

5 INCORPORATION OPTIONS

There are six types of business entities, or corporations, available to physicians: sole proprietorship, general partnership, limited partnership (LP), limited liability partnership (LLP), limited liability company (LLC), and professional corporation (PC).

To help you understand the differences between these six business structures, the law firm of Crowell & Moring in Washington, DC created the chart on the next page. Since not all states recognize all of the options on the chart, and some of them have special laws relating to specific incorporation options, it is essential that you obtain the services of an attorney who knows the law in your locale before you incorporate.

BUSINESS ENTITIES FOR PHYSICIANS: A COMPARISON

Form of Business	Liability of Members	Management of Business	Continuity of Operations	Transferability	Complexity & Cost of Formation & Operation	Tax Considerations
Sole Proprietorship	Proprietor personally liable for all debts/ judgments of the business	Autonomous decision making	Business disintegrates on death or incapacity of owner	Interest is not transferable	Very easy and inexpensive to form and operate	Single taxation; individual income tax only
General Partnership	Each partner personally liable for own acts, the acts of partners, & debts of the business	All partners have equal voice in management of business unless otherwise agreed	Unless otherwise specified partnership dissolves on death or withdrawal of one of the partners	Interest is not transferable	Easier to form and operate than a corporation	Single taxation; individual income tax only
Limited Partnership (LP)	General partners liable for own acts, acts of partners, & debts of business; limited partners only liable to extent of their capital investment	Limited unless otherwise specified. Partners prohibited from participating in business management; general partners have equal voices	Partnership terminates on death of general partner; death or withdrawal of limited partner does not dissolve partnership	Interest is not transferable	Fairly easy to form & operate. Unlike general partnership, LP forms must generally be filed with the state	Single taxation; individual income tax only; no additional taxation on business entity
Limited Liability Partnership (LLP)	Not liable for malpractice or negligence of peers or employees unless supervisory relationship exists; liable for some business debts	All partners have equal management rights	Partnership continues to exist despite dissociation of a particular partner	Generally, interests are not transferable	Higher degree of complexity in registration of entity than other forms of partnership	Single taxation; taxed similarly to other forms of partnership
Limited Liability Company (LLC)	Liability not as extensive as in sole proprietorship & partnership. Personal liability limited to own actions & actions of supervised employees	Management much like traditional company; hierarchical officer structure	In several states, death or resignation of a member dissolves the LLC	Generally, interests are not transferable	Expensive and highly complex; several forms to be filed; assistance of counsel necessary	Generally, single taxation; individual income tax only; some states require "entity" tax that's not too large
Professional Corporation (PC)	Not shielded from individual malpractice liability; generally not liable for nonprofessional obligations of PC	Board of directors elects officers to run corporation; officers handle daily operations & management	Perpetual existence of entity	Stock of employee shareholders is freely transferable; easy to enter & exist	Moderately expensive to form & operate; often complex regulations; assistance of counsel necessary	Double taxation; corporation taxed as are any dividend payments; (can be avoided with high salaries & few if any dividends)