



# STATE BAR OF TEXAS

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Dear Section Members:

Please mark your calendars to attend the General Practice Institute in Waco, Texas, on Friday, April 23, 2010. In partnership with Baylor Law School, we're holding a great seminar at low cost on hot topics for solos, small firms, and general practitioners. One hot topic which affects both us and our clients is the impact of federal healthcare legislation on our businesses.

In recent years, solo practitioners and small law firms have struggled to streamline their practices and decrease overhead, in an attempt to remain profitable. Small firms are outsourcing lower-salaried jobs (through the use of remote receptionists, research contractors, and "virtual legal assistants"). However, recent events in Washington, D.C. have us rethinking this "conventional wisdom" as we attempt to digest the real impact of health care reform on our bottom line.

For those of us in solo or small firm practices where every dollar counts, the healthcare legislation is especially important. We hoped for tax relief and lower premiums while fearing hidden costs and new reporting obligations. We still do not know which of these possibilities will come to pass, even though the bill has been signed into law. Insurance premiums have risen as much as 50% over 2009 levels for identical coverage, and because the legislation does not cap premiums, they may and probably will continue to rise. This letter is intended to give you an idea of why you should act now to address this issue.

There is much debate about the impact of the legislation on small businesses, and how to best react to the new law. For example, for the next few years, businesses with less than 10 "full time equivalent employees" having an average salary below \$25,000 will be eligible for a tax credit of 35% of health insurance costs. Those with an average above \$40,000 will receive no tax benefit at all. While eliminating, outsourcing, or consolidating lesser-paid jobs decreases monthly overhead, it also increases the average salary of the remaining employees, who are likely greater skilled and higher paid. It thus appears that a three person law firm with one lawyer making \$50,000 and two assistants making \$15,000 each, will not qualify for the 35% credit, and a firm of one lawyer making \$60,000 and one legal assistant making \$22,000 will find itself in the same category as a billion dollar business with 1,000 employees.

Creative thinking is a must. It may be advantageous to hire an additional full-time employee at a low hourly rate, to bring the average salary below \$25,000 for the entire firm. Some attorneys may cut their own salaries to bring the average down. Obviously, the feasibility of such ideas will vary depending on the specific circumstances of each firm – we do not yet know how the corporate payment structure (owner draws vs. partnership shares vs. salaries) and other employee benefits (retirement matching, mileage reimbursement, and per diem) will affect the "average salary." We do know that we should speak with our CPAs and insurance advisors to reevaluate not only the health care coverage we provide, but also our basic employee and payroll structures. Prompt planning may result in substantial savings over the next few years.

Thank you for your continuing support of our Section. We strive to keep you up to date on important issues that impact solos and small firm practitioners. Please visit our website at [www.GPSOLO.com](http://www.GPSOLO.com), and feel free to contact any of our officers or councilmembers with your ideas, suggestions, or questions about the Section. I look forward to seeing you in April at the General Practice Institute, and at the State Bar Convention in Fort Worth this coming June!

Roy B. Ferguson  
Chair, 2009-2010