



M&A Accounting Elections That Matter: To PCC or Not to PCC? That Is Often the PE Sponsor's Question

For private equity (PE) investors, accounting elections made at acquisition are not simply administrative choices. They are strategic decisions that can affect go-forward earnings, tax attributes, and, most importantly, exit readiness and related timing. One of the most consequential accounting decisions is whether a portfolio company should elect to use Financial Accounting Standards Board (FASB) approved Private Company Council (PCC) accounting alternatives when recording a business combination.

The PCC alternatives were designed to reduce cost and complexity for private companies by simplifying purchase accounting requirements under US Generally Accepted Accounting Principles (US GAAP). While these alternatives can meaningfully reduce initial valuation effort as well as minimize or even eliminate ongoing impairment testing, they may create friction if the sponsor's exit strategy includes an initial public offering (IPO), public debt issuance, or a sale to a public company. In those cases, previously elected alternatives must be unwound, and new public company accounting guidance would need to be applied retrospectively—which is more costly and often occurs at the least convenient point in the deal lifecycle.

This article highlights the key PCC accounting elections through a PE lens, focusing on how the decision affects portfolio company financials, tax accounting, and exit optionality. It also offers a potential path forward to maximize flexibility and efficiency.

Purchase Accounting Guidance Simplified

Under US GAAP, purchase accounting guidance is dictated by **ASC 805, Business Combinations**. ASC 805 requires that all identifiable intangible assets be recognized separately from goodwill and measured at fair value.

For PE-backed transactions, this often results in significant customer-related intangible assets, such as customer relationships, customer lists, customer contracts, and noncompetition agreements. These assets require complex valuation models and introduce future amortization expense.

The PCC alternatives permit portfolio companies to subsume certain customer-related intangibles and noncompetition agreements into goodwill, provided those assets are not capable of being sold or licensed independently. In practice, most customer relationships and noncompetition agreements meet these criteria.

From a sponsor perspective, this election can:

- Reduce upfront valuation effort and coordination costs
- Simplify post-close financial reporting
- Shift more value into goodwill, which, unlike public company accounting guidance, is amortized under the alternative, typically over 10 years

PCC alternatives permit portfolio companies to subsume certain customer-related intangibles and non-compete agreements into goodwill.

However, PE investors should not assume this election materially reduces total purchase accounting effort. Tangible assets and remaining identifiable intangibles must still be valued at fair value. In our experience, auditors often apply heightened scrutiny to inventory, fixed assets, and other applicable assets when goodwill increases. As a result, cost savings may be incremental rather than transformative.

Key Summary

The differences in a private company's accounting for intangibles, including goodwill, if it elects to use the PCC accounting alternatives as its accounting policies are summarized below.

	Elected	Not elected
Intangibles	<ul style="list-style-type: none"> Private companies do not have to separately recognize intangibles for customer-related and noncompetition agreement assets unless they are capable of being sold or licensed independently 	<ul style="list-style-type: none"> Private companies have to separately recognize and amortize customer-related intangibles and noncompetition agreement assets
Goodwill	<ul style="list-style-type: none"> Goodwill can be allocated at the entity level instead of the reporting unit level. Goodwill is amortized over a period not to exceed 10 years, which decreases the asset balance and net income, but not EBITDA, thereby reducing potential impairment charges with the passage of time. Impairment testing is only required when there is a triggering event, which is often performed at the end of a reporting period if an additional alternative is elected. The testing can also be performed at the more simplified entity level rather than at the reporting unit level. 	<ul style="list-style-type: none"> Goodwill is to be allocated at the reporting unit level. Goodwill is not amortized and would only affect net income upon an impairment. Impairment testing is required at the reporting unit level on an annual basis, at least, and when there is a triggering event.

Interaction of goodwill and intangible asset alternatives

A private company can choose the overall goodwill accounting alternative, amortizing goodwill over a 10-year period, without choosing the intangible asset alternative. However, it cannot choose the intangible asset alternative unless it also chooses the goodwill accounting alternative.

The advantages of electing PCC primarily come down to initial cost.

Private companies that elect the PCC alternative benefit not only from lower upfront and ongoing annual valuation costs but also from reduced exposure to goodwill impairment risk, as goodwill is amortized over time rather than tested annually for impairment. Additionally, when tax-deductible goodwill is acquired, this approach can help reduce deferred tax expense.

However, the disadvantages of PCC can often outweigh the benefits. One of the more significant disadvantages to making the election includes the potential consequences upon exiting the business. If the private company is sold to a public strategic buyer or goes through an IPO, the cost associated with unwinding the PCC election could be two to three times the cost of the upfront valuation work due to the loss of data and company personnel familiar with the business at the time of acquisition.

Other disadvantages include lower reported net income as a result of goodwill amortization and the potential increase in the effective tax rate as book goodwill in excess of tax basis is amortized. It is also important to note that these private company elections are only available under US GAAP and are not applicable under IFRS; therefore, the elections would also need to be unwound if the acquirer reports under IFRS.

Elections Can Also Impact Tax Accounting Guidance

While the PCC alternative does not change current tax expenses, it can significantly affect deferred tax accounting, which is governed by **ASC 740, Income Taxes**.

In non-taxable acquisitions, assets are typically stepped up for book purposes but retain the historical tax basis. Absent the PCC alternative, newly recognized customer-related intangibles often give rise to deferred tax liabilities (DTLs). When those intangibles are subsumed into goodwill under the alternative, the associated DTL is eliminated.

This difference can:

- Reduce deferred tax expense over time
- Alter the pattern of book-tax differences
- Affect valuation allowance assessments by reducing future taxable income sources

Sponsors should also be aware that amortized book goodwill in excess of tax basis can increase the portfolio company's effective tax rate, particularly in stock acquisitions where little or no tax-deductible goodwill exists. These impacts should be evaluated alongside the fund's return model, not viewed as purely accounting outcomes.

The Hybrid Approach: Maximizing Exit Flexibility

For sponsors uncertain about exit timing or structure, a hybrid approach is often the most practical solution. Under this approach, valuation work is performed as if public-company accounting applies, including when identifying and valuing customer-related intangibles and non-compete agreements, but the portfolio company elects the PCC alternatives for financial reporting purposes.

A hybrid approach allows PE sponsors to reduce annual impairment-testing costs during the hold period while preserving the data needed to reverse the election efficiently at exit

This allows sponsors to reduce annual impairment-testing costs during the hold period while preserving the data needed to reverse the election efficiently at exit. From a PE standpoint, this approach functions as an insurance policy against future restatement risk, particularly in platform investments with evolving exit paths.





Potential Exit Plans Drive the Decision

For PE investors, the PCC accounting election is best viewed as an exit-alignment decision rather than a compliance simplification option. While the alternatives can reduce cost and reporting burden during the hold period, they may complicate execution if the investment thesis includes public-market access or a sale to a public acquirer when the target's financial statements are included.

Sponsors should evaluate the election in the context of hold strategy, exit optionality, financing plans, and tax profile—and revisit the decision as facts evolve. In many cases, a hybrid approach offers the optimal balance between near-term efficiency and long-term flexibility.

How Can A&M Help?

A&M is a leader in providing hands-on purchase accounting support to public and private companies. Free from audit conflict, we combine operational, functional and industry expertise with financial accounting and tax services, maximizing the value of every transaction.

Navigating the complexities of purchase accounting can be daunting, but it doesn't have to be. We offer a comprehensive service designed to simplify and streamline your accounting processes from the moment a transaction is initiated through to your financial statement audit. Our unique offering integrates technical accounting, tax, and valuation into one cohesive package, ensuring that every aspect of your purchase accounting is handled with precision and expertise. Let us help you transform the way you manage your financial transactions, providing clarity, compliance, and confidence every step of the way. [Learn more about our services here.](#)

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