a vote, capital buy-in, goodwill-based retirement benefits, obligation to pay retirement benefits to others, legal liability and a share in the profits.

Marc Rosenberg • Jun. 10, 2014

Firms ask me this question all the time. Here's my response:

Short answer

Non-equity partners don't usually have the same "rights" that equity partners have: a vote, capital buy-in, goodwill-based retirement benefits, obligation to pay retirement benefits to others, legal liability and a share in the profits.

Short answer REFUTED

Most firms never take a formal vote; capital buy-in is nominal these days and is usually paid via salary reduction over several years. A   growing number of non-equity partners are being included in the partner retirement plan, albeit at a lower participation rate. Further, although in theory non-equity partners don't receive a share of the firm's profits, most firms compensate all partners – both equity and non-equity – based on the value of their contributions to the firm, not on an arbitrary profit-splitting percentage, and legally, though non-equity partners don't have any legal liability, as a practical matter, the vast majority of partners never have to deal with serious liability issues throughout their entire careers.

Initial conclusion

Some firms tell me: "The differences between the two positions are minimal, so why bother with the non-equity partner position? Just make them a low- equity partner." Invariably, I hear this from firms struggling to "sell" the non-equity partner concept to others in the firm. The main problem is that non-equity partners feel like second-class citizens. Everyone in the firm "knows" the non-equity partners are not equity partners. In these cases, I have often found that equity partners go out of their way (not maliciously) to treat them like employees. No wonder they don't feel like

retirement benefits
- The non-equity partner position is a great staff retention stratagem. There is a lot of value, prestige and cache in having "partner" appear on your business card. And remarkably, it has been known to trigger latent selling abilities in non-business-getters.

The final word.
Over 50% of all firms today have non-equity partners, so it must be working.

____

Marc Rosenberg is a nationally known consultant, author and speaker on CPA firm management, strategy and partner issues. President of his own Chicago-based consulting firm, The Rosenberg Associates, he is founder of the most authoritative annual survey of mid-sized CPA firm performance statistics in the country, The Rosenberg Survey. He has consulted with hundreds of firms throughout his 20+ year consulting career. He shares his expertise regularly on The Marc Rosenberg Blog.

Benefits • Firm Management