

A LINKED ACCOUNTING ALLIANCE THOUGHT LEADERSHIP PAPER

Two Prices for One Firm

Internal Partner Buyouts vs. Fair Market Value in CPA Firms

What the market is telling CPA firms about partner buyout valuation in 2026

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EXECUTIVE SUMMARY

> A CPA firm has two prices: what a third party would pay for it, and what its own partners pay a retiring partner for their share. In 2026 those prices differ by roughly 30%–40%, and most firms have never written down why.

External buyers are paying 0.9x–1.3x gross revenue for well-run small and mid-sized firms, and 5.5x–8.5x adjusted EBITDA once a firm passes roughly $2M–$5M in revenue. Internal partner buyouts, by contrast, value firm goodwill at about 76%–80% of revenue on average, according to the Rosenberg Survey, and that figure has drifted down, not up, over the last decade.

The gap is not a market failure. It reflects real differences in who pays, when, with what money, and with what risk. But private equity's arrival in the profession has given senior partners a credible outside option, and firms are being forced to decide whether their internal formula still holds. This paper lays out the evidence, explains why the two prices differ, and offers a framework for setting an internal number that is defensible to both the partner leaving and the partners staying.

The question every multi-partner firm eventually faces

Sooner or later a founding or majority partner decides to step back, and the remaining partners discover that the number in the partner agreement, or, more often, the number in everyone's head, has never been tested against the market.

The conversation tends to follow a pattern. The exiting partner has read about firms selling for 1.0x or 1.3x revenue and about private equity paying double-digit EBITDA multiples. The remaining partners have read the same headlines and quietly wonder how they will fund a payout that size while still taking home a living and admitting the next generation. Both sides are looking at real data; they are just looking at different markets.

Succession is the profession's least-managed process. Rosenberg Associates reports that only about 19% of firms polled had a succession plan in place, and a quarter had no retirement provisions in their partner agreements at all.[1] With a large share of the profession's partners approaching retirement age, this question is arriving at hundreds of firms at once.

The purpose of this paper is to give both sides of that table the same set of facts.

Two markets, two prices

An internal partner buyout and an external sale are different transactions with different buyers, different funding, and different risk. Pricing one with the other's data is the most common valuation error in the profession. Rosenberg Associates, which has tracked partner buyout practice for more than two decades, puts it plainly: valuations for external sales are completely different from those for internal buyout plans.[2]

	Internal partner buyout	External sale (fair market value)
Typical goodwill value	~0.76x–0.80x annual revenue	~0.9x–1.3x revenue; 5.5x–8.5x adjusted EBITDA above ~$2M–$5M revenue
Who pays	The remaining partners, from future firm profits	A third party bringing outside capital (bank, SBA, PE)
Cash at close	Typically none; paid over 5–10 years	60%–80% of price at close for firms of $2M–$10M
Buyer's information	Complete; they already run the firm	Limited; priced through diligence and warranties
Risk of client loss	Borne by the firm; retiring partner transitions over years	Borne by the buyer; priced via earnouts and retention clauses

	Internal partner buyout	External sale (fair market value)
Competitive tension	None; a formula	Multiple bidders can raise the price
Constraint on price	The firm must remain able to pay it and still admit new partners	Only the buyer's return requirement
Typical seller tax treatment	Often deferred compensation (ordinary income)	Usually capital gain on goodwill

Both prices are legitimate. Neither is "the" value of the firm. The internal price answers what can the firm afford to pay one of its own for a share of an ongoing institution; the external price answers what would a stranger pay to own it outright, today, with cash.

Why internal buyouts are priced lower

Internal buyouts are cheaper because the buyers are paying with their own future income for something they already control. Rosenberg attributes the decline from the old 1x-revenue rule to three forces: concern over the affordability of large buyout obligations, younger partners' fear that the firm cannot survive the loss of a highly productive senior partner, and the conservative disposition of CPAs generally.[3]

Beneath those three sit four structural realities:

1. **The money comes out of the same pool that pays the remaining partners.** Every dollar sent to a retiree is a dollar not distributed to the partners doing the work. Well-designed plans cap total annual buyout payments, commonly around 2% of revenue across all retirees, so the obligation never threatens the firm's ability to compete for talent or admit new partners.[4]
2. **There is no acquirer and therefore no acquisition premium.** An outside buyer pays for synergies, cross-selling, capacity, and a platform. Remaining partners are buying none of that; they are buying the right to keep running the firm they already run.
3. **The plan must survive several generations.** A buyout formula is a promise made to every current and future partner. If it is set at a level that only works when the firm is growing, it becomes what Rosenberg calls a Ponzi scheme: each generation depends on the next to pay it off.
4. **Terms substitute for price.** Internal plans transfer risk to the retiree in ways an external buyer cannot: mandatory notice periods, multi-year client transition, vesting, non-solicitation, and clawbacks for lost clients. A lower headline number paired with near-certain payment is a coherent bargain.

> *Both prices are legitimate. Neither is "the" value of the firm.*

The result is a market in which the same firm rationally has two prices, and where the lower internal price is not evidence that anyone is being cheated.

Why exiting partners accept the internal number

Retiring partners accept a lower multiple because the internal deal is lower-risk, lower-friction, and frequently better after tax and time than the alternative. The multiple is one term in a larger bargain.

- **Certainty.** Payment comes from people whose livelihood depends on the firm continuing, on a fixed schedule, with no earnout. External sales at the $2M–$10M level routinely hold back 20%–40% of headline value in rollover equity, seller notes, or retention-based earnouts that may never fully pay.[5]
- **No process.** A sale takes 6–12 months, a quality-of-earnings review, confidentiality risk, and staff anxiety. A buyout is triggered by the partner agreement.
- **The buyout is the last installment, not the whole return.** New partners typically buy in for a nominal amount, $50,000 to $150,000 at most firms, and then collect decades of distributions above employee compensation before the buyout.[6] Rosenberg describes signing a buyout agreement as a spectacular investment for the incoming partner precisely because of this lifetime view.
- **Legacy and reciprocity.** The retiree wants staff and clients to continue under the firm's name, and knows the same formula will one day apply to the partners paying them.
- **Tax and timing.** Payments spread over years smooth the retiree's income and often give the firm a deduction. A lump sum concentrates income in one year.
- **Control of the exit.** The retiree chooses the pace, the transition period, and the terms, none of which an outside buyer offers.

A retiring partner who insists on a pure market multiple is, in effect, asking to be paid like a seller while being treated like a partner: full price, no diligence, no holdback, no risk. Firms that recognize this framing can have a more honest negotiation.

What the market is saying in 2026: external sale multiples

Published 2026 guidance from CPA-firm brokers and M&A advisors converges on 1.0x–1.3x gross revenue for well-run firms, with the median near 1.0x and outliers above 1.4x reserved for high-margin, high-recurring practices.

Source	Type	Revenue multiple	Earnings multiple	Observation
Poe Group Advisors (Mar 2026)[7]	National CPA-firm intermediary	1.1x–1.3x gross; 1.4x+ rare		Firms above ~$2M have fewer buyers able to finance, which can compress multiples
Ashley-Kincaid (Aug 2026)[8]	CPA M&A advisor	0.9x–1.3x gross	3.5x–5.5x+ adj. EBITDA for firms over $2M–$5M	Larger firms valued primarily on EBITDA
FirmLever (Apr 2026)[9]	Advisor, 600+ transactions	Median 1.0x; range 0.8x–1.5x	Median 2.75x SDE	"Most firm owners overestimate their multiple"
CT Acquisitions (Jul 2026)[10]	M&A benchmark compilation	1.0x–1.4x for $500K–$2M firms	5.5x–8.5x adj. EBITDA for $2M–$10M firms	Compiles Rosenberg, Poe Group, Accounting Practice Sales, Accounting Today
Berkshire BSA (Mar 2026)[11]	Practice broker	Small firms priced on revenue	Larger firms on SDE/EBITDA	Cash-flow margin is the primary driver of the multiple
Madras Accountancy (Apr 2026)[12]	Industry commentary	0.8x–1.5x	3x–7x EBITDA	PE-backed deals ~25%–30% of transactions in 2025
Signal (Jun 2026)[13]	Listing scan	Asks 0.99x–1.43x; most 1.0x–1.2x		Mid-2026 California listings
Jetpack Workflow / Geoff Bruskin (Aug 2026)[14]	M&A advisor		4x–6x adj. EBITDA; stronger firms higher	"A headline multiple is only the beginning"

Live listings tell the same story. A September 2026 review of priced CPA-firm listings on Berkshire BSA showed asks of 1.09x–1.40x gross revenue for firms between $670K and $1.7M.[15] Asking prices generally settle 5%–15% lower at close. Firms above roughly $2.5M rarely appear on public listing sites at all; they sell through confidential processes, which is one reason partners at larger firms lack good comparables.

The drivers that move a firm within these ranges are consistent across sources: recurring-revenue share, client concentration, staff depth, technology, tax-and-advisory mix versus audit, and, critically for succession, partner concentration. Firms where one partner controls more than 40% of client relationships trade 0.5–1.5 turns of EBITDA below firms with balanced books.[16]

What firms are actually paying internally: Rosenberg benchmarks

The Rosenberg Survey, the profession's long-running benchmark for partner buyout practice, shows internal goodwill valued at roughly 76%–80% of annual revenue, a level that has slowly declined rather than risen over the past decade.

Finding	Source
Internal goodwill valuations at 76% of revenue, down from 78% the prior year and ~80% in earlier years	Rosenberg 2025 MAP Survey[17]
The historic 1x-net-fees rule of thumb gave way to ~80% for many years, now ~76%	The CPA Journal, State of the Profession[18]
Multiple-of-compensation method used by 54% of firms; with the AAV method, 70%	Rosenberg 2023 MAP Survey[19]
Retiree's payout under multiple-of-comp is usually 2x–3x their compensation	Rosenberg, AAV system[20]
Only 11% of five-to-seven-partner firms set buyouts by ownership percentage	Rosenberg, departing partner case[21]
74% of firms are currently making buyout payments to retired partners; payments now ~2% of revenue	Rosenberg 2023 MAP Survey[22]
Capital (roughly 25% of revenue on an accrual basis) is paid separately from goodwill	Rosenberg, capital plus goodwill[23]

Three points deserve emphasis. First, the internal norm is below 1x revenue, so a firm paying 1x or more internally is already paying above the profession's average. Second, most firms do not use ownership percentage at all; they pay a multiple of the retiree's compensation, which ties the payout to what the partner actually contributed. Third, goodwill and capital are separate: a retiring partner's capital account is returned in addition to the goodwill payment, which partly explains why the goodwill multiple alone looks modest.

The private equity effect: why the gap is narrowing

Private equity has turned the external price from a hypothetical into a live alternative, and that is pressuring internal formulas from both directions.

PE-backed acquirers accounted for roughly a quarter of accounting-firm transactions in 2025,[24] and platform-tier firms have traded at 10x–15x adjusted EBITDA.[25] Aggregators such as Unity Partners and Springline Advisory explicitly target firms under $5M in revenue.[26] A senior partner at a $4M–$8M firm can now get a real bid.

Rosenberg polled firms in early 2026 on how buyout plans are responding. The answers split:[27,28]

- Some firms raised multiples or improved terms to keep senior partners from selling the whole firm; one moved from 2x to 2.5x compensation.
- Others shifted the basis from revenue to profitability, reduced payouts, added annual caps, or lengthened vesting to keep retirements affordable for the next generation.
- 40% of respondents said they were considering changes to their retirement plans; 71% of those cited PE as the primary driver.

The practical consequence: an internal formula that sits far below the external price now carries a real cost, the risk that the exiting partner, holding a majority, chooses the outside bid and the remaining partners lose independence. Firms that value independence are increasingly willing to pay a market-adjacent internal price as the cost of staying independent. That is a legitimate strategic choice, and it should be made explicitly rather than by default.

The size threshold: when revenue multiples stop working

Once a firm passes roughly $2M–$5M in revenue, outside buyers stop pricing on revenue and start pricing on adjusted EBITDA, and a revenue-based internal formula can quietly drift out of line with the market in either direction.

CT Acquisitions calls $2M–$5M the transition zone: below it, revenue and SDE multiples dominate and buyers are individual CPAs and small firms; above it, adjusted EBITDA dominates and buyers are regional strategics and PE-backed aggregators.[29] Ashley-Kincaid and Poe Group describe the same shift.[30,31]

The two bases are linked by margin. The table shows what a 1.0x revenue price implies in EBITDA terms at different normalized margins, against a market band of roughly 5.5x–8.5x for $2M–$10M firms:

Adjusted EBITDA margin	1.0x revenue implies	Relative to 5.5x–8.5x band
12%	8.3x EBITDA	Upper half; generous to the retiree
15%	6.7x EBITDA	Middle of band; fair
18%	5.6x EBITDA	Bottom of band; fair
25%	4.0x EBITDA	Below band; retiree may be under-compensated versus a PE bid
30%	3.3x EBITDA	Well below; an outside buyer would likely pay more

What a 1.0x revenue price implies in EBITDA terms

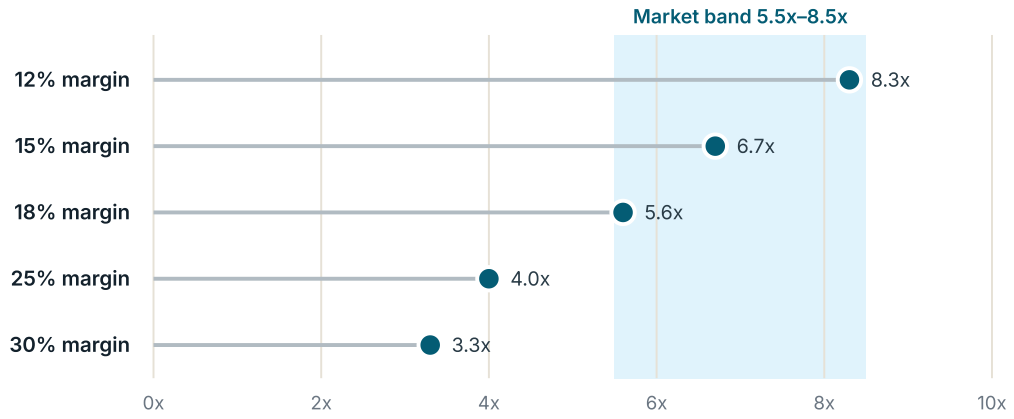


Figure 1. Implied EBITDA multiple at each margin in the table above, against the 5.5x–8.5x market band.

"Adjusted EBITDA" means earnings after paying every partner market-rate compensation for the work they perform, with personal expenses and one-time items added back. This normalization is where most disagreements hide: a firm whose partners take large draws will look low-margin on its books and high-margin once draws are restated to market.

The lesson for any firm above roughly $3M: a revenue formula is a fine starting point, but it should be cross-checked against normalized EBITDA before anyone calls it fair or unfair.

A framework for setting a defensible number

A defensible internal buyout is one that both the exiting partner and the remaining partners can explain to a third party using the same facts. The following sequence produces that.

1. **Decide the strategic question first.** Is the firm committed to remaining independent? If yes, the internal price is the cost of independence and can reasonably sit near the external range. If the firm is open to a sale, the internal formula should sit closer to the Rosenberg norm so it does not pre-empt the market.
2. **Compute the revenue-based value.** Apply the firm's multiple to a trailing average of collected revenue (three years is common; it smooths growth and one-time work). Note where the result falls against the 0.76x–0.80x internal norm and the 0.9x–1.3x external range.
3. **Cross-check against normalized EBITDA.** Restate partner compensation to market, add back personal and one-time items, and place the implied multiple against the 5.5x–8.5x band for firms of $2M–$10M. A result inside the band supports the number from both directions.
4. **Compute a second internal method.** Most firms pay 2x–3x the retiree's compensation. Comparing that figure to the ownership-percentage result exposes whether the retiree's equity share and their contribution are aligned.
5. **Adjust for firm-specific drivers, in writing.** Recurring-revenue share, client concentration, partner concentration, staff depth, and technology each move the multiple. Documenting them turns a negotiated number into a supported one.
6. **Price the terms, not just the multiple.** Payment period, interest, annual cap as a percentage of revenue, vesting, notice, client-transition obligations, non-solicit, and clawback for lost clients all transfer risk. A higher multiple with strong protections may cost the firm less than a lower multiple with none.
7. **Separate capital from goodwill.** Return the retiree's capital account on its own schedule; the goodwill multiple should be discussed and compared on a like-for-like basis.
8. **Write it down before it is needed.** A formula agreed while every partner is years from retiring is far easier to defend than one negotiated the month a majority partner announces an exit.

Illustrative example

Consider a hypothetical four-partner firm with roughly $5M in trailing three-year average collections, a senior partner holding about 40% of the equity, and ownership that is not tied to individual partner books. The partners have agreed on 1.0x the three-year average.

Step	Result
Revenue-based firm goodwill (1.0 × ~$5M)	~$5.0M
Senior partner's ~40% share	~$2.0M
Versus Rosenberg internal norm (~0.78x)	~$1.6M; the agreed number is roughly 25%–30% higher
Versus external range at 0.9x–1.3x	~$1.8M–$2.6M; agreed number sits at the lower end
EBITDA cross-check at ~18% normalized margin	~5.6x; inside the 5.5x–8.5x band
Multiple-of-compensation check (2.5x on ~$800K partner comp)	~$2.0M; in line with the agreed figure

Every test lands in the same neighborhood. The exiting partner receives a market-consistent price with the certainty of an internal payment stream. The three remaining partners pay above the profession's internal average, and in return keep the firm independent, with a documented basis they can hand to a lender, an appraiser, or the next partner class.

Had the same firm's normalized margin been closer to 28% than 18%, the 1.0x formula would have implied only about 3.6x EBITDA, and the exiting partner would have had a fair argument that an outside buyer would pay more. That is exactly the case in which the firm should decide, consciously, whether independence is worth the difference.

Conclusion

A CPA firm legitimately has two prices, and the healthiest partnerships are the ones that can say out loud which one they are using and why.

> *What is indefensible is a number that no one can source.*

The market in 2026 supports a clear picture: external buyers pay roughly 0.9x–1.3x revenue (or 5.5x–8.5x adjusted EBITDA for larger firms), and internal buyouts average roughly 76%–80% of revenue. A firm paying at or above 1x internally is paying a premium to its peers, usually as the price of independence in a market where private equity has made selling easy. A firm paying at the internal norm is following long-established practice and should be able to explain to a retiring partner exactly what they are receiving in exchange for the lower multiple: certainty, control, legacy, and no diligence.

Neither choice is wrong. What is indefensible is a number that no one can source. Every figure in this paper is footnoted to the study, survey, or broker that produced it; the same discipline, applied inside a firm, converts a difficult conversation into an arithmetic one.

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About Linked Accounting Alliance

Linked Accounting Alliance is a member-owned alliance of independent CPA firms built on a simple premise: small firms should not have to climb the growth curve alone, and they should not have to sell to a consolidator to capture the value they have built.

The Alliance is a Utah-domiciled LLC owned by its member firms and governed by a Board of Governors drawn from those firms' partners. It is not a private equity roll-up, a network license, or a brand swap. Member firms keep their names, staff, client relationships, and control of their own cash flows, while sharing in the equity of what the Alliance builds together.

What members share is the infrastructure that only platform scale justifies: a Shared Services Group staffed with specialists no single small firm can hire alone (national tax, IRS resolution, valuation, cost segregation, R&D credits, and fractional CFO services); an Extended Back Office that consolidates payroll, IT, HR, and finance at platform pricing; joint ventures in wealth management and mortgage that bring new services to member firms' clients with partners participating as owners; and a peer table of operators who have already made the move from $1M to $5M and beyond.

The Alliance is led by the partners and operators of Linked Accounting, its founding member firm, and welcomes independent firms with $1M–$10M in revenue, one to five partners, and forward-thinking leadership. Learn more at linkedalliance.co or contact info@linkedalliance.co.

This paper reflects the cumulative experience of Alliance member firms working through partner transitions, combined with publicly available market research current as of September 2026.

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