-up and other "up-front" expenses

One-time start-up expenses are expenditures incurred to stock the office and get started. Some are one-time expenses, such as telephone installation; others will recur again in the future, such as insurance premiums.

Operating expenses during the start-up period

Operating expenses are normal, on-going expenses that you will begin to incur at the start of your practice and continue to incur as long as you practice. These expenses must be carefully budgeted in the early months of your new practice because it may be some time before your practice begins to generate enough cash flow to cover them.

Details

Law Society dues and insurance

You must be an active member of the Law Society of Alberta. You will have to pay your annual dues, your contribution to the Assurance Fund and your insurance levy. Contact the Law Society office in Calgary for more information about these payments.

Tenant improvements

The cost of building a law office in raw space can be a major start-up capital cost. This expense can be reduced in several ways:

- find space that has already been suitably improved for use as a law office (either by taking over an existing lease or subletting)

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- get the landlord to pay for the improvements (be assured, the landlord will pass this cost back to you in your rent; a tenant improvements allowance is just a way of borrowing money)
- rent space in an executive suite
- share space with other lawyers who have extra offices already built

Furniture

Your furniture need not be elaborate or expensive; indeed, excessively lavish furniture can be a major turn-off to clients who may see it as phony. At the same time, you do not want to look like you do everything "on the cheap" unless that is an intentional marketing strategy to encourage a particular client base. Look for functionality, flexibility and good taste. If you have access to a board-room, you can go a little further "down-market" for your own office. Shop around, particularly at auctions, liquidators and used office furniture outlets. However, when buying used furniture, be careful that you don't buy furniture that was discarded because it would not accommodate a computer.

The furniture you will need will include some or all of the following:

- lawyer's desk, chair & chair mat, client chairs, credenza, waste basket
- secretarial desk, chair, chair mat, waste basket
- bookkeeping area desk, chair, chair mat, waste basket
- reception chairs, coffee table, lamp, art, magazine rack, coat rack, plants
- art, bookshelves, plants

You will also need some miscellaneous office equipment such as coffee making equipment, cups, and perhaps a small fridge.

Filing and storage cabinets

Filing and storage cabinets are surprisingly expensive. Once again, shop around at auctions, liquidators and used office furniture outlets. You can avoid this expense by using open filing shelves, but only if you are sure that no unauthorized people will have access to your storage space. Open shelving storage is inappropriate in space-sharing arrangements or home offices.

At least one of your filing cabinets should be fire-proof. Don't buy a used fire-proof cabinet in which the fire-proofing material in the walls of the cabinet has deteriorated.

Photocopier

Law is still a document-intensive business, and a durable, high-quality photocopier is an essential item. Your photocopies must look good.

A reconditioned copier that was built for high-volume use but has a low copy-count and good service support may be a better buy than a new, low-volume desk-top.

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It is well worth investing in the extra cost of a document feeder and a collator. The power to enlarge or shrink documents also comes in handy from time to time.

Telephone

The phone is your main link with the outside world. You will spend an enormous amount of time calling clients, other lawyers, government agencies, etc. Look for features that will help you to save time on the mechanics of making phone calls, such as push button dialing, memory dialing, a "flash" button (disconnects and reconnects immediately), a redial button, hands-free operation and a display of the number dialed. Listen for good sound. Here again it is worthwhile to look for reconditioned equipment, provided you have reputable back-up.

Fax

You will also need a reliable fax machine—and a separate line for it. Fax machines are dirt cheap now, so get a new one. Make sure you get one that has a speed-dial feature for frequently-used numbers.

Computer

A computer is essential. Look for proven hardware because you cannot afford to be on the "bleeding edge" during the early months of your practice. Make sure you have someone reliable to service your equipment. Saving a few hundred dollars on the initial cost of your computer may be penny wise, pound foolish if you are left high and dry when you have a break-down.

Network

If you have more than one computer, you should network them. You will also to spend some money on a computer consultant to make sure your network does what it is supposed to do.

Internet connection

High-speed access to the Internet is now a law office essential. You will need it for email and for access to the virtually infinite amount of legal and other information available on the worldwide web.

Laser printer

A laser printer is now state of the art for law offices. Look for durability rather than price because your law office will be a very heavy user of your printer and you can't afford break-downs. Speed of printing is very important. The laser printer can be used to print your letterhead, thereby saving you printing costs.

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Software

You will find it easier to hire trained staff if you buy software in common use in law offices.

Dictating equipment

You will likely need dictating equipment once you have an assistant. Used equipment is worth looking into.

Supplies

You will need:

Image enhancers

You will also want to look good, so you should consider folders with your name printed on them as an important device for sending a message of professionalism and concern to your clients.

Marketing

You will want to make sure people know about your new practice. To do this, you will have

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| ▪ letterhead | ▪ document covers | ▪ staples |
| ▪ 2nd sheets | ▪ calendar for lawyer | ▪ staple removers |
| ▪ photocopy paper | ▪ calendar for assistant | ▪ rubber bands |
| ▪ letter envelopes | ▪ phone directories | ▪ scissors |
| ▪ large envelopes | ▪ business cards | ▪ tape |
| ▪ legal-size paper | ▪ pencils | ▪ hole punches |
| ▪ note pads | ▪ pens | ▪ 3-ring binders |
| ▪ file folders | ▪ paper clips | ▪ letter openers |
| ▪ telephone message pads | ▪ rulers | ▪ scratch pads |
| ▪ document corners | ▪ rubber bands | ▪ erasers |
| | ▪ file labels | ▪ post-it notes |
| | ▪ staplers | |

to invest in items such as business cards, announcement cards, newspaper announcements and building signs. You will also have to develop a marketing plan that may include advertising, entertaining prospective clients and referral sources and other expenses.

Legal research resources

The arrival on the scene of on-line searches, particularly through CANLII (www.canlii.org), and interactive CD-ROMs has changed the face of legal research.

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Even with these electronic resources, however, you should consider a working library that will include material you will use on a regular basis. If you will be doing real estate, LESA's Land Titles Procedure Guide is essential. If you will be doing criminal law, an annotated Criminal Code like Martin's will be necessary. Consult experienced practitioners in other areas for their views on the essential texts.

Keeping up on the law

Reading law is a necessary exercise for the young lawyer. In this regard, I recommend as a minimum that you read The Lawyers Weekly. Also, you should read at least one set of law reports regularly, at least until you have been practicing for 5 years or more. You should also budget for at least 2 LESA seminars in your first year of your new practice.

Insurance

There are numerous forms of insurance to consider in addition to your compulsory Errors and Omission (E&O) insurance. You may have obligations to insure in your lease.

Security deposits and down payments

Some utilities require security deposits before they will install their services. Landlords and lease financing companies often require a security deposit of at least the first and last month's rent or lease payments; some leasing companies require a significant down payment. Finally, if you finance the purchase of some of your equipment through a bank, you may have to come up with part of the cost yourself.

Auto

A reliable motor vehicle is essential in most practice settings. The choice is a matter of personal preference; just make sure you don't imperil your business with either an unreliable or an overly expensive car. And make sure your insurance includes business use.

Whether to buy or lease is a difficult decision. The advantage to leasing is that your monthly payments will likely be lower than if you buy. However, at the end of the lease, you may be further ahead to have bought because the lease factor—in effect, the interest you are charged on the money used to finance the lease—may be significantly higher than if you had bought. As well, leases often contain restrictive mileage provisions that might inhibit your ability to travel widely to carry on your practice.

Other one-time and up-front expenses

Some other expenses you will face when starting up your practice are:

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- Telephone/cabling installation
- Moving expenses
- Postage scale
- Bank charges for cheque printing
- Computer consultant
- Marketing consultant
- Accountant for Form U and to help set up books
- Bookkeeping supplies
- miscellaneous

□ **Client disbursements float**

The client disbursements float is an item that sneaks up on many lawyers starting a new practice. Litigation files in general, and personal injury files in particular, can generate significant disbursements that often cannot be recouped from clients immediately. Even a real estate practice can require a significant "float" for client disbursements which, while quickly recovered, may have to be fronted for a month or so. Because the lawyer must pay for disbursements incurred (an ethical as well as a legal obligation), allowance must be made for such money during the start-up period.

□ **Overhead for a number of months**

Determining how long you will have to go before you begin to have a positive cash flow that allows you to begin to pay down your debt and take some money home is a very tricky matter. The cash flow from a fledgling law practice is very sporadic and unpredictable.

If your family depends on what you bring home it can be very frustrating for everyone when you are unable to say when you will have money for home expenses because you just don't know when your clients are going to pay you.

There is no set rule, although we have seen recommendations that you should have personal reserves to cover at least 6 or even 9 months of personal expenses before opening a practice. If you don't have sufficient personal reserves, you may be tempted to borrow through the business for personal expenses and thereby load the business with a burden of debt and interest that it cannot recover from.

- Rent
- Salaries (including EI and CPP)
- Phone – basic charges and long distance
- Bank charges
- Office expenses
- Courier
- Client disbursements
- Insurance
- Interest
- Library
- Business promotion
- Travel
- Dues and memberships
- Equipment leases and maintenance

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