

# How to Build and Manage a Law Firm Budget for Long-Term Profitability

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A detailed law firm budget provides essential guardrails for your law firm's finances, regardless of your company's size, revenue, or how long you've been practicing. Without a structured budget, your practice could easily be at risk. But if you have a solid spending plan in place, you can safeguard your bottom line while staying ready for whatever challenge is around the bend.

A law firm budget, however, is only as effective as your commitment to tracking and maintaining it. While you can set a spending plan and simply revisit it at tax time, you can only maximize its benefits through regular, consistent tracking.

## Why Law Firm Budget Tracking Is Essential

Even if you have decades of legal work under your belt or your law firm earns the most revenue in the state, you need a budget to achieve the following:

- Anticipate cash flow fluctuations more accurately, helping you stay afloat in months with fewer billable hours or seasonal downturns.
- Determine rates necessary to cover costs and turn a profit while remaining competitive.
- Account for both predictable expenses and unexpected costs, allowing you to keep operations intact.
- Make more strategic and well-informed business decisions, such as investing in new promotional efforts or expanding your services while

[keeping your financials in check.](#)

- Plan ahead for predictable lulls in casework and have the leeway to cover expenses even during leaner times.

To accomplish these, though, your law firm budget needs to align with your firm's goals and objectives and adapt to changing economic conditions. As you explore the budgeting basics outlined below, consider your law firm's current financial situation, as well as any ambitions you have for the future. You may also choose to review industry trends to ensure your budget and financial goals are realistic and align with those of similar law firms.

## **3 Key Steps to Building a Law Firm Budget**

Creating a law firm budget can help you manage resources more mindfully and build a financially stable practice. A solid budget allows you to plan for expenses, set realistic revenue goals, and adjust your financial strategies as needed. However, budgeting for a law firm comes with unique challenges, such as revenue patterns affected by seasonality and unforeseen expenses.

By following a few foundational steps, you can create a budget that aligns with your goals, adapts to your business as it grows, and secures the profitability of your practice.

### **1. Identify all possible expenses you need to account for**

To start your law firm budgeting, you should first figure out exactly how much it costs to start a law firm. Make a law firm expenses list covering everything you'll need to keep your practice running smoothly.

There are two main types of law firm expenses you should consider when planning your budget.

#### **Fixed expenses**

Costs that don't change from month to month (or year to year) are called "fixed" expenses. They're predictable and don't tend to fluctuate. Make a list of all of the bills that you pay regularly to keep your firm running, including but not limited to:

- Office space
- Employee salaries
- Utilities (phone, internet, etc.)
- Practice management and other software subscriptions
- Hardware (computers, copiers, etc.)
- Fees (malpractice insurance, bar dues, memberships, etc.)

## **Variable expenses**

Variable expenses are costs that change from month to month. For example, you might spend \$50 on restocking office supplies one month and \$125 the next. Professional development and training opportunities are another example — you might opt for an expensive retreat one year and a simple online webinar the next. Other common variable expenses include:

- Travel fees
- Marketing costs
- Postage for mailed documents

Due to their inconsistency, these variable expenses may be difficult to forecast. If you aren't sure how much room you should leave for them in your budget, try reviewing how much your firm has spent on variable expenses over the past few years.

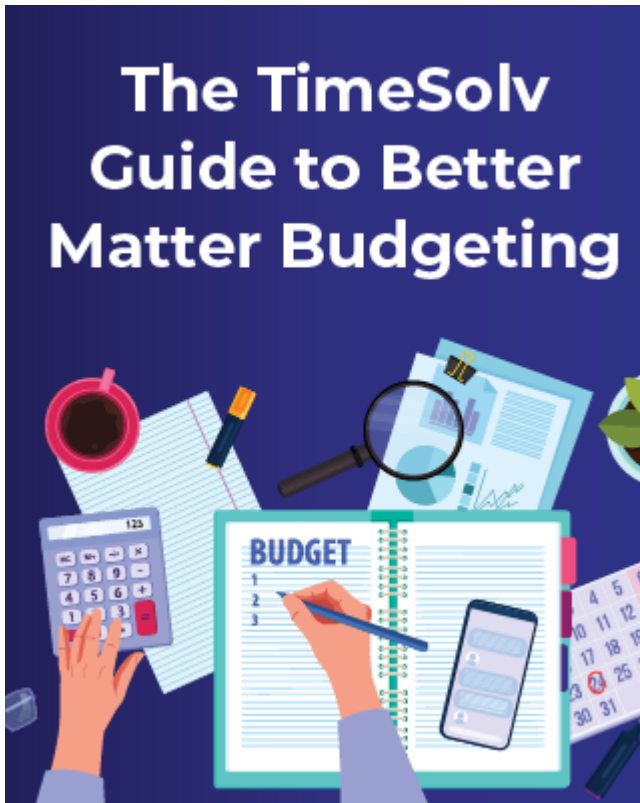
Of course, there will be unexpected or miscellaneous expenses that may not be top-of-mind, but are still important to maintaining smooth operations. This is why it's vital to set aside funds to cover these costs.

Understandably, you may weigh what particular expenses you can go without to lower the overall costs. If this is the case, consider three factors:

- Will the item save you time that you can use for billable work?
- Will it help you attract new clients?
- Do its benefits outweigh the cost?

If your answer to these questions is “yes,” you’d be better off investing in the long run.

When conditions are in flux, it’s tempting to overestimate rather than underestimate your projected expenses. Keep in mind that this can create budgetary slack, which can result in decreased efficiency, lower growth and profits, and increased difficulty in making planning decisions. Strive to be as accurate as possible!



## The TimeSolv Guide to Better Matter Budgeting

Budgets are the unsung heroes of a successful law firm. Budgets structure business planning, client services, and ultimately help you increase profitability. And an effective law firm budget starts with effective planning.

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## 2. Project your annual revenue

Once your costs are all mapped out, decide how much money you can safely expect your law firm to make.

Again, aim to be realistic, rather than optimistic, about your revenue goals. An overly generous estimate could lead to an unrealistic budget, a false sense of security, and poor business planning decisions that could, in turn, put your practice in a tight spot.

It's important to find the right balance between your personal and business goals. Consider specific revenue targets you'll need to hit to keep your office running, and reflect on how you can realistically achieve those targets. Will you need to go all-in on advertising efforts? Do you have the capacity to handle calls yourself, or should you budget for an assistant or answering service? When setting your rates, carefully factor in these goals, along with average rates for your location and practice area.

You should also pay close attention to your practice area and its seasonality, since these may affect your revenue. For example, tax lawyers often experience higher demand during tax season, while many attorneys report slower business during the summer months. If you're new to your field, it may help to seek advice from experienced colleagues or online communities to better understand these patterns.

To make revenue more predictable, consider your fee structures, collection rates, and payment timelines. Implementing flat fees can provide better certainty for both you and your clients, making your law firm budgeting easier compared to going for billable hours in litigation, which are typically hard to predict. But if you really want to go for hourly billing, setting evergreen retainers can help avoid issues with accounts receivable. Finally, offer more payment options to clients, such as credit card and online payments, to help maintain a good cash flow on your end.

### **3. Track and adjust your budget**

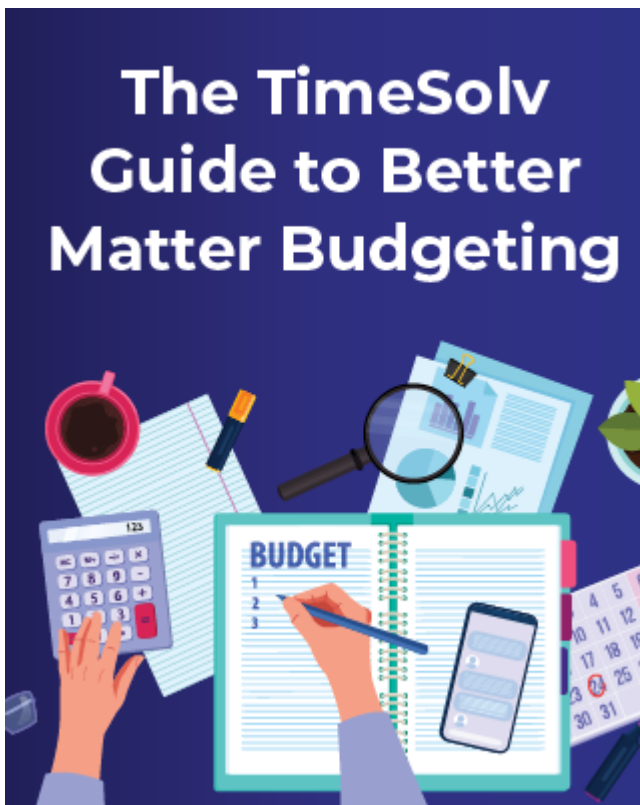
Once you've created a budget that helps to manage your firm's resources effectively, you'll need a way to track and adjust it. Carve out time each month to [assess your budget](#) and compare how well your initial projections are stacking up against your actual costs and revenue.

Regularly monitor and adjust your budget as needed. Keep a close eye on your costs and expenses. Things may not always go as planned, and that's perfectly okay. Stay adaptable and adjust your budget as needed.

If you've just recently launched your practice, it's wise to assess your budget monthly after gathering all your bills. This can help you identify any necessary adjustments to your projections or flag unanticipated expenses.

Aside from a monthly evaluation, you should allocate time for an annual budget review, which should allow you to update your budget based on how your goals have changed in the past year.

Tracking every transaction so carefully can be time-consuming — even tedious. But with the right software tools on your side, it doesn't have to be. Consider whether investing in legal time tracking and billing software, like [TimeSolv](#), makes sense for your firm. In addition to monitoring expenses, this software can also reduce the time needed to maintain your budget by generating comprehensive budget reports in one click.



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# Additional Strategies to Consider for Effective Law Firm Budgeting

To build a budget that truly supports your law firm's financial health and growth, consider the following steps:

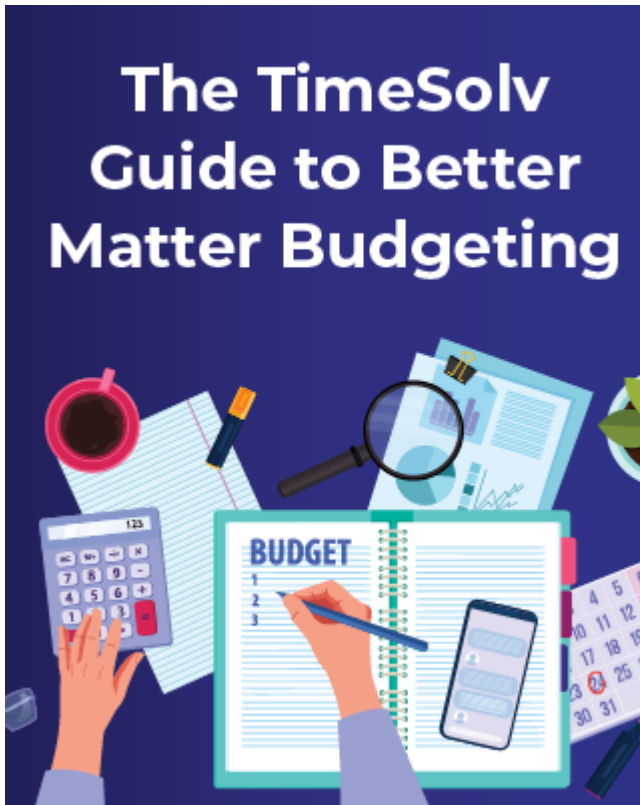
- Examine past financial records and trends to find any recurring pattern that either supports or goes against your firm's goals.
- Keep your financial statements accessible and up-to-date to make it easier to conduct reviews regularly.
- Actively encourage input from your team to get unique perspectives on your firm's financial needs.
- Consider professional financial advisors as needed, especially if the budgeting process feels overwhelming.
- Take time to consider external factors that could impact your firm's revenue, including economic conditions, changes to local laws or regulations, or direct competition. Make sure there's some ["padding" in your budget](#) to pay for unexpected expenses.

## With TimeSolv, You Can Establish a Robust Law Firm Budget That Works

Effectively maintaining a law firm budget is a crucial part of a law firm's long-term success and financial health. By investing in tools like TimeSolv, you can streamline your budgeting process, improve your financial position, and make informed decisions that [drive profitability](#).

TimeSolv's time tracking and billing software are designed to take the guesswork out of the [law firm budgeting process](#). Our suite of tools offers standout features, including detailed expense tracking, robust integration with QuickBooks accounting software, easy time logging and tracking, profitable fixed fee calculations, and one-click budget reporting.

Discover how TimeSolv can help your firm become more profitable and efficient through better budgeting



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