CPA
Practice Advisor

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So, you're a Young Turk at your firm and the MP just told you "congratulations –

means includes everything but it's a good start. New partners should look at the partner agreement not only from their own personal perspective, but for the entire firm going forward.

THE BUY-IN

1. The buy-in amount should be nominal, which today, is $150,000 or less. Avoid buy-ins that are based on the goodwill value of the firm, which result in excessive buy-ins that are hundreds of thousands of dollars.
2. The buy-in should be paid in over several years, enabling the new partner to take home more cash as a partner than they did as a manager. Most firms take the annual buy-ins out of the partner's bonus.

How to Bring in New Partners* is written for firms fortunate enough to have staff with the right stuff to be a partner. But they don't know the details of how to bring them in as new partners or have outdated approaches for doing so. This book addresses ►what a partner is these days, ►the non-equity partner position, ►how firms develop staff into partner, ►how the buy-in amount gets determined, ►what a new partner gets for the buy-in, ►how new partners get compensated, ►what ownership percentage gets determined, ►how voting works, ►how a new partner's capital account is maintained, ►non-compete and non-solicitation agreements covenants, ►22 provisions of a well-conceived partner buyout plan and other issues.

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3. A partner's ownership percentage at firms potentially can have a significant impact on: Compensation, buy-in, retirement/buyout and voting. Find out what ownership percentage means at your firm and make sure that, as a new partner, you are not rendered powerless to impact any of these areas due to your very small ownership percentage.

4. The systems used by firms to allocate partner income are purposely NOT specified

take formal votes.

2. The firm should have a mandatory retirement policy. This protects you and the firm from aging partners continuing to work when their cognitive skills and performance have significantly diminished and put the firm at risk. Note: mandatory retirement usually doesn't mean that a partner is required to retire cold-turkey upon attaining the mandatory retirement age.
3. If the firm is sold, you should be entitled to a portion of the sales price that is commensurate with your proportion of the firm's total retirement benefits to all partners.
4. The firm should have a non-solicitation agreement that prevents partners from leaving the firm and taking clients and staff. This protects the firm's most valuable financial asset – its client base.

PARTNER BUYOUT AGREEMENT

1. The math must work. This means that when a partner's buyout payments begin, the remaining partners' income should not be decreased. The firm saves paying the retired partner's compensation, which should exceed the retirement benefits plus the cost of hiring replacement personnel.
2. Most local firms have partners who did NOT originate most of their clients and are NOT accomplished business-getters. But they make many other valuable contributions. Make sure that the buyout system is NOT mostly or entirely based on origination because doing so fails to recognize the important roles played by non-business-getters in areas such as managing clients, training and mentoring staff, teamwork and managing the firm.
3. The goodwill valuation should be no more than 100% of revenues with a payout term of at least ten years.
4. The plan should have a vesting provision. Vesting helps firms avoid situations where relatively new partners who suddenly leave the firm receive a windfall.

5. To qualify for receiving buyout payments, retiring partners must satisfy two

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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.

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