9th Annual PwC Law Firm Services Global Forum
Leading Through Transformation
An overview of the 9th Annual PwC Law Firm Services Global Forum

As we prepare to begin the third decade of the 21st Century, the business of running a successful law firm continues getting more and more complex. Business and tax considerations, technology and the digital environment continue to change and evolve for law firms. In this ultra-competitive field where every dollar of spend must result in a tangible benefit for the firm, knowledge is power. PwC’s Law Firm Services is dedicated to providing your firm with the information most relevant to addressing the business issues and challenges you face to enable your lawyers to meet client demands, execute a digital strategy, and to comprehend and apply the latest legislative changes affecting the industry.

On June 4th and 5th, approximately 180 law firm professionals, representing over 75 firms from the US, UK and across the globe gathered at the JW Marriott Essex House in New York for the 9th Annual PwC Law Firm Services Global Forum.

PwC’s intent in holding a world class forum for this select industry is threefold:

• provide an environment for networking with peers and business colleagues from other firms;

• create opportunities for dialogue with PwC subject matter specialists, business and tax professionals from the United States and 11 other countries to discuss the latest trends affecting the business of running a law firm and the unique challenges faced by in-house professionals providing finance, tax, business and digital functions; and,

• collaborate and learn from our common experiences in navigating both domestic and international tax issues encountered by law firms over the past year.

Through various networking events and over 35 closed-door seminars, briefings, and roundtables led by PwC and its forum partners, participants were able to ask questions and address challenges encountered in their practice.

What follows are selected highlights from the forum sessions, which covered a broad spectrum of issues including digital transformation, pricing & profitability, transfer pricing and BEPS, country-specific briefings, in-depth explorations of US tax reform, analytics and technology trends, as well as other recent developments of interest to law firms.

PwC’s dedicated network of global professionals is here for you and your law firm 24/7 to provide advice and guidance, and to lend a hand when it comes time to evaluate and adjust your firm’s course where needed. With more than three decades of first-hand experience in the issues that matter most to law firms, we want to be your PwC.
Global Forum Keynote on June 4th: Leading through Digital Transformation

For the opening session, Joe Atkinson, Chief Digital Officer of PwC US, led a discussion of how digital technology is being used to allow the firm to remain agile while maintaining the highest standards of work quality and meeting client demands and staff needs.

Joe’s discussion focused on two central themes: building a digital organization isn’t just about the technology – “digital” represents the optimization of technology and people; moreover, we need to identify and understand the best way to develop our people so they can get the most from our technology. To put it another way, “how do we manage and deploy our technology so we empower our people to be their best?”

PwC has adopted a more holistic view of digital. The right digital skill sets and capabilities must exist across our organization in order for our people and leaders to be successful in the digital world. This corresponds to promoting the right mindset in our people; their ways of thinking about digital transformation to fuel innovation. Our relationships – the ability to connect, collaborate and influence each other in order to foster digital innovation within our business is key. Finally, we must encourage behavior in order to drive and achieve digital innovation across all sectors.

Changing our people’s approach and behavior toward digital transformation has been our primary focus. Some employees have grown up with digital change as a constant in their lives, while others have been less involved in tech. In order for PwC to create new digital business leaders, it was necessary for the firm to understand how they learn and what they wish to achieve.

In only a few years, PwC has achieved rapid change in its approach to digital transformation across our firm. Our journey started with an investment in both our people and culture. After identifying current and future needs from a tech perspective, we built a cultural foundation to make our staff aware of the changes to come and their pivotal role in driving change. We stressed that everyone must be involved in driving change, and accelerated momentum on the ground by empowering our employee base to move forward with innovation. Today, we continue our journey with a wide net of on-the-job innovation successes and next gen tech enhancements. Our reimagining has resulted digital learning optionality through our Digital Hub, hands-on learning of data and automation basics through our Digital Academies, and applied learning through an online community of user generation solutions through Digital Lab. Using the power of the cloud, PwC team members are invited to develop tools and solutions to their clients’ problems, and to share those ideas and innovations across the firm.
The critical role played by our people has been achieved through gamification – the carrot versus the stick method. Participation and achievement in the program are recognized through incentives, including an extended summer holiday the week of July 4th, if certain targets and thresholds are met. Financial well-being and remuneration are used to recognize achievements – staff are paid not only for the creation of their submissions but also for usage if their solution goes viral.

We have also empowered our people to “choose their own path”. Whether it be through offsite deep immersion sessions, our Digital Fitness App or bite-size learning bursts that pop up on their screen during the workday, PwC allowed its employees to engage in their own digital journey, and upscale this impact throughout our business. Five key strategies for effecting digital transformation within your law firm emerged from the conversation:

1. **Step back and think... reimagine how you bring value to your clients, partners and employees and how you can improve their experience.**

   In the not-too-recent past, significant technology changes in the business environment were traditionally achieved through business-led innovation directed by a C-suite executive with a program office and team used to push change down into the organization. The focus now is on citizen-led innovation and how the culture can inspire organic change at all levels of the organization.

2. **Explore and create new, meaningful “digital connections” with your clients and strategic business partners.**

   It is important to offer clients an experience, which includes real-time access to certain technology tools in order to promote a more seamless interaction between their team and yours, while providing clients the work product they need. Direct, secure access through client portals and / or shared databanks, allows for real collaboration and for your clients to make and strengthen their digital connection with your firm as their service provider. This relationship can grow, adding real value and support to the client experience while advancing the firm’s broader strategy to become the client’s go-to trusted business advisor.

3. **Put yourself in the shoes of your employees... so you can better understand their experience and how you can improve it.**

   Don’t forget to ask yourself, “[w]hat is it like to be new staff?” It is important to take time to understand your employees’ work experiences. It is only through this first-hand knowledge of what is involved in getting the job done, that you can seek to improve the processes. Provide and empower your people with both optionality and choice – you can constrain those two to direct your people in a certain direction, but you must give them a choice.

4. **If you come across a good idea, move deliberately and move fast... but thoughtfully.**

   Clients, partners and employees may be part of your firm’s “permafrost layer”, where the desire to change is overtaken by the difficulty involved in effecting change at that level. Ideas are difficult to implement. It is important to begin now to develop muscles within your organization so you can move fast once a good idea comes along. However, you must still consider cost, data security, and training when bringing this idea to life.

5. **And, if you do nothing else... explore new ways to listen to, engage and communicate with your partners, employees and clients.**

   Citizen-led innovation takes place at the level of the working teams, and by empowering them to drive change. It is important to tap into the great power of all the people involved at the client level, but your firm must also provide a frame through which you can control and direct this process – for example, a Digital Hub, Digital Lab, etc.
sure to ask your partners, employees and clients “[w]hat does digital engagement mean to you? Despite these advancements, recognize that there will always be those that feel left behind. Seek to identify ways where you can do something else to drive their digital experience. At PwC we have a “Digital Upskilling Personal Trainer Program” where Personal Trainers work with our partners who want to (i) understand what digital tech changes mean for their clients, (ii) know what PwC is doing in the market and with clients regarding digital transformation, and (iii) make digital fitness a habit. Just like with a personal trainer at a gym, partners and trainers will agree on shared expectations and goals, on the topics they’ll cover, how often they’ll meet, over what time period they will work together, how they’ll work together, what defines success, and how they will reward each other for their efforts. The program matches partners and trainers who share similar interests. We have had tremendous success with this program to date.

The takeaway from this Keynote is that digital transformation in your law firm is no longer a question of “will we,” but “how quickly and to what extent can we successfully incorporate this change across our firm.”

“Our commitment to adopt and drive the digital transformation caused us to rethink how we deliver work to our clients, and our clients took note of what we were doing – we pulled the curtain back and let our clients see how PwC is going digital.”

– Joseph Atkinson
Chief Digital Officer, PwC US
Continuing the forum’s theme of driving tech change and transformation in law firms, we held a client panel on Tuesday afternoon. Calling on experiences from within their law firms, several of the industry’s leaders joined PwC US Law Firm Services Practice Partner Lawrence Ballard to discuss methods and strategies for moving the tech ball forward. The panel included:

- Jonathan O’Brien, COO of Proskauer Rose LLP,
- Kenneth O’Connor, COO of Willkie Farr & Gallagher LLP, and
- Linda M. Novosel, Chief Innovation & Value Officer of Blank Rome LLP.

Lawrence Ballard began by asking how each of the law firms represented use technology and innovation.

Firms generally see technology as a piece in the puzzle. For example, one panelist noted that their firm has made incremental changes that were incumbent on their management and lawyers understanding the need for change. At the same time, the firm sought to achieve as little disruption to the lawyers as possible, since traditionally they have been slow to change. The current focus has been to make lawyers more efficient.

Another panelist noted that for their firm, innovation has been the most critical part of the firm’s technology journey. Their focus has been to take the kernel of a really great idea and develop that into something that is useful to their lawyers and clients.

Many recalled the not-too-distant past, when lawyers thought of IT as a back office function, and it was necessary to explain why money should be spent on it. This has evolved, with partners now asking “Are we spending enough”. Whereas most of the larger New York-based firms used to have two staff members for every lawyer, technology has enabled a reduction of this number to less than one staff for every attorney. Therefore, firms must focus on tech to be competitive and it is no longer a back office function.

When asked if it is possible for their law firm to invest effectively in tech without resulting pressure on their profits per partner metric, a panelist recounted their experience that IT spend tends to be around the 3% range for most firms. If it moved to 4%, most partners would likely not notice the difference. Partner acceptance of the need to spend on IT is largely due to the firm’s client base, which includes tech-focused clients and private equity clients that are “tech heavy.” Like many of their competitors, this firm does not want to be the first mover on tech, and its partners do not want the firm to do a lot of exploratory things. Instead, the firm comes up with a plan, executes it and reaps commercial value.

For one panelist, the first question asked within their firm to determine IT spend is “What is it that we need?” While there is a pot of funds available, it is necessary to ensure that the firm is spending it in the right place. For many firms, tech is always one of the larger spends.
A common thread among the panelists was that their partners appreciate tech and innovation. In fact, some partners want to “overinvest” in IT. In order to avoid doing so, it is necessary for law firm management to ask, “What do we really need, what are the problems we are trying to solve, will it make us more profitable, what is the return on investment?” One of the biggest impediments to IT spend is that most firms focus on the calendar year and tend not to invest in the business for the long term. The key question should be “What do we invest in today for a return in 5 years?”

Ballard next asked the panel to explain what key metrics, besides profitability, their firms focus on when determining IT spend. One panelist noted that their firm looks for value in ways that are not necessarily easily measured. For example, their firm measures ROI by adapting technology that the firm already owns but which is not used effectively and efficiently. For example, the firm made its expense reporting tool into a much more efficient and friendly process, but the firm really didn’t save any money. Rather, it was their lawyers’ positive experiences in using the updated tool that reaped rewards. Firms must do an effective job of training people to use programs that the firm already owns. When one firm realized that some of attorneys were struggling with the basic mechanics of Excel, it created a “whole attorney” training curriculum, which its people really appreciate. The lawyers are happy the firm is making an investment in them.

The panelists agreed that most law firms have at least one tool “sitting on a shelf” and hasn’t been implemented. There is a lot of “temptation” for all of this technology and the partners often advocate for new buys. However, the firm must scrutinize each potential buy in order to make sure it is making the right investments.

A key question for some firms in assessing their IT needs is, “what do we want our attorneys to be good at?” One such firm decides what key applications will make their lawyers more effective at their jobs; practice more efficiently and work more cost effectively. That firm has a process in place where it looks at all potential applications for a piece of tech in its NY office -- “if we don’t think there is value in it, we won’t do it.” Other firms also regularly go through a culling process and shut down programs that they are not using, and stops paying the associated fees.

When asked to identify what other areas law firms should think about, one panelist noted that knowledge management is another component of the IT process bucket; “our assets are our people, and our people have the knowledge, and we are not utilizing that knowledge.” Pricing, project management, and talent development are all key.

One panelist noted that when a collaboration between partners and clients results in a more profitable outcome for all of the parties involved, the clients love it. They get excited that the firm has invested in looking forward. Many clients feel the hourly rate for legal services is “getting too high and too fast”.

A good way to start a dialogue with the firm’s partners on innovation is to talk with practice leaders and get their input. Another method is to start a “pilot group” consisting of mid-level lawyers, who tend to be more intuitive and understand more about the practice of law. However, when a firm includes too many lawyers in a pilot group, you “end up with a beast of a project”. It is better to have a very, very small group, which may not include lawyers yet, to come up with a concept and a design. The success rate is much higher when you get it to a point where it is basically designed and the concept is there and then the lawyers come in and may tinker with it but at that point they begin to own it. For example, one firm created a completely electronic billing and collections process; the firm no longer sends paper WIPS to partners and it has only an all-electronic system for its partners to use. All noted that lawyers want to be “self service” and not need to call down for every little thing. They prefer a “google-like place to go” and do not want to wait for an answer to their question. To combat the tried and true adage that “perfection is the enemy of progress”, one firm gives its new tech projects time to evolve, and employs phases for implementing change.

When asked about the future, a panelist explained their view that “talk to text” would be
coming soon to legal services, as well as standardized contracts. However, the need for litigation services, as well as the counselling of clients, will not be taken over by tech.

Clients want to hear and to see that their lawyers are thinking about doing things differently, so there is a client-driven component to IT change.

Most lawyers are looking for other ways to create “stickiness” in the client relationship. Strengthening the lawyer-client relationship through the use of IT is one more way to achieve this goal.

One panelist sees more document and research automation tools that will enable lawyers to work more efficiently. This will result from a change in the demographics of the work force. Since less associates will be needed and hired, perhaps other professionals and non-lawyers will step in to take their place. Tech will not eliminate the need for lawyers, we just will need fewer of them.

Another panelist predicted an even lower staff to lawyer ratio (so 0.5 to 1.0) but without a decrease in spend. Instead, dollars will be reallocated, with more spend dedicated to security.

Furthermore, as spend grows, law firms will collaborate and standardize their approaches to cybersecurity and other IT measures.
US tax policy: Where do we go from here?

On the second day of the forum, Todd Metcalf, a principal in PwC’s Tax Policy Services Group, and a former chief tax counsel of the United States Senate’s Finance Committee, offered perspectives on the future of tax policy in the US.

Uncertainty Abounds

Metcalf focused on the fact that there is more uncertainty in the tax landscape than has been seen in many years, not least as a consequence of the new tax rules flowing out of the Tax Cut and Jobs Act (TCJA) of 2017.

Implementation of TCJA is ongoing. While many tax regulations have been issued, more is expected in the coming months. Some technical corrections - most notably the qualified improvement property glitch – are expected to be considered by Congress before the end of the year, with tax pundits predicting passage in the 3rd or 4th quarter of 2019. Significant guidance has been issued recently on Global Intangible Low-Taxed Income (GILTI) and foreign tax credits, with rules related to IRC Section 163(j) and the Base Erosion and Anti-Abuse Tax (BEAT) expected later in the fall of 2019.

As a consequence of the 2018 midterm elections, the new 116th Congress is a divided legislative branch. “We have divided government, and, thus, we have divided priorities”, said Metcalf.

The Republican-controlled Senate is focused principally on confirming Executive Branch appointments and is “in the employment business” at this time, which “doesn’t leave much time for legislative business at the moment”. As such, Metcalf warned not to expect a lot of consequential legislation to make it to the President’s desk this year.

Beyond the usual challenges of a divided Congress, the 2020 presidential election also is shaping up to play a larger role in what Congress does, because, among other things, there are so many members of the House and Senate running for President. As presidential candidates come out with policy initiatives, other members of Congress of both parties may feel compelled to respond or counter, and so they, too, may put out their own ideas. This unusual dynamic may make it harder to reach the kind of consensus needed to advance legislation.

In addition, federalism also plays an outsized role in the wake of TCJA, as state conformity issues further complicate the tax landscape. Taxpayers need to step back and review state positions – which is another factor adding to the level of uncertainty and volatility.

The “September from Hell”

September may prove to be a very challenging month for Congress and the Administration on budget matters. On September 30th, the federal government’s funding expires. Around that time as well, the Treasury will run out of so-called extraordinary measures to continue paying the nation’s debts in the wake of the expiration of the debt limit suspension earlier this year. Accordingly, Congress will have to address the debt limit at some point around the end of the federal fiscal year to avoid default. Further complicating the budget picture this Fall, under the Budget Control Act, without intervening congressional action sequestration, i.e. across-the-board spending cuts, will come into effect on October 1st. Unfortunately, there is no political upside with respect to a vote on the debt limit and
often not much more political gain to be realized from legislation that increases government spending.

Therefore, in order to sweeten the deal, Congress may add items to the budget measure – like working family tax relief, tax extenders, retirement and savings incentives, disaster tax relief, etc. – to make it more politically appealing. There’s no guarantee that’s the approach Congress will take, but there’s precedent for it.

**More complications**

Tax matters that were once fairly routine and uncomplicated have become increasingly difficult to get across the finish line. A prime example of this development is tax extenders, the temporary tax policy that expires from time to time. While no one likes temporary tax policy, renewing them every year or two used to be a fairly easy and straightforward proposition.

In the last few years, the committees have undertaken multiple exercises aimed at assessing the value of the various temporary provisions, particularly aimed at answering the question whether they should be made permanent or allowed to lapse. The positive news is that both the Senate Finance Committee and the House Ways and Means Committee are making progress on advancing extenders legislation – including provisions that expired at the end of 2017 and 2018, or will expire at the end of 2019 – even if the timeline for their ultimate enactment remains in question.

Earlier this year, the Chairman and Ranking Member of the Senate Finance Committee introduced a bipartisan proposal to renew the currently expired tax provisions through the end of 2019. While it has not been scheduled yet, it is likely that the Finance Committee will mark-up the Grassley-Wyden proposal at some point during the summer setting the stage for negotiations with the House this fall.

On the House side, the Ways and Means Committee recently marked up a proposal that would renew through the end of 2020 the tax provisions that expired in 2017 and 2018 and will expire at the end of 2019. In addition to the regular slate of extenders, the Ways and Means Committee proposal included expansions of the Earned Income Tax Credit and the Child Tax Credit, as well as additional resources to reduce the cost of childcare for working families.

Adding a further wrinkle is the House “Pay As You Go” rule (“PAYGO”), which is designed to require Congress to limit any increase in the federal budget deficit by offsetting the cost of legislation that would increase spending or reduce revenues. The Senate does not have a similar requirement, which means that to the extent any tax legislation needs to be offset would need to be negotiated between the two bodies. All that being said, the good news is the process is moving forward in both the House and Senate, and legislation addressing extenders and other tax matters is expected by the end of the year.

**Aging IRS Workforce**

After a number of years of budget cuts and hiring freezes, some good news has emerged from the House regarding IRS funding. The House appropriations bill providing for Treasury and the IRS would increase IRS funding. Even so, the IRS continues to face significant challenges, particularly with respect to its workforce, that are likely to affect taxpayer experience. For example, 40% of the overall IRS workforce is eligible to retire in 2019. Moreover, less than 1,000 IRS employees are under age 30, and of that number, many are part-time or seasonal employees.

While there is hope to be found in congressional willingness to provide the IRS with more resources, given TCJA and other significant tax developments, the agency likely will have to do more with less for some years to come.

**A “Nearly-Dry Well”**

The TCJA is expected to result in reduced revenue of $1.5 trillion over ten years. Because the way the legislation was structured, several key fiscal inflection points loom in the not-too-distant horizon. In 2022, the current interest expense limitation contracts, and taxpayers will be compelled to capitalize R&E expenses, both to the
relative detriment of taxpayers. In 2025, what Metcalf calls “the mother of all fiscal cliffs” will occur as all individual provisions in the TCJA expire. To make those provisions permanent represents a tremendous fiscal challenge, because the cost to do so could be as much as $2.5-$3.0 trillion over ten years. This matters, not just because of the significant cost, but also because Medicare and Social Security will face potentially devastating budget challenges during that same 10-year period.

The competing political interests of Congress’s strong desire to extend tax cuts and its equally strong instinct not to reduce Medicare and Social Security benefits will create a fiscal problem that may not be easily resolved by changes to the income tax. According to Metcalf, “the Internal Revenue Code increasingly is an overextended, nearly dry well”. The United States remains the only major economy in the world without some form of national consumption tax, and the confluence of these fiscal challenges brought into sharp focus at the end of 2025 may force Congress to strike the ever-elusive grand bargain. Such a bargain could include a serious reevaluation of the current mix of revenue sources, as well as the level of entitlement and other spending, and enable Congress to adopt a more sustainable fiscal mix for the future.

Outside the US

Beyond our borders, the Organisation for Economic Co-operation and Development (OECD) continues to push for multi-lateral action to better align global tax rules. Its efforts to develop a framework to address the tax challenges of an increasingly digitalized global economy could yield significant changes to rules and norms that have been relied on by taxpayers for decades.

Beyond the OECD’s activities, other countries are engaged in unilateral efforts to capture a greater share of taxpayer income; businesses face an environment of increasing trade protectionism and tariffs; and Brexit has the potential to roil global markets in unexpected ways.

Uncertainty and volatility at home and abroad seem to define the current tax landscape. The question on everyone’s mind is, “Will we return to the status quo or is this the new normal?” Ultimately, only time will tell.

“As multinational businesses face Brexit, continuing trade protectionism and tariffs, the question on everyone’s mind is: “Will we return to the status quo, or is this the new normal?”

– Todd Metcalf
Principal in PwC’s Washington National Tax Policy Group
Conclusions

The two-day, 9th Annual Law Firm Services Global Forum addressed both global and domestic tax, technical and business questions applicable to law firms. Subject matter specialists from across the United States and the globe provided participants with in-depth explorations of matters affecting their law firms, including pricing and profitability workshops, SALT updates, transfer pricing and CbCr, VAT, tax withholding and information reporting, and foreign branch income planning, to name a few. Eleven breakouts focused on local country tax and regulatory issues affecting firms with offices in Belgium, Brazil, Canada, China, France, Germany, Hong Kong, India, Japan, Mexico and the United Kingdom.

Special emphasis was placed throughout the courses and panels upon achieving digital transformation in your law firm, including the keynote speeches, law firm panels, and courses on talent management for law firms, finance of the future, data analytics and artificial intelligence, cybersecurity and much, much more.

The key theme evident throughout the global forum is that disruption is happening, and firms cannot afford to sit on the sidelines. Understanding what is out there from a digital or tech perspective is only the first step. Firms must become introspective and examine their lawyers’ goals and needs before spending a single dollar on an IT program or application. A thorough vetting of ideas, as well as pilot groups, are effective tools for testing the waters for a proposed change in tech. Lawyers want self-service and appreciate when their firm takes the time to understand their needs and invest in their IT training.

Our PwC network of Law Firm Services professionals spans the globe, providing your law firm with

- information on what is available,
- first-hand knowledge on what your peer firms are doing, and
- advice and guidance on getting your goals achieved in a timely and cost-effective manner.

Whether it be a tax issue, a regulatory concern, a business matter or a question involving law firm tech and applications, we are here to help your law firm succeed.

For more information about what was discussed at the 2019 Law Firm Services Global Forum or to have a deeper discussion we encourage you to reach out to our team on the following page.
To have a deeper conversation about how this subject may affect your business, please contact:

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