



Things to think about before you sign a partnership agreement

Finally, you have been offered partnership and your dreams are coming true. The partnership agreement seems to be working for everyone at the firm and negotiating changes is daunting, so what's to think about?

Here are 15 things to consider before you sign.

1. What impact will becoming a partner have on your personal finances?

When you become a partner, you are making an investment in the law firm. This is a good time to evaluate your financial situation and to get professional advice on how your new status as a business owner (not a salaried employee) will affect your record-keeping practices and your taxes.

2. How will you finance your investment in the partnership?

Some firms will loan you the money required to join the partnership and pay the interest you owe on the loan as part of your compensation package. Other firms leave the financing of buying into the firm up to you. These are just two examples of the many different financial arrangements firms use to bring a new partner into the partnership.

Bear in mind that the interest costs on money you borrow to join the partnership are tax deductible. It is best to keep this borrowing separate from any other debts (for example, your mortgage or personal line of credit).

3. What does the partnership expect of you with respect to billable hours, client development, and committee contributions?



Know what is expected of you so that you can have some idea of how much time you will have to spend on partnership business and how much time you will have for your clients and to develop your part of the partnership. Partners usually have increasing responsibilities to mentor younger lawyers and oversee work for clients, leaving them with less time to spend directly on client work.

4. What benefits do partners receive?

There are two things to consider – the benefits offered and the way they are treated for tax purposes. Who pays professional dues and insurance? Is there a group disability plan? Does the firm cover your business promotion expenses? Convention expenses?

By knowing exactly what the firm pays, you will be able to decide if you need to supplement it, for example, by purchasing disability insurance privately, and you will have a better idea of what you may owe the Receiver General on April 30th.

5. What is the compensation structure?

Are all practice areas and all offices treated the same way? Are some bonuses available to some partners and not to others? Are firm managers compensated for their role?

The firm may have good reasons to give preferential treatment to some partners or practice groups but if you don't know about it ahead of time you may feel especially unhappy when you do learn of it. Note that the partnership's priorities for compensation may tell you a lot about the partnership and what it really values.

6. Does everything you earn belong to the partnership?

Some lawyers receive income from activities such as teaching, writing, speaking, and serving on Boards of Directors. Is this income added to the



partnership's income or is income from these other sources the partner's alone?

7. What does the partnership owe?

You need to have a good idea of monthly expenses, how much debt the partnership is carrying, and how it is paying down the debt.

Are monthly receivables generally more than sufficient to cover on-going expenses? Does the firm often borrow money to cover overhead and monthly staff expenses? Do partners get paid even if this requires borrowing to cover the expense? (This is not necessarily a good thing for the partnership although it may mean that you can expect a predictable income each month.)

What does the partnership own and what is leased? From whom?

Does the partnership have a reserve fund to cover exceptional expenses or a slow billing period?

8. Who are the firm's top clients?

The profitability of a law firm is linked to its top clients and its ability to expand its client base. Review the list of the firm's top 50 clients over the last three years. Things to look for include:

- the breadth of the firm's client base – Could the firm survive if it lost a key client?
- the continuity of client connections – Does the firm have long-term, on-going service relationships with key clients?
- the financial security of the firm's key clients – How vulnerable are key clients to economic downturns or an industry shift?
- the strength of the client base in your practice area – How dependent is your area on other partners in other areas retaining their clients?



- the client connections of partners – If one partner left, what impact could that have on the firm's client base?

9. How efficient is the firm at billing and collecting receivables?

Some firms bill for time spent on a file promptly, others may take a few months to get the bill out to a client. What is the average turnaround? Is this tracked and identified as an area for the administrator to watch closely?

10. Is there a "non-compete" clause in the partnership agreement?

This clause could prevent you from leaving the firm and continuing to work with the same clients for a period of time. The lack of such a clause may mean that other lawyers could leave taking clients with them, stripping the firm of some of its value.

11. What is the firm's succession plan?

At some point, the firm's most senior partners are going to retire or significantly cut back on their work for the firm. How many partners will be retiring over the next few years? What are the firm demographics?

What commitments does the partnership have to retiring partners? Is a lump sum paid to partners who retire? Will retired partners have an on-going share of partnership revenues, office space, etc.? How are payments to retiring partners funded?

How is the firm planning to replace the expertise lost when a senior partner retires? What plans does it have to ensure an on-going strong relationship with major clients who may have worked with the partner for years?

12. What happens if a partner becomes insolvent or dies?



Some partnership agreements may say that on the death or insolvency of a partner, the partnership ceases to exist. This can be considered a deemed disposition of the partnership with tax implications, even if the partnership is immediately reconstituted.

13. What is the firm's Errors and Omissions claims history?

Looking at the firm's E & O record will help you to complete your assessment of the firm's overall situation. Are there any outstanding major claims against a partner? Does one partner have a history of repeat claims? Does the firm's E & O record cause you any concerns?

14. How are partnership decisions made?

Larger law firms may have an executive committee that makes decisions for the firm, rarely involving all the partners. How does this partnership make decisions? Are managing partners compensated for this role? Are partner meetings long ordeals or efficient decision-making events? Will your voice be heard?

15. Do you trust your partners?

All the experts agree – if you do not trust the partners, do not join in with them.

Trust is more than having confidence that the partners will act ethically, and handle money and business decisions honestly and wisely. Trust is also about having confidence that your partners will protect your goodwill and investment in the clients that you bring to the firm. You need to believe in the firm culture and trust that your partners will do their best at all times to uphold the firm's image.

The bottom line: Your partners' actions have a direct affect on you and your livelihood.



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The best advice: get independent advice before you sign

You would never advise a client to sign a contract without knowing and understanding its terms.

Follow your own best advice and consult with an accountant, tax specialist, or lawyer with partnership expertise before signing the partnership agreement.

You need to understand the partnership agreement and its financial and tax implications for you, even if you are not in a position to change its terms.