

Modernization vs caution: PE's place in German professional services

A recent draft bill by the German federal government seeks to tighten the requirements for third-party investments in German tax advisory firms.

Nina Lindholm - 2 hours ago

Germany has proven a good hunting ground for private equity investors seeking professional services businesses such as tax advisers, auditors and law firms. These asset-light targets offer good growth potential, particularly with roll-up opportunities.

However, a recent draft bill by the German federal government threw a wrench into the mix, aiming to restrict future third-party investments in tax advisory firms.

While the planned discussion about the draft bill was cancelled in November, the proposal sent a wave of uncertainty across the industry. *PE Hub* turned to industry professionals to learn about the draft bill's impact on current investments in the sector, as well as future transactions.

“When the market anticipated a potential prohibition, it became extremely difficult to convince partners to reinvest proceeds into new structures,” Jan Feigen, a partner at law firm Hogan Lovells, told *PE Hub*. “The regulatory uncertainty effectively put several ongoing transactions on hold.”



Jan Feigen, Hogan Lovells

The recent withdrawal of the draft was a “very good sign,” according to Hamburg-based Feigen, who added that the market has now revived slightly.

“The debate essentially pits modernization against regulatory caution. It will be very interesting to see which narrative ultimately prevails,” he said.

One private equity investor with a German asset in the sector considers the case closed. “The initial proposal didn’t even make it to cabinet discussion – it’s now dead,” the source told *PE Hub*. “It’s a bit like cold coffee, so to speak.”

But that coffee had time to burn before cooling down. Speaking with *PE Hub*, Henning Bloss, a partner based in law firm Covington’s Frankfurt office, said that the “whole discussion has already had a detrimental impact on the sector.”

“Many private equity firms who are not yet invested in professional services firms say that they’ll never do this, it’s much too risky,” Bloss added.

Investment activity in the sector **has accelerated in recent years**, Henrik Geijer, partner at IK Partners, told *PE Hub* in a recent interview on the audit and accounting segment.

The trend is expected to continue as regional firms embrace private equity’s expertise in digital transformation while capitalizing on a strong pipeline of M&A opportunities.

Cinven, EQT, Aurelius and Partners Group are some of the private equity firms with German tax advisers in their portfolios. They declined to comment when approached by *PE Hub*.

Considerable irritation

Covington **shared an alert to its clients** in October regarding the proposed changes. In it, the law firm explained how the draft bill introduces a new rule that requires member firms of tax advisory firms to adhere to the same professional bar admission requirements as tax advisers.

These requirements would apply “up the chain,” meaning indirect, purely financial participations as currently used by private equity investors would become “inadmissible.”



Henning Bloss, Covington

The proposal met opposition within the government, particularly from the Federal Ministry of Economics, according to Bloss.

“The main reason: in June, the government had promised financial investors support for investments in Germany during high-level talks,” he said. “The fact that the Federal Ministry of Finance countered this promise just a few weeks later with a draft that was perceived as backward-looking caused considerable irritation.”

That countered promise is likely the result of the make-up of Germany’s current coalition government, which comprises the center-right CDU-CSU grouping and the center-left SPD. The CDU leads the economics ministry, while the SPD heads the finance ministry.

Bloss’s own view is that it will be “difficult” for the SPD to get the bill through. The party holds just 120 of the 630 seats in the German Bundestag. “I don’t expect the rules to get less strict – I assume we’ll probably stay where we are,” he added.

Hogan Lovell’s Feigen predicts a change of focus. “I expect the debate to shift away from ownership restrictions and toward governance measures – stricter conflict-of-interest reporting, enhanced transparency requirements and potentially voting-rights safeguards.”

If the legislation were to go through, restricting private equity’s ownership of these businesses, a retroactive effect is unlikely in Feigen’s opinion.

“As transaction activity resumes, larger deals could close in the coming weeks,” he said. “Once these are completed, it becomes increasingly difficult to fundamentally change the existing regulatory framework.”

Bloss echoed Feigen but added a concern for those looking to execute an inorganic growth strategy. “Generally, there should be grandfathering, meaning that the law would not touch investments already made,” he

said.

“It would only apply to any future investments, if the law would come into effect. But that could still have a significant negative impact on a buy-and-build strategy.”

Misguided narrative

Excluding private equity from the sector would be “highly counterproductive” in Feigen’s view. Such a move would weaken advisory structures, slow digitalization and diminish Germany’s competitiveness. “The profession needs capital to modernize – without it, structural decline becomes inevitable,” he added.

The private equity investor speaking anonymously with *PE Hub* agreed with this need. “I think winners of tomorrow will be those businesses that are able to apply AI tools and digitize.”

Feigen described the narrative of “PE versus the profession” as misguided. “In reality, structured capital enables tax advisers to deliver better services, upgrade infrastructure and strengthen the financial system through higher-quality compliance.”