How a partnership agreement helps your practice

There are many issues to consider when you are in a partnership and, if you have not already done so, you should put a partnership agreement in place where sound rules and procedures are agreed, write Mary Goodman and Declan Gahan, Veterinary Ireland Financial Services Ltd

FIVE KEY QUESTIONS TO ASK YOURSELF

1. Do you have a partnership agreement?
2. What would happen to your practice in the event of the death of a partner?
3. Do you have a policy in place to ensure you can buy their interest?
4. What would happen if you were diagnosed with a serious illness which prevented you from working tomorrow?
5. Would your practice survive?

A partnership agreement allows you to structure your relationship with your partners in a way that suits your practice. You and your partners can:

- Establish the shares of profits (or losses) each partner will take;
- Establish the responsibilities of each partner; and
- Establish what will happen to the practice if a partner leaves, as well as other important issues outlined below.

Without a written partnership agreement, minor misunderstandings may become major disputes.

In the absence of a partnership agreement, the partnership is governed by The Partnership Act 1890, which dissolves the partnership on the death of a partner. Key aspects of the Act include:

- Any sum due to the deceased partner is treated as a debt of the partnership;
- No right to expel a partner;
- Any partner may dissolve the partnership;
- Unanimity is required for introduction of a new partner;
- Individual 'understanding' and 'expectations' are not always aligned; and
- Ultimately, a court will decide if partners cannot.

TOP THREE ISSUES TO CONSIDER

1) Financial agreement;
2) Exit arrangement; and
3) Sickness leave.

SEVEN CLAUSES EVERY PARTNERSHIP AGREEMENT NEEDS

It is important to make sure that the wording of your document is clear and unambiguous, so you might want to get professional advice in drawing it up. Here's a list of the main areas that most partnership agreements cover.

1. **Allocation of profits, losses, and withdrawals**
   You and your partners may have different financial needs and different ideas about how the money should be divided up and distributed, so this is an area to which you should pay particular attention. Will profits and losses be allocated in proportion to a partner's percentage interest in the practice?
2. **Partnership decision-making**
   You may not want to require a unanimous vote of all the partners for every practice decision. In that case, your partnership agreement will have to describe what constitutes a major or minor decision.
3. **Management duties**
   It is wise to work out some guidelines in advance regarding who takes responsibility for the administration side of things. For example, who hires/supervises staff? Negotiates with service/utility providers? Arranges maintenance/insurance of premises?
4. **Partner's time-off entitlements**
   As well as annual leave, there are innumerable reasons why a partner needs to take time off: sick leave, compassionate leave, maternity/paternity leave, study leave. Your agreement in advance on these will prevent disputes in the future.
5. **Admitting new partners**
   Eventually, you may want to expand the practice and bring in new partners. Agreeing on a procedure for admitting new partners will make your lives a lot easier when this issue comes up.
6. **Withdrawal or death of a partner**
   At least as important as the rules for admitting new partners to the practice are the rules for handling the departure of an owner. This can be as a result of several factors such as normal retirement, long-term illness, death or resignation. You should set up a reasonable buyout scheme in your partnership agreement. The good news is you can put cover in place to help the partnership handle long-term illness and death.

7. **Conflict resolution**
   If you and your partners become deadlocked on an issue, do you want to go straight to court? It might benefit everyone involved if your partnership agreement provides for alternative dispute resolution, such as mediation.

NEXT STEPS

Plan ahead for changes in partnership ownership.
The chances of one partner in a two-person or three-person partnership dying or becoming seriously ill are probably a lot higher than you might think (see Table 1).

No of partners in partnership	Probability of at least one partner dying before age 65
2	42%
3	56%
4	66%
5	75%
6	80%
7	85%
8	89%

Table 1. All partners assumed to be aged 40 currently.

While none of us like to think about illness or death, you will see from the 2015 claims statistics of a leading life assurance company that this can happen at any age (see Table 2).

BREAKDOWN OF 2017 CLAIMS STATISTICS BY AGE OF CLAIMANTS.

Age group	20-29	30-39	40-49	50-59	60+
Death claims	0%	2%	6%	17%	75%
Specified serious illness	1%	13%	31%	34%	21%

Table 2. Source: Leading Life Assurance Company.

PARTNERSHIP INSURANCE ADVANTAGES

By putting partnership insurance in place, you can:

- Ensure practice has the funds to buy back the shares from a seriously ill partner or their estate in case of death;
- Put in place a cost-effective way of providing a capital lump sum for the value of the deceased or seriously ill partner's share of the practice, thus minimising the financial impact on the practice; and
- Where standard life/specified illness policies are used, the way in which they are put in place is very important and professional advice should be sought.

KEY ADVANTAGES OF PARTNERSHIP INSURANCE

- The remaining partners keep control of their business.
- Affected partner/their estate, gets fair value for selling their share of the business and receives a capital lump sum for the value of their share.
- Continuity for the practice.

Veterinary Ireland Financial Services Ltd has experience in all aspects of partnership insurance and works closely with you to provide a solution that meets your particular needs. We can help you identify goals, strategies and actions to safeguard the survival and growth of your practice in the event of you or your partner's untimely death or disability.

If you would like us to guide you through your possible exposure in this area and the solutions available, please contact:
Declan Gahan, senior financial consultant:
declan@vetireland.ie or 086 777 0283; or
Mary Goodman, senior financial consultant:
mary@vetireland.ie or 086 777 0266

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