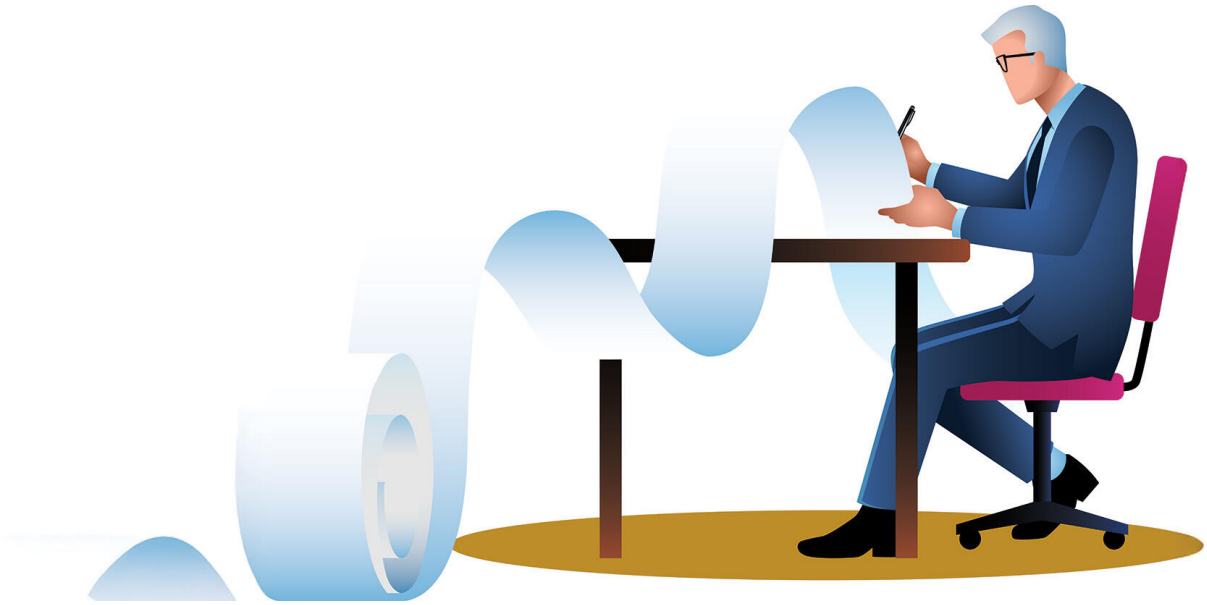
Professional services firms: how to buy another practice

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If you decide to purchase another tax practice, we consider how to conduct due diligence and safely manage the transition and merger.

Key Points

What is the issue?

A full acquisition means taking on everything from assets and liabilities to staff and established processes, which requires merging different cultures and operational systems. Alternatively, a practice may choose to purchase only certain elements, such as key personnel, depending on its strategic objectives.

What does it mean for me?

A careful review of the practice’s risk culture, past claims data and operational practices is critical in identifying hidden issues that might not be apparent from traditional due diligence methods.

What can I take away?

When purchasing a tax practice, it is vital to conduct comprehensive due diligence, consider the exact nature of the acquisition, and plan carefully for a smooth transition. You should also proactively review client files to spot any problems that could emerge after the merger.

Following on from our article ‘How to sell your practice’ in March 2025, we take a look at the processes involved if you decide that you would like to buy another practice. This article considers professional risk management; there are of course many other issues to consider on an acquisition.

Why would you buy?

There can be many reasons why a tax practice wants to buy another business. They may want a presence in a specific geographic location or a particular practice area. They may be lacking expertise in a certain area of tax or a partner with a particular expertise may be retiring, leaving no obvious successor.

Building up the reputation of a replacement specialist in time for that retirement can be a demanding process. It could be more economical to simply purchase another tax firm which already has that expertise than to try and train staff in-house. The purchaser will be able to immediately leverage the firm’s reputation and acquire its existing client base to expand its business. And if there are particular individuals that the purchasing firm is interested in, it may be that the easiest way of ‘recruiting’ them is to simply purchase the firm, with the additional benefit of buying out the competition in that practice area.

Purchasing a firm can also ease compliance with regulatory obligations, and provide immediate membership of certain networks that the target is a member of. There may be all sorts of reasons why Firm A wishes to purchase Firm B in full. In all situations, the necessary due diligence must be undertaken, as I will return to below.

What exactly to buy?

If Firm A does purchase Firm B in full, unless certain elements are carved out, it takes on the firm's assets, liabilities, people, potential claims and processes, and has to merge the two cultures into one. This can be done successfully but it takes time and preparation.

Instead of taking purchasing the firm in full, a purchaser may only buy the assets, trade or goodwill, or it may decide just to take on the people, depending on why it is interested in purchasing the business in question. Different considerations apply depending on what is actually going to happen in the transaction.

For example, if Firm A is interested in Firm B's clients and just takes on certain partners, those partners will in all probability be under restrictive covenants, and there may be difficulties in the clients following the partners for a considerable period of time.

If Firm A wants to open in a new location and Firm B has a ready-made business that it wishes to take over, it is more likely that Firm A will purchase the business in its entirety. It will need to consider the detail of that business and undertake the appropriate due diligence before completing the sale agreement and purchase agreement.

Conducting due diligence

Buyers of any business will undertake legal and financial due diligence, looking at issues such as the ownership of any buildings, assets, contracts entered into by the target, and the financials relating to the target. However, what is often overlooked is how a professional services firm 'makes its widgets'.

What do I mean by that? As part of the due diligence, the target firm will be asked to provide its claims history. But does that truly give a full insight into the risk management profile of the target business or of its risk culture? While the claims history will provide information about claims that have actually been made against the firm, it will not reveal any problems lurking in the business that are yet to come to light.

One of the key issues to consider is the firm’s processes with regards to the issue of engagement letters. You should establish if the firm is carrying out any work for clients where there is no valid or current engagement letter in place, as this could leave the purchasing firm exposed to significant risk.

Where engagement letters are in place, you should review how good they are at identifying the scope of the engagement and the identity of the client. If a firm has opened a file in the name of client A but has ended up acting for client B, this could also leave the firm exposed to risk; for example, if the file is opened in the name of a company but advice is given to the directors and/or shareholders in their capacity as such.

Some other questions to consider as part of the due diligence process include:

- How well does the firm manage its workload? If significant deadlines are missed, this can give rise to potential claims. Staff who are under too much pressure in terms of capacity, workloads and targets are more likely to make unforced errors. Staff should have the time to reflect and respond appropriately.
- Does the firm manage its liability caps properly? These must be brought to the client’s attention in order to mitigate the firm’s potential exposure to unlimited liability.
- What is the firm’s culture in relation to the management and reporting of issues, circumstances, complaints and claims? You should determine whether these are reported, investigated and dealt with properly or are simply ‘brushed under the carpet’.
- How is the billing process managed and what is the true value of historic claims?
- How good is the firm at identifying when it is acting for a taxpayer and complying with the relevant regulations?

These issues can all be reviewed in advance, and any problems identified and, in many cases, quantified. This will allow the purchaser to put any necessary caveats into the sale and purchase agreement, particularly relating to warranties and indemnities, reduce the sale price where appropriate or put money in escrow to be only released on certain conditions.

If the seller has had a Risk Insight report, a D2Risk Report or other risk review undertaken and is happy to disclose this, that can assist as part of the review. However, an independent review of the firm's processes is recommended to identify any risk areas that need early transition or change management to ensure a smoother and more productive transition and integration.

Transition and change management

Before the transaction, it is advisable for the purchaser to conduct a number of reviews to ensure a smooth transition.

Managing the induction: Consider whether your firm's induction process is fit for purpose when a larger number of people join at the same time.

Processes and systems: Review the purchaser's processes and systems to see if there are any areas for improvement or areas of uncertainty. Too often, things are done in a certain way because everyone knows that is what to do. Processes and systems should be easily accessible and understandable, so that those joining from the target firm can easily follow them to avoid any confusion.

Transitioning clients: You will need to have the correct processes in place to manage the transitioning of clients from your target firm. Clients will be on the target firm's engagement letters and terms of conditions for a period of time, while the transition to the purchaser's terms and conditions is carried out. Have processes been put in place to recognise and manage that?

Differing terms and conditions: There can be very significant differences in the terms and conditions between the two businesses. Staff from the purchaser will need to be aware of exactly how these differ when they work on the target firm's clients, and vice versa – and no one must assume that it is 'business as usual'. You must have the processes in place so that everyone is aware of and familiar with the terms and conditions for any work they undertake.

Conflicts of interest: Consider whether there are any conflicts of interest, particularly if the target firm has clients whose interests conflict with those of clients of the buyer. If so, you must identify how these are going to be managed and if any ethical walls should be put in place.

A review of client files: Significantly, consider whether a review should be undertaken of some or all of the target firm's files as soon as possible following purchase. This will allow you to ascertain whether there are any hidden issues that have not been identified prior to purchase.

See ***Missing the target***, as an example of what could go wrong…

Missing the target...

Target Tax is a small tax firm which specialises in inheritance tax. It was purchased by a larger tax practice, Buyer Tax. Buyer Tax thought that it had got a really good deal on the price it paid for the acquisition. Three months after the deal was completed, however, a review was undertaken of the files in Target Tax.

It transpired that in the period between the completion of the deal and the review, the deadlines for filing a number of tax returns had been missed. This led to claims against Buyer Tax, because the deadlines were missed during the period that Buyer Tax owed a duty of care to the taxpayer.

Because the deadlines had not been missed at the time of completion of the deal, Buyer Tax could not bring a claim against Target Tax under the sales and purchase agreement. However, if it had undertaken a review of the firm's processes as part of its due diligence, Buyer Tax would have known that Target Tax's diary systems were poor, and that many deadlines were likely to be missed.

Buyer Tax could have protected itself contractually in the sales and purchase agreement in relation to those cases and could have taken urgent action following the transaction. Buyer Tax could also have required Target Tax to undertake a review of all its files prior to the transaction to prevent deadlines being missed in the first place.

A very costly mistake…

In conclusion

As I have hopefully demonstrated, considering risk management issues on both sides of the equation can be extremely valuable when thinking about buying or selling a professional services firm, and a risk management expert could be a useful

addition to in advance of any potential purchase or sale.

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