For CPAs in public practice, the path to retirement usually follows one of two roads—an internal succession or a sale to an external buyer, with the external route offering additional options.

This series has covered in detail one of those external paths—the two-stage deal, which is structured to enable the selling practitioner to retain a significant amount of autonomy, control, and income while locking in a succession plan (see “A Two-Stage Solution to Succession Procrastination,” Oct. 2013, page 40). This article looks at other options for an external succession plan.

**STRAIGHT SALE**
Selling one day and walking away from the practice the next is certainly possible, though rare. The advantages of a straight sale to the seller are that the purchase payments commence immediately and the seller is not asked to work a substantial amount of time for lower compensation. The buyer can pay the purchase payments out of the profits the seller previously retained as compensation. The big disadvantage is that clients are asked to start the transition immediately without much seller involvement and this can lead to lower retention—something neither side wants.

Straight sales usually occur when a seller, either by choice or forced circumstances, waits until the last minute to find a successor firm or has to substantially slow down before finding one.

A better approach to a straight sale is one where the buyer starts the purchase payments immediately and the seller stays involved for a certain amount of time to help manage the transition, often in a part-time role and maybe not for any additional compensation beyond the purchase payments. If the seller is asked to perform chargeable work, he or she traditionally is entitled to additional compensation—for example, one-third of his or her billing rate. The nonchargeable work that is not separately compensated for is usually limited to making introductions to the business clients, providing an orientation to the files and systems, and being reasonably available to respond via phone to the buyer’s inquiries about client issues or to hold former clients’ hands.

About the Series
Powerful forces are transforming the accounting profession in the United States. The Baby Boomers are heading into their retirement years. Baby Boomer CPAs are in charge of most U.S. accounting firms, and most U.S. accounting firms don’t have a signed succession plan or practice-continuation agreement in place.

The *JofA* is presenting a succession series designed to help accountants navigate the new landscape of succession and mergers. This month’s installment, the seventh in the series, examines deal structures for external sales in succession situations.
Internal succession and sale to an external buyer are the two main paths to retirement for CPAs. There are several types of deal structures for external sales. In a straight sale, the seller divests the practice and walks away immediately. This type of transaction is rare in accounting because it offers little to no transition time for the clients. In a buy-in leading to a buyout, a buyer purchases a partial stake in a firm seeking a successor. The buyer then completes the transaction when the retiring partner is ready to slow down. A merger leading to a buyout is similar to the buy-in leading to a buyout, but without the upfront acquisitions. This is most commonly used by multi-partner firms. In a cull-out sale, the selling firm divests part of its practice. Sometimes, the part sold is a niche division. Other times, the selling firm keeps the niche business and sells off the traditional accounting practice. He had retained the traditional practice because it generated referrals to the wealth management practice. He was introduced to a firm that did not offer wealth management services. The traditional practice was sold, and the seller agreed to not compete for those services while retaining the right to offer wealth management services to the same clients. The buyer agreed not to offer services to or refer away the wealth management clients. The deal was held out to the world as a merger designed to improve the clients’ access to the expertise of both firms. The authors have also seen niche practices sold—for example, an IT consulting division—while the seller retained the core practice. Capacity issues. A firm may have a succession issue with a partner and not have the capacity to replace him or her. Rather than decide to merge the whole firm, some firms sell off the retiring partner’s client.
base and continue to go it alone with the remaining partners. In one case, the partner seeking succession operated a satellite office in another city. The core office could not locate a person to take over running that office. The authors assisted the seller in finding a local firm that had the capacity, and they worked out the buyout of the retiring partner.

Other firms, facing staffing issues, identify a group of clients in a certain industry or of a certain common characteristic and sell off that client base as a means of contracting to a level of activity they feel better managing. Finally, firms that want to exit a certain kind of client, such as stand-alone 1040s or business clients whose fees are unlikely to exceed a targeted minimum, sell off that group rather than just walking away from it. One firm’s floor often is another firm’s ceiling when it comes to the perceived quality of a practice area.

Post-sale practices. Often a practitioner has a large enough practice that continuing to operate will keep him or her from achieving post-retirement quality of life. But he or she can’t imagine not working at all. An example is a sole practitioner who had a $900,000 practice. He identified $100,000 of clients he wanted to keep and service indefinitely, while a buyer was found for the other $800,000 worth of clients.

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