Distribution Planning Guide

A Managing Partner's Checklist for Protecting Cash Flow and Avoiding Tax Surprises

Your firm had a good year. Partners expect to share in that success. Before approving the next distribution, ask: Can we afford this payment without creating problems for the firm or its partners?

Part 1: Know What You Can Afford to Distribute

Review these figures with your finance team or CPA.

Financial question	Amount
Current unrestricted operating cash	$_____
Expected client collections over the next 90 days	$_____
Expected payroll and partner compensation payments	$_____
Other operating expenses and debt payments	$_____
Planned investments and major purchases	$_____
Minimum cash reserve to maintain	$_____
Proposed partner distributions	$_____

Discussion question: After the proposed distributions, can the firm still meet its obligations if collections slow down?

Important: Exclude client trust funds and other restricted funds from cash available for partner distributions.

Part 2: Review Partner Tax Readiness

☐ We have updated estimates of the firm's taxable income.

☐ Partners understand taxable income and cash distributions may differ.

☐ Estimated federal and state tax obligations have been reviewed.

☐ Partners have discussed whether estimated tax payments are sufficient.

☐ We have considered whether tax-related distributions are appropriate.

☐ We have reviewed potential tax consequences of unusually large distributions.

☐ We have identified partners who may have multistate tax obligations.

Discussion question: Could any partner face an unexpected tax bill because distributions differ from expected taxable income?

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Part 3: Check the Firm's Distribution Policy

☐ Our current distribution policy is documented.

☐ The policy follows our partnership or operating agreement.

☐ Partners understand how distribution amounts are determined.

☐ We have a clear process for approving special distributions.

☐ We have considered the financial impact of new or departing partners.

☐ Our cash reserve policy reflects the firm's current needs.

Discussion question: Would every partner explain our distribution processes the same way?

Part 4: Stress-Test the Decision

Scenario A: A major client delays payment by 60 days. Can we cover payroll and operating expenses without borrowing or asking partners to return funds?

Scenario B: Firm profits exceed expectations. Have we reviewed whether additional taxable income changes partners' estimated tax obligations?

Scenario C: We need to make an unexpected investment. Would today's distribution leave enough flexibility to hire, replace equipment, or respond to other needs?

Part 5: Five Questions for Your Next Partner Meeting

1. Are we basing distributions on current cash, expected profits, or both?
2. Have we considered each partner's estimated tax obligations?
3. How much operating cash should the firm retain?
4. What could change our distribution plans over the next 90 days?
5. What should our CPA review before we approve payments?

Your Distribution Planning Action Plan

Next step	Responsible person	Target date
Update profit and tax estimates.	_____	_____
Prepare a 90-day cash forecast.	_____	_____
Review proposed partner distributions.	_____	_____
Confirm policy and agreement requirements.	_____	_____
Schedule a distribution planning discussion with our CPA.	_____	_____

Don’t Let a Good Year Create a Bad Surprise

Partner distributions should reward the firm’s success without putting its financial stability or partners’ tax planning at risk.

Schedule a Partner Distribution Planning Review with LMJ CPAs.

This guide provides general planning information. Tax treatment depends on the firm’s legal and tax structure, partner circumstances, and applicable laws.

About LMJ CPAs

We think like owners and operate as strategic partners — delivering big-firm capabilities with small-firm attention.

Liggett, Melzer & Joshi CPAs partners with owners, families, and leadership teams who want proactive financial guidance — not just year-end compliance. We provide integrated accounting, tax, and advisory services as a single, coordinated team for your business and personal needs.

We deliver board-quality insights and proactive planning, with staff continuity and communication that means no surprises — including fixed-price engagements. We build relationships, earn trust, and provide value across generations.

Based in New York City, we serve clients across the tri-state area and beyond, with deep expertise in real estate, professional services, and privately held businesses.