possibly overlooked, assets is the partner agreement. Its primary purpose is to define the relationship between the firm and each partner, outlining specific guidelines for certain conditions. Unfortunately, partner agreements aren't something at the forefront of most firms' practice management, according to Gary Adamson, President of Adamson Advisory.

Taija Sparkman • Jan. 13, 2012

When it comes to protecting your firm and its value, one of the most important, but possibly overlooked, assets is the partner agreement. Its primary purpose is to define the relationship between the firm and each partner, outlining specific guidelines for certain conditions. Unfortunately, partner agreements aren't something at the

review it."

Managing a 200 CPA firm and handling four mergers has taught Adamson that the most important concern for all firms, regardless of size, is the firm's value. Keeping the firm's worth in mind, it is important to include the following six provisions in the agreements as they are the aspects that are evolving the most.

Mandatory Retirement. This is becoming more popular in partner agreements as firms are determining the age at which partners will retire. There are several ways to begin the mandatory retirement process. Many companies start transitioning clients and begin buying out the retiring partner's ownership interest. The firm will also decide if the partner will continue employment and in what capacity. While the retirement age isn't important, many firms are extending it to ensure there will be candidates once a partner reaches retirement.

Notice and Client Transition. This provision goes hand-in-hand with mandatory agreement as it outlines the expectation for a partner to provide the firm with reasonable notice before retiring or voluntarily separating from the company. It also details the plan to transition the partner's clients over a specific period of time. A poorly executed transition could result in a lack of client retention. Likewise, having a client transition provision already in place could prove very valuable in the event of death or disability.

Caps on Retirement Benefits. Every partner agreement should include a provision that limits the total amount of retirement benefits that will be distributed in one fiscal year. Numbers have ranged from 10 percent of profits to 10 percent of gross revenue. In the end, the needs of the firm need to be considered when determining the right amount.

Competition Provisions. When creating this provision, it is important to know the

specified number of years. Another method is based on the firm's mandatory retirement age. The partner would receive a discount or penalty for every year that is short of the defined retirement age. For example, a firm may discount the retirement payment by 2.5 percent for every year that is short of age 65. The common approach among many firms is to use a combination of the years of service and retirement age vesting factors.

Dispute Resolution. The partner agreement should outline if disputes will be handled by jury trial or arbitration. More firms are choosing arbitration over court as it's speedier. The American Arbitration Association is the body that is most referenced, however, each firm should consult with an attorney in your practicing state(s) before deciding.

While these six provisions are important, there are many more to consider and Adamson strongly advises firms, especially smaller ones to talk to someone. Anyone looking for advice on creating and/or amending a partner agreement should consult with an attorney in their state and their local CPA association.

Adamson's full checklist of partner agreement provisions, along with additional insight and other practice management advice, is available at www.adamsonadvisory.com/blog.

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