Case Study Number 11: A sole practitioner establishes a Practice Continuation Agreement (PCA)

The Sole Practitioner

This sole practitioner (SP) has staff and is generating $750,000 firm, offering a diversified array of services. This SP works with a significant amount of small closely held clients, some small non profits and individual and business tax clients. He was 10 plus years from slowing down (so was not a candidate of the Two Stage Deal. See this link to case study number one. The Two Stage deal is a much stronger method of protecting your firm if you are 5 years or less from slowing down and the authors strongly recommend that in lieu of a PCA agreements for firms/practitioners) and did not feel he had an internal succession solution and wanted to protect his clients and staff beyond a life and or disability insurance policy.

The Consultative Process

Transition Advisors was hired by the SP to help make recommendations on the type of candidate to have as a partner in this PCA and the types of terms.

Choosing a PCA partner:

Many firms chose to have what is called a cross PCA agreement wherein each party is the others savoir in an emergency. The reality is that rarely works. Here are some of the top 5 things to think about when choosing your PCA partner:

Capacity: they have to have the capacity to replace you on a part time or full time basis with a partner level person. If your clients are accustomed to dealing with a partner, they cannot suddenly be expected to be happy dealing with a junior.

Technical strength: obviously they need to have the ability to handle the work and where appropriate the licenses to perform same

Familiarity with your software

The ability to offer a reasonable amount of continuity as perceived by the clients, continuity of fees, service procedures, location of firm,…Remember change is a scary thing for most clients, reducing them wherever possible is key.

Chemistry: if you are not comfortable with your PCA partner, why would your clients and staff be?

The SP chose a local 4 partner firm who understood the handholding nature of his clients and had the capacity to assume the work and similar fee structure, firm culture, etc…

Terms:

While the SP is considered disabled, they had to determine how the fees would be divided. In this particular deal, they based it on the SP reimbursing the firm based on 67% of their normal staff rate and 75% of their partner's normal billing rates. Other firms have used different percentages and some based it on a revenue share instead of actual billable time.

A definition was created to separate temporary disability and permanent disability. They used anytime the SP missed 6 out of any 7 consecutive months or at the time the family doctor determined the SP was permanently disabled, whichever occurred first.

In the event of the death or permanent disability of the SP, their Client base will be acquired based on 20% of collections from the SP's client base for 5 years; paid quarterly

Where are they now?

Thankfully the SP has not needed to have this PCA activated

Every 6 months, the firm and the SP get together so the SP can show the firm where all the files are, share technical information, passwords so that in the horrific event the PCA is needed, the firm will know where the critical information is.

Certain facts and descriptions have been altered to protect the confidentiality of the parties involved in the above transaction.