



IT issues

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LAW FIRM MANAGEMENT

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990 Stewart Avenue
Garden City, New York 11530

t 516.288.7400

f 516.288.7410

e: info@garibaldicpas.com



GARIBALDI
GROUP

Certified Public Accountants
Financial and Management Consultants

www.garibaldicpas.com

Law firms must fight back against “tech debt”

Law firms often lag behind other types of businesses when it comes to adopting the latest information technology (IT) innovations. And when they do finally begin to adopt new tech, they may not go as far as they should. A lack of a long-term technological vision can leave a firm stuck behind the curve, hampered by incompatible systems that aren't widely used.

All that said, it's not like law firms haven't been investing in technology. In fact, firms' spending on tech has outpaced inflation for more than a decade. However, more and more law firms are grappling with the negative repercussions of “tech debt.” Let's look at what this is and how you can take steps to reduce or eliminate it.

SHORTCUTS LEAD TO SHORTFALLS

The term “tech debt” originated in the world of software development. Generally, it refers to the persistent, ongoing costs of choosing a quick-and-easy solution over a harder-to-implement



but more sustainable one. Law firms can run up tech debt when they:

- Take shortcuts to IT implementation that later require substantial spending, or
- Resist investing in significant and necessary technological changes.

Either approach may leave a firm struggling to make the most of costly legacy technology and to timely adopt the latest tools because of depleted tech budgets.

Tech debt frequently results when a firm considers only its immediate needs instead of taking a strategic and firm-wide perspective that allows it to maximize the value of its IT investments. A patchwork approach can mean the organization has top-of-the-line tech in one practice area and outdated systems in another.

Fragmentation and data silos are a related risk. These maladies often occur when departments use systems that can't be integrated and data is needlessly duplicated.

3 AREAS OF FOCUS

With the use of artificial intelligence (AI) quickly becoming the norm in the legal industry, many law firms are at a critical juncture: They can further drive up their tech debt or finally get a handle on it. (See “AI fuels the importance of tech debt management” on page 3.) Assuming your firm wants to start working toward the latter, here are three areas to focus on:

1. Collaboration. The price tag for comprehensive or cutting-edge technology is daunting, but you may be able to partner with software developers and become an early adopter. Ideally, any such arrangement should include an initial discount and guarantees about future patches and upgrades.

AI FUELS THE IMPORTANCE OF TECH DEBT MANAGEMENT

The rapid emergence of artificial intelligence (AI) on the legal scene provides yet another reason to aggressively tackle your firm's tech debt. (See main article.)

A recent American Bar Association survey found that 30% of respondents are now using AI, up from just 11% in 2023. Notably, 13% of respondents indicated that AI is already mainstream in legal practice, and 45% believe it will become mainstream within the next three years.

The increase in the use of AI has occurred across all segments of law firms, from large ones with 100 or more attorneys to solo practitioners. In addition to the current users of AI, another 15% of respondents reported that they're "seriously considering" buying AI tools.

If not handled properly, AI purchases can add to a firm's tech debt. More than half of survey respondents said "saving time/increasing efficiency" was the primary benefit that AI tools can provide law firms. Tech debt, however, undermines these very benefits.

You could also join forces with other firms to share the training costs for new technology. You might incentivize reluctant attorneys in your firm to get on board if they see other firms potentially gaining a competitive advantage from such tools.

2. Simulations. There's no need for major IT enhancement projects to seem like a gamble. Your firm may already use modeling to simulate how specific legal strategies will play out. Or perhaps you use scenario planning to evaluate how certain financial moves — hefty tech investments, for example — might affect your bottom line.

You can adapt these approaches to predict how IT spending will affect your operations and profits by considering, for instance, the costs of future updates and continuing maintenance. Gathering such information helps you prioritize your tech investments to get the most bang for the buck.

3. Data governance. AI relies on solid and accessible data, but many law firms lack even basic data governance policies and procedures. They may not even know the extent of the data they possess or where it's all stored. If your firm

is among those that have neglected data governance, you need to remedy the situation.

Draft and enforce a framework that describes how the firm will collect, manage and dispose of data. Address matters such as data quality, security and compliance with applicable regulations and ethical standards. Although certain best practices are generally advisable for most law firms, tailor your data governance scheme to your firm's distinctive characteristics and circumstances.

WHO CAN HELP

Devising a comprehensive and deliberate IT strategy within a firm full of competing — and sometimes contradictory — interests is undeniably challenging. But procrastinating or putting your head in the sand typically leads to not only tech debt, but also widespread inefficiencies that eat into profits.

To get a handle on your firm's tech debt, work with your professional advisors. Your CPA can help you identify and analyze all your technology costs. And the right IT consultant can assist you in choosing which tech solutions to implement and which ones to scrap. •

Strengthen collections through more effective communication

Law firms have a reputation for being well-funded operations that like to put their best foot forward. Some might assume this means practices breeze through collections with little to no effort. Like many working attorneys, however, you'd likely tell a different story.

The truth is, law firms often struggle to collect payment just as much as any other type of business. In fact, sometimes you may struggle *more* because the services you provide aren't always as clear-cut as, say, fixing a sink or selling a car. One of the fundamental ways to strengthen collections is through more effective communication.

INITIAL CONTACT

The first stage of communication occurs when you initially meet with engaged clients. Ask them to sign a well-crafted, clearly worded fee agreement. Make sure it explains all your fees, how they're calculated and when payment is due.

You need to advocate for your firm's right to payment and consistently enforce applicable policies.

Ask for a retainer fee up front and work with the client as needed. Explicitly state the consequences of nonpayment, including your right to withdraw before any work begins.

Make it as convenient as possible for clients to pay. If you don't already, accept credit card payments. Many law firms now have online portals where clients can pay their bills. Remember, clients are more likely to quickly pay bills for

smaller amounts sent more frequently than they are if they receive one big bill for the same volume of work.

DELINQUENT ACCOUNTS

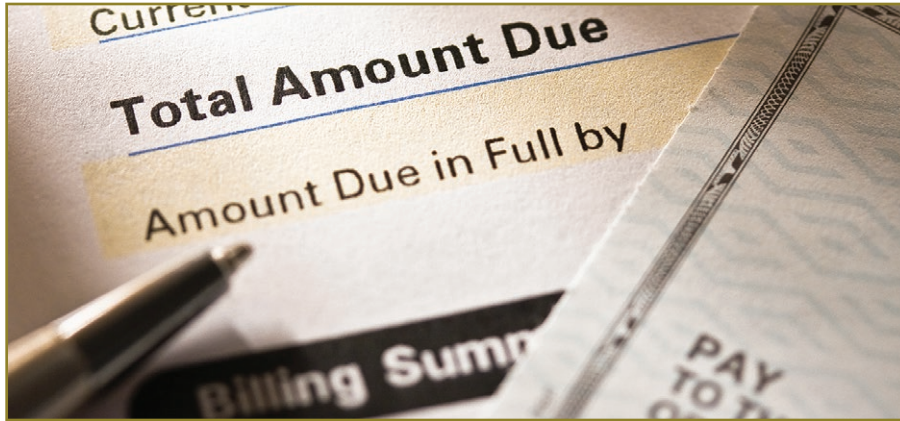
The second stage of communication comes when accounts become delinquent. Train your staff to respond to past-due bills quickly, because the likelihood of collecting on them decreases as time goes by. If the client is reluctant or unable to pay the full outstanding amount, work out a payment arrangement.

Also train and upskill staff in making appropriate, effective collection calls and handling other forms of outreach. Diplomacy is key. You don't want to unnecessarily strain otherwise productive client relationships. However, you need to advocate for your firm's right to payment and consistently enforce applicable policies.

NEGOTIATION AND OBLIGATION

A third stage of communication happens when you must negotiate with clients for payment. Resist reducing your original fees — particularly if the client has signed an agreement to pay the full amount. Doing so could set a precedent for future dealings, and that's something you want to avoid. Then again, you may not have a better option.

An engagement letter and detailed documentation of work performed should defuse any arguments over fee amounts. Disputes over quality are harder to resolve. If the client has a good point, offer to make appropriate amends or reduce the fee. Agreeing to a discount — rather than withdrawing representation — might be a better option for eliminating the issue. This can prevent your firm from paying for collection efforts and help it avoid other legal ramifications.



Also, keep in mind that the American Bar Association's Code of Professional Conduct states that attorneys are allowed to withdraw only if "the client fails substantially to fulfill an obligation to the lawyer regarding the lawyer's services and has been given reasonable warning that the lawyer will withdraw unless the obligation is fulfilled."

COLLECTION POLICY

The final stage of communication typically occurs when you have to resort to your written collection policy. It should specify how your

firm tracks and deals with unpaid accounts — including credit terms, fee agreements, collection guidelines and procedures, and when you'll use a collection agency.

Turning an account over to a collection agency should generally be a last resort. Doing so typically ends the client relationship

and, of course, you'll have to share a percentage of the dollars collected. However, in some cases, the ends do justify the means.

IMAGINARY WORLD

It's pleasant to imagine a world in which clients always pay their bills on time and in full. However, as you've probably experienced, there are usually at least a few who try your patience. Establishing sound, reasonable collection processes and communicating them well can help you get through it. •

Welcoming a new partner?

BE SURE TO STRUCTURE THE BUY-IN CAREFULLY

There's no surer sign of a growing law firm than the addition of a new partner. If your practice has reached that point or soon will, congratulations. When you're ready to draw up a partnership admission agreement, however, proceed with caution. It needs to be much more than a handshake deal.

New partner buy-ins should follow a formal process that reflects the firm's financial goals, protects its legal structure and ensures operational continuity. Get it right and you've likely set the foundation for long-term success. Mishandle

the process and you could be headed for internal conflict and financial strain.

WHY PROCESS MATTERS

Taking on a new partner — whether you're promoting someone internally or hiring someone from the outside — isn't only about recognizing that person's experience and accomplishments. It's about granting a fellow attorney an ownership stake in the business. A well-structured buy-in process is needed to address every possible detail.

The financial terms of a buy-in are particularly critical. They can affect the firm's cash flow, tax liability and future growth plans. And don't overlook the importance of considering how the new partner will affect operations. Onboarding an attorney of this stature will impact strategic decision-making, client allocations and practice culture.

4 KEY COMPONENTS

Four of the most important components of a strong buy-in process are:

1. Valuation. To determine a new partner's ownership share, you need to know how much the firm itself is worth. Estimating the value of your practice will call for the services of a professional appraiser specializing in law firms. Valuations can be based on tangible assets, receivables, goodwill or a combination of factors. Some firms apply formulas tied to revenue or profitability. Whatever approach you choose, the methodology should be transparent and accurately applied.

2. Capital contributions. Discuss and agree on a detailed transactional structure. For example, will the new partner contribute a lump sum of capital or buy in over time with payments? Some firms permit new partners to use draws (advance payments on expected profit shares) or loans backed by the practice. Look for an approach that balances your firm's liquidity needs with the partner's financial capacity.

3. Tax considerations. Many firms and new partners overlook or underconsider taxes, only



to get an unpleasant surprise later. For instance, if the buy-in includes payments based on goodwill, the characterization of those payments may affect deductible expenses and taxable income. And whether capital contributions are recorded as equity or loans can impact the firm's balance sheet and tax liability.

4. Governance. Spell out what distinctive rights the new partner will have, as well as the individual's role in strategic and operational decisions. Be sure the governance terms you lay out align with your firm's overall partnership agreement. Finally, stipulate what must happen if the new partner decides to leave the firm. Many practices implement buy-sell agreements to facilitate this situation.

IT'S ABOUT TRUST

Welcoming a new partner is typically an exciting time. It means a fresh face and voice for your growing firm. However, as with any new relationship, establishing trust is key. Your CPA can help you with all the financial aspects of the buy-in process. •

4 retirement plan options for small firms

If you run a small legal practice, sponsoring a qualified retirement plan for employees might seem like a stretch. However, there are viable options to consider. Let's explore four examples.

1. SOLO 401(K) PLANS

Are you a solo practitioner? If so, there's a 401(k) with your name on it. Solo 401(k)s are a plan type limited to self-employed individuals and

certain business owners with no employees other than a spouse.

Accounts are funded with a combination of pre-tax salary deferrals and annual profit-sharing contributions. In fact, you can contribute as both the employer (profit-sharing contributions up to 25% of compensation) and an employee (up to \$23,500 in salary deferrals in 2025).

Cash balance plans feature higher annual contribution limits than, say, traditional 401(k) plans.

The maximum combined contribution for 2025 is generally \$70,000 for those under 50. Thanks to catch-up contributions, participants age 50 to 59 or 64 or older can contribute up to \$77,500, and those between 60 and 63 can contribute up to \$81,250.

2. SMALL GROUP 401(K) PLANS

These plans are designed for small businesses with 100 or fewer employees. Both employers and employees can contribute, but employer contributions are discretionary.

For 2025, employees can contribute up to 100% of compensation, to a maximum of \$23,500 (excluding catch-up contributions). Combined contributions for 2025 can total the lesser of \$70,000 or 100% of compensation. These plans come with a greater administrative burden than solo 401(k)s, though you can set vesting and participation rules.

3. SEP PLANS

If IRAs are more to your liking, Simplified Employee Pension (SEP) plans offer a

relatively easy, flexible option for solo practitioners or small firms.

Under these plans, you sponsor IRAs for employees and contribute a percentage of each participant's compensation to that person's account. For 2025, employers can contribute up to 25% of an employee's compensation with a \$70,000 maximum. Annual contributions aren't required.

4. CASH BALANCE PLANS

In contrast to the three plans above, which are defined *contribution* plans, a cash balance plan is a defined *benefit* plan. They're often used to supplement other retirement plans for high-income individuals, such as law firm partners.

Basically, each participant's account annually receives a salary percentage as a "pay credit" and an "interest credit" at an index-linked fixed or variable rate. Cash balance plans are relatively complicated to administer and have annual funding requirements. However, they feature higher annual contribution limits than, say, traditional 401(k) plans.

BIG STEP FORWARD

For growing law firms, sponsoring a retirement plan for employees — or even just for yourself — is a big step forward. Ask your CPA for help choosing the right one for your practice and getting all the available tax advantages from it. •





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