

# Partner drawings: Making it simple

Practice managers must balance the earnings expectations of their GP partners with the money available in the practice bank account. Chris Howe offers tips on how to manage this sometimes tricky situation



**Chris Howe**  
Director, Foxley Kingham, a member of the Association of Independent Specialist Medical Accountants  
For more information call 01582 540800 or email [chris.howe@fkca.co.uk](mailto:chris.howe@fkca.co.uk). To find an AISMA accountant in your area visit [www.aisma.org.uk](http://www.aisma.org.uk)

**E**very now and again, our practice manager clients ask us questions like: ‘There is no money left in the bank, so should we reduce partner drawings?’ or ‘A new partner has looked at the accounts and thinks drawings should be higher, so how do I see if that is possible?’.

## Working out drawings

Historically, practices had many different ways of working out drawings. Some cleared out the bank account at the end of each month, distributing funds in a profit share ratio. Others paid a set amount monthly and a quarterly seniority payment. The second option may still be valid, although, of course, seniority pay is soon to disappear. The first method is outdated for various reasons.

## Outdated

Why isn’t the first example above fit for purpose? Younger partners who have regular monthly personal financial commitments to meet expect a steady monthly draw to cover these. Second, the method takes no account of differences between partners arising from seniority, superannuation and taxation. Newer partners do not receive seniority payments;

**‘There is a balance to be struck between paying partners as much as they are due and careful management of practice cash flow’**



some older partners may have taken 24-hour retirement or deferred membership so may not be contributing to the NHS Pension Scheme; and there are differences between partners if tax is paid by the practice. Finally, with increasing volatility in partnerships, there is a danger of overpayment.

## Risk of overpayment

Our firm has seen a recent case where a partner joined a practice but left after three months. His period of partnership covered a period of high practice cash receipts, with

one-off items arriving including a Quality and Outcomes Framework achievement payment and final payments for enhanced services. These items of income were earned across the whole year, not just in the three-month period, so the partner was paid far too much. The practice must now justify asking him to make a repayment.

## Be prudent

There is a balance to be struck between paying partners as much as they are due and careful management of practice cash flow while being uncertain about what the future holds.

We recommend a regular, prudent, monthly draw based on a projection of the practice profit for the year ahead and the expected profit sharing ratios across that year. Assuming the practice profits are calculated net of employer's superannuation here is a suggested way forward:

- Begin with the profit figure from last year's accounts, which should be available to you, at least in draft, within three months of the year end. Form an estimate of the profit for the year ahead by adjusting last year's profit for known major changes in income and expenditure (for example, are you expecting a loss in core income due to a move from PMS to GMS, or an increase in staff costs due to a need for an additional nurse?)
- Share this estimate across the partners, by first allocating prior shares of profit to individual partners (for example, employer's superannuation, seniority, property profits and costs), then sharing the remaining profit in the expected profit share ratio
- Next take 80–90% of this figure (depending on how prudent you wish to be and how uneven the practice cash flow is) for each partner. Deduct from this figure an estimate of employee superannuation, not forgetting added years or other items. If in doubt use, say, 14% of the partners' profit share, as any over-deduction will fall into the bonus pay-out after the year end. By dealing with superannuation in this way, if a partner has taken 24-hour retirement or deferred membership of the pension scheme then no further adjustment should be needed
- For practices paying tax on behalf of the partners, also deduct an allowance for that. An estimate from the practice accountant may be required, and there

**'If the forecast is set out in a neat spreadsheet it should be possible to explain to each partner how their monthly drawing figure has been arrived at'**

may be complications if partners have outside income

- For property owning practices with a repayment mortgage, a further obstacle will arise. The regular mortgage repayments will cover both interest and capital. While the interest will be charged against the partners as part of the profit sharing, the capital will not. Thus, the property owning partners will need to have a share of this capital repayment deducted too.

So you have estimated the future profits, taken a prudent share of such for each partner, and then deducted known negatives. Dividing these by 12 should give you a sensible monthly draw for each partner.

## Using the drawings forecast

This drawings forecast will indicate whether the existing level of drawings is too high.

If the forecast is set out in a neat spreadsheet it should be possible to explain to each partner how their monthly drawing figure has been arrived at. Also, point out that it is a prudent calculation and, assuming that your estimates of the future are close to reality, there may be a bonus pay-out after the year end when the practice accounts are agreed. This should persuade partners who are asking for higher drawings to be more realistic, but make clear that the future is unknown and the bonus is not guaranteed. Of course, the last thing you need now is for a partner to inform you that they are changing their shares, retiring or leaving. In this case, the forecast will need to be revisited and further estimates of profits and shares made.

The above calculations are standard in theory, but in real life every practice has its own quirks. Therefore, experience and knowledge of how the practice works will be invaluable. A specialist medical accountant will be well placed to assist you with these tricky calculations. **PM**