

# Partnership agreements

Partnerships, in particular veterinary partnerships, have many additional layers of complexity, writes solicitor, Joe McVeigh, of Baily Homan Smyth McVeigh, who has presented at many of the Veterinary Financial Services Limited seminars around Ireland



The additional layers of complexities associated with partnership agreements include, but are not limited to the management of employees, animal care and ethical considerations.

These operational functions tend to be carried out in a highly pressurised environment, and losing the support or confidence of your partner places an unbearable strain on the partnership relationship.

While the Irish courts do not recognise prenuptial agreements between a husband and wife, the Irish legal system does place a huge emphasis on the importance of partnership agreements, between people who enter into a joint business venture.

The reason being, should something go wrong and no written partnership agreement is in place, your partnership will be deemed to be governed by the Partnership Act of 1890.

This is a 127-year-old piece of legislation, unfit to govern business relationships between veterinary practitioners in this modern age.

## **CERTAINTY AND CONFIDENCE**

A good partnership agreement should document how vets plan to work together and operate their practice, for the common purpose of making a profit. It should set out

the rights, obligations and expectations on each of the partners in order to achieve this common goal. Of course, it is natural that circumstances of the partners will change over the lifetime of a partnership, and it is worth re-visiting a partnership agreement every four to five years to identify any amendments required, and to document these in the form of a side agreement or addendum where necessary.

## **COMMIT TO THE PROCESS**

With the right advice and a shared opinion on the objectives and management of the practice, it should take, on average, four weeks to negotiate and have a partnership agreement in place.

This is subject to engaging with a suitably experienced solicitor and, where required, it would also be advisable to involve your financial adviser or accountant in this process.

## **IT IS YOUR AGREEMENT!**

There is no general template Partnership Agreement, and your practice demands that a document be generated which deals with the specific circumstances of your business. In order of importance, the following are some of the considerations that need to be taken into account when developing a partnership agreement.

**(i) INVESTMENT AND FINANCES**

This is almost always the most contentious area of a dispute between partners, and it is important to have certainty around what is expected of each partner in relation to the following areas:

- Drawings policy – fixed or based on sessions worked;
- How are factory inspections' income treated by the partnership/vets;
- Capital contributions, profit share and division of capital account, buy in or exit;
- Professional indemnity insurance; and
- Dealing with personal tax liabilities.

**(ii) DISPUTES**

Disputes between partners are unavoidable and, in fact, can prove to be healthy and beneficial to a partnership. A good partnership agreement will include a dispute resolution provision, which specifies a procedure for partners to either resolve the disputes between themselves, or, in extreme circumstances, to accommodate the exit of a partner.

A departing partner should be treated fairly, possibly receiving equity payment for their interest in the partnership, which allows the remaining partners to continue in business while keeping disruption to a minimum.

Without a partnership agreement, partnership disputes can end up being a financially and emotionally draining process, and, in certain circumstances, can result in the dissolution of the practice, to the detriment of the partners, and its clients.

**(iii) ILLNESS OR DEATH**

It is imperative for partners to discuss and agree provisions that contemplate serious illness or the death of a partner. Ideally, there should be life and health insurance policies taken out by the partnership (or the partners individually), ensuring there is certainty for that partner's family and the practice should such a catastrophic event occur.

**(iv) MANAGEMENT**

It is important to set out how the partnership will be managed and what responsibilities fall to each partner to ensure the efficient running of the practice. Provisions can be made for the addition of new partners, and other matters that require unanimous agreement by the partners, excluding day-to-day decision making, which can be delegated to the assigned partner.

**(v) STATUS OF PARTNERS**

Serious thought should be given to the status of partners, and what it is they wish to gain from the partnership. Is it to drive profitability, achieve a work/life balance or to position one or all of the partners for an eventual sale of goodwill or retirement? Succession planning for any partnership is very important to future proof the practice and the requirements of each of the partners.

**DO IT!**

Vets operate in a time-sensitive, pressurised environment, with responsibilities to each other and their community. It is also a rewarding and profitable endeavour, and potentially the most valuable asset you will own in the course of your life. Treat this asset with the respect it deserves and put in place a considered, relevant and practical partnership agreement, under which each of the partners can operate with the certainty of knowing what is expected and required of them.

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