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Response to Ministry of Justice Consultation on Interest on Lawyers' Client Accounts Scheme

2 February 2026

Response of the Professional Regulation Committee of the Birmingham Law Society to the Ministry of Justice Consultation Interest on Lawyers Client Accounts Scheme.

This response has been prepared by the Professional Regulation Committee of the Birmingham Law Society. The Society is the largest local law society with some 9,000 members from all branches of the legal profession and practising in all aspects of law. The response represents the collective views of the Professional Regulation Committee whose members include specialists practising in all aspects of professional regulation and compliance for the legal profession.

Summary

The Birmingham Law Society (BLS) considers the ILCA scheme to be nothing more than a stealth tax on legal services. The proposals impose a regulatory burden on law firms to account for client account interest in a completely new way. There is almost certain to be an increase in the cost of the administration needed to comply with the proposal. There will be the costs that firms will have to bear to comply with the scheme and the costs of the scheme administrator.

This will make legal services more expensive to consumers and other clients. It seems likely that these increased costs will reduce access to justice rather than improve such access.

The increased cost for those needing access to legal services may drive them to use unregulated legal service businesses that do not provide the protections available from regulated law firms.

International clients faced with the increased costs of doing business in England & Wales may consider alternative jurisdictions, particularly for cross-border litigation, where the cost of doing business is more attractive. This will hamper the growth of legal services provision and damage the reputation of the legal

profession. It should be borne in mind that legal services contributed £38bn to the UK economy in 2024¹.

We think that these proposals will have a significant impact on smaller firms. The SRA's own data shows that those from ethnic minority backgrounds are more likely to work in smaller law firms. This scheme will disproportionately impact legal service providers and clients from minority ethnic backgrounds.

We think that those who have been awarded a lifetime care settlement following a catastrophic personal injury will be adversely affected as law firms will have to account to the Ministry for 50% of the interest earned on their settlement. We consider this to be an injustice.

1. Do you have any views on the proposed scope of the scheme?

The proposed scope of the scheme is fundamentally flawed.

The scheme, as proposed, will only apply to authorised bodies in England & Wales. Legal service providers in other parts of the UK, namely Northern Ireland and Scotland, and overseas will have a competitive advantage over their counterparts in England & Wales. This will have the effect of restricting the potential for growth of the legal services market in England & Wales. As mentioned in the summary above, legal services contributed £38bn to the UK economy in 2024.

The proposal envisages that the scope will apply to "reserved legal activities". This will place a regulatory burden on firms to distinguish between reserved legal activities and non-reserved activities.

For example, the consultation document mentions "*in probate and estate administration, firms may temporarily hold funds from a deceased person's estate before distributing them to beneficiaries*". The only reserved legal activity involved in this process is the application for grant of probate or letters of administration. The rest of the estate administration work is not a reserved legal activity.

¹ [UK Legal Services Report 2025 | Barclays Corporate](#)

Firms will need to hold the estate administration funds separately from the funds for the application to the Probate Registry. The interest earned on the funds for the application will be relatively small in comparison to the interest earned on the deceased's estate.

It is noted that the consultation welcomes views on extending the scope to services other than reserved legal service activities. This is an unwanted stealth tax and there is no appetite from legal service users, or legal service providers for the proposal nor to extend the scope beyond what is being proposed.

The tone of the consultation presents a misconceived notion that interest earned on pooled client accounts (referred to hereafter as 'general client accounts') is client money. That is not the case. Rule 2 of the SRA Accounts Rules 2019 defines what is meant by "client money". Interest earned on a general client account is not client money within that definition. It follows, therefore, that interest earned on a general client account is money that belongs to the authorised body. Rule 4 of the SRA Accounts Rules provides that client money must be kept separate from money belonging to the authorised body. Accordingly, interest earned on a general client account is paid into the firm's office account, not client account.

Firms are required to account to clients for a fair sum of interest (rule 7.1) from the funds in office account.

The Ministry would need to work with the SRA to ensure that the scheme proposals are consistent with the SRA Accounts Rules.

2. Aside from reserved legal activities, is there other work undertaken by legal service providers that includes holding client money?
 - a. Should this be in or out of scope of the scheme?

We consider that it is for the Ministry of Justice to do its own research as to what legal services, other than reserved legal activities, are provided by law firms. The Ministry of Justice must provide justification if it considers that the scope should be extended to other legal services.

As mentioned in the response to question 1 above we consider this proposal to be an unwanted stealth tax. There is no appetite from legal service users, or legal service providers to extend the scope beyond what is proposed.

3. Are there other account types used for holding client money that should be in scope of the scheme?

We consider that it is for the Ministry of Justice to do its own research as to whether there are other types of account that should be in scope.

4. Are there any types of individual account used for holding client money that should not be included in scope of an ILCA scheme?

- a. Any why?

Solicitors are often appointed to operate a client's own account. For example, a solicitor may be appointed as an attorney under a Lasting Power of Attorney (LPA) to deal with the financial affairs of a person who is unable to deal with such matters themselves. Rule 10 of the SRA Accounts Rules 2019 sets out the requirements in relation to such accounts. These accounts should not be within the scope of the proposal as this would amount to a tax on those who are the most vulnerable in society.

Solicitors are often appointed as a joint signatory to an account of a client or third party. This may as an attorney under an LPA, it may be under a Power of Attorney whilst someone is absent from the country for a prolonged period, or it might be in relation to the management of an account for a business. These accounts should not be within the scope of the proposal.

5. We propose that the scheme retains a higher proportion of interest generated on pooled client accounts (75 – 100 percent), and a lower rate of 50 percent of interest on individual client accounts. Do you have any comments on these rates?

We consider that the proposal is a stealth tax on users of legal services. Under the current regime, a client may have a reasonable expectation of receiving

a rebate of a fair sum of interest on any funds held by a solicitor on their behalf. We cannot see any justification for the rates proposed. These are far higher than rates for income tax, or corporation tax.

We consider that this stealth tax on legal services, particularly at the levels proposed, will significantly increase the cost of legal services. This will have the effect of limiting access to justice for those least able to afford it. We also think that the increased costs of legal services, caused by this stealth tax, will drive international clients to use other jurisdictions where costs are lower.

6. Do you foresee any difficulties with keeping in place the existing rules on client interest, for the interest not secured by the scheme?

Yes. The proposed scheme will be costly to administer. Legal service providers will need to recoup these costs. One option available to firms is to increase the de minimis limit before a firm accounts to the client for a fair sum of interest. Most firms have a de minimis limit in the 10's of pounds. To cover the costs of the scheme, legal service providers may be forced to increase the de minimis amount to the hundreds of pounds.

7. For legal work undertaken on your behalf as a client, have you received (or are you expecting to receive) interest on your funds?

The Birmingham Law Society is unable to comment on this question.

8. If yes to the previous question, how much interest have you received/are expecting to receive?

The Birmingham Law Society is unable to comment on this question.

9. Are there any impacts of the proposed scheme on clients that we have not considered?

We consider that the proposed scheme is a stealth tax on clients. This will increase the cost of legal service provision. That cost will be borne by clients of legal service providers. Some of these clients will be those members of society who are least able to afford these services. This will limit, rather than increase, access to justice bringing harm to the most vulnerable members of society. The legal services market will become less competitive and international clients are likely to choose other jurisdictions for their legal service needs. This will impact on the potential growth of the legal services market in England & Wales.

Under these proposals, clients who have suffered catastrophic personal injury and who have a solicitor administering their injury settlement account, will receive less interest than currently. The clients are likely to have a lifetime disability, which is a protected characteristic. The Ministry of Justice must carefully consider whether the proposals will have the effect of taking money from some of the most vulnerable members of society.

10. For legal service providers: how easy or difficult do you find it currently to open pooled or individual clients accounts?

The Birmingham Law Society is unable to comment on this question.

11. For client account providers (including Third Party Managed Account providers): are there any benefits or challenges foreseen with introducing banking products with the specified criteria proposed?

The Birmingham Law Society is unable to comment on this question.

12. For client account providers: would you be able to offer client accounts that could automatically transfer the appropriate amount of interest to the scheme?

- a. How could they work?

The Birmingham Law Society is unable to comment on this question.

13. By what process should a "comparable rate" of interest on client accounts be determined?

The Birmingham Law Society is unable to comment on this question.

14. We propose that interest is credited to client accounts, and collected by the scheme, periodically (such as monthly or quarterly). What should that frequency be?

As mentioned in the response to question 1 above, the consultation (and this question in particular) presents a misconceived notion that interest earned on pooled client accounts (referred to hereafter as 'general client accounts') is client money. That is not the case. Rule 2 of the SRA Accounts Rules defines what is meant by "client money". Interest earned on a general client account is not client money within that definition. It follows, therefore, that interest earned on a general client account is money that belongs to the authorised body.

Rule 4 of the SRA Accounts Rules provides that client money must be kept separate from money belonging to the authorised body. Accordingly, interest earned on a general client account is paid into the firm's office account, not client account.

It follows that any payment of this tax on legal services will be made from the firm's office bank account, and not client account.

The Ministry of Justice must consult the SRA to ensure that any rules imposed by this wholly unreasonable scheme are aligned with the SRA's rules.

15. Are there other account criteria for the accounts that would be recommended to make the scheme work as intended?

The Birmingham Law Society is unable to comment on this question.

16. Do you foresee any practical difficulties with the proposed process for legal service providers?

There are considerable practical difficulties with the proposed process. As mentioned in questions 1 and 14 above, the Ministry of Justice has a misconceived notion as to the treatment of interest earned on a general client account. Such interest is not client money. It is office money.

The proposals will require legal service providers to distinguish between interest earned on reserved legal activities and interest earned on other activities. As pointed out in the response to question 1 above the Ministry of Justice has confused reserved legal activities with other legal services (the example given was in relation to estate administration). It is likely that such confusion also applies to some legal service providers as it can be difficult to identify when the exact point at which an activity becomes 'reserved' or ceases to be 'reserved'.

Making sure that interest earned on funds held for reserved legal activities is kept separate from other interest earned will require firms to undertake additional investment in their accounting systems. Regardless of whether this distinction is made, there will still be a need for firms to invest in accounting systems to account to the Ministry of Justice for the proportion they seek to claim and to then account to clients for the remainder of this money.

17. Do you have any suggestion for changes that could improve how the model works for legal service providers?

The Birmingham Law Society is unable to comment on this question.

18. Do you have any other thoughts on the intended scheme process for legal service providers?

As mentioned above, we consider this scheme to be a stealth tax on legal services. We think that the costs of administering the scheme will be passed onto consumers of legal services making those services more expensive. We think this will reduce access to justice and drive international clients to use other jurisdictions. This will negatively impact on the growth of legal services in England & Wales and damage the economy.

19. At your firm, how much interest is typically generated on a single client's funds including:

- a. On one client's funds in a pooled account; and
- b. On one client's fund in an individual client account.

The Birmingham Law Society is unable to comment on this question.

20. What proportion of your firm's turnover is client account interest?

The Birmingham Law Society is unable to comment on this question.

21. What does your firm currently do with client account interest?

The Birmingham Law Society is unable to comment on this question.

22. How would the scheme, as proposed, affect your firm?

The Birmingham Law Society is unable to comment on this question.

23. What indirect/administrative costs may the scheme place on your firm and how can we limit them?

There will be costs that the Ministry of Justice will incur to administer the scheme that we consider will likely be passed onto legal service providers. Legal service providers will also have to bear the costs of their own administrative tasks in accounting to the Ministry for this stealth tax.

We consider that the best way to limit these costs is to discontinue with the proposal that will negatively impact on the cost of legal services, access to justice and the growth of the legal services market in England & Wales.

24. Does your firm conduct legal aid work?

The Birmingham Law Society is unable to comment on this question.

25. If yes to the previous question:

- a. What proportion of your firm's turnover is derived from legal aid work?
- b. Would the proposed scheme impact your provision of legal aid services, and to what extent?

The Birmingham Law Society is unable to comment on this question.

26. Do you envisage circumstances in which you would need the scheme administrator to assist you?

The Birmingham Law Society is unable to comment on this question.

27. For client account providers: what are your views on the two proposed models for managing scheme interest: multiple administrator accounts across institutions versus a single central account?

The Birmingham Law Society is unable to comment on this question.

28. We propose that the Ministry of Justice initially administers the scheme. Do you think there is a more suitable organisation to take on this role in future, and why?

The Birmingham Law Society is unable to comment on this question.

29. Do you have any other comments on the proposed roles of the scheme administrator?

The Birmingham Law Society is unable to comment on this question.

30. What reporting activity do you already undertake on client accounts and client account interest?

SRA regulated law firms are required to submit a report (subject to certain qualifications), conducted by an independent accountant, to the SRA that tests whether the firm has complied with the SRA Accounts Rules. The SRA is currently consulting on whether both qualified and unqualified reports should be submitted. This is a significant consumer protection measure that ensures the protection of client money.

31. How might we ensure that an approach to monitoring and enforcement is proportional and effective?

It seems logical that, if this stealth tax is introduced, monitoring is undertaken by reporting accountants as part of their tests under the SRA Accounts Rules. These reports will be submitted to the SRA and the information can be shared with the Ministry of Justice.

32. What do you consider to be the proposed ILCA scheme's equalities impacts on individuals with protected characteristics (if any)?

The SRA gathers information on key data sets in relation to equality, diversity and inclusion. The latest information shown on the SRA website includes, "*There is a significantly higher proportion of lawyers from a Black, Asian and minority ethnic background working in one-partner firms (39%) than any other firm size*". Their data shows that 62% of BAME solicitors work in firms with less than six partners.

We think that the proposal from the Ministry of Justice will have a disproportionate impact on small firms because of the costs involved in administering the scheme. With 62% of BAME solicitors working in these small firms, this will have a significant impact of their firms and the communities that they serve.

As mentioned in the response to question 9 above we are concerned that those who have suffered a catastrophic personal injury will be adversely affected by these proposals. A solicitor administering their injury settlement account will be required to hand over 50% of the interest earned on the settlement funds. These clients are often severely disabled, a protected

characteristic, and the settlement fund is intended to provide for their lifetime care. Taking money from the most vulnerable members of society is an injustice.

33. Is there further evidence (including data, or case studies in other jurisdictions) you can share that could inform our equality analysis for the proposed scheme?

We suggest that the Ministry of Justice reviews the information shown on the SRA website that can inform the equality analysis.

34. Are there forms of mitigation in relation to equality impacts that we should consider?

The Birmingham Law Society is unable to comment on this question.