

Political Law Due Diligence in M&A Transactions Is Increasingly Critical

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Key Points

- With the increasingly outsized role that government plays in business, corporate political engagement is booming, introducing growing risks into M&A transactions.
- Even inadvertent foot faults can have severe consequences, such as a political contribution by a covered employee or director triggering automatic bans on government contracts under the pay-to-play rules.
- There are also significant reputational and shareholder relations risks that can arise from violations of any of the seemingly technical political laws.
- Conducting due diligence for political law compliance is essential to identifying risks, preventing the acquirer from inheriting legal liabilities, and ensuring accurate valuation and smooth integration.

The Expansion of Private Sector Political Activity

In recent years, governments have been playing more pivotal roles in regulating industries and emerging technologies, and selecting companies for large contracts and public-private partnerships. To keep up with this reality, companies have increased their political engagement to unprecedented levels.

- In 2024, federal lobbying spending reached an all-time high of \$4.5 billion, according to the analytics service [Bloomberg Government](#).
- In the last two presidential elections, federal political action committees (PACs) raised more than twice as much as they had in any previous election cycle, according to the [Federal Election Commission](#).
- Many companies are establishing their own PACs or 501(c)(4) nonprofits for the first time.

Risks Associated With Increased Political Activity

With increased political engagement comes increased risk. A target company's political law missteps can result in decreased company profits and costly

investigations, and in some cases they can affect the company's valuation. Companies with heightened risk are those with significant government contracts, politically active leadership, or large government relations or public policy operations.

Indeed, numerous states have pay-to-play laws under which a political contribution by a covered director or employee (and in some cases even their spouse or child) triggers an automatic multiyear ban on government contracts. (See our December 10, 2025, client alert "[Managing Pay-to-Play Risk When Federal Officials Run for State Office](#).")

Most financial institutions are subject to federal pay-to-play rules that impose contribution bans in all 50 states. Moreover, violations of domestic anticorruption laws applying to U.S. officials can lead to criminal liability. We have seen such corruption cases lead to as much as a 35% decline in stock value.

These risks also play out against the backdrop of high-level scrutiny from activist shareholders regarding the company's political spending, as evidenced by the large number of shareholder proposals on the subject.

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Mitigating Political Law Risks Through Due Diligence

Acquirers can get ahead of these hazards by conducting certain political law due diligence on target companies, including:

- Determining if the target is in one of the three heightened-risk categories above.
- Analyzing potential exposure to a political law. Is the target aware of these laws, and are they addressing them reasonably?
- Structuring the transaction to minimize exposure — for example, ensuring that the acquiring company does not inherit a pay-to-play ban triggered by the target.
- Merging PAC assets and employee contributions, and updating filings accordingly.

Final Thoughts

Anecdotally, we have observed an increasing number of acquirers requesting that their M&A law firm conduct due diligence of the target under political laws. Doing so, particularly in the context of M&A transactions, not only informs acquiring companies of a target company's existing violations, but also enables them to more accurately assess the value of a company and structure transactions to mitigate future risks.

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Check out our podcast "[The Lobby Bar](#)" for more on political law considerations.