

Entity Selection for Healthcare Providers

By William B. Siegel, CPA

You have decided to go into private practice and all of a sudden realize...what type of entity should I select? You should begin by forming your professional team – your accountant and lawyer. These two professionals will be able to advise you on tax, liability and business considerations.

But you will still need to know how the different types of entities operate. In order to assist you with this decision, we will briefly review the more common types of entities available for use for healthcare practitioners, namely:

- Sole Proprietorships
- General Partnerships
- Professional Limited Liability Companies (“PLLC”)
- Corporations (“C”, “S” and “PC”)

SOLE PROPRIETORSHIPS

Sole proprietorships are the most basic and usually the simplest form of healthcare practice entity. In a sole proprietorship, the owner holds title to property, conducts the practice, and is directly and personally liable for all obligations of the practice. In most cases, the owner’s personal assets can be seized to satisfy debts of the proprietorship. Sole proprietors report their practice’s income and expenses on Schedule C of their personal tax return (Form 1040).

GENERAL PARTNERSHIPS

General partnerships are associations of two or more persons as co-owners to carry on a healthcare practice for profit. In so doing, these co-owners personally share the risks and rewards for all phases of the practice. Because of tax rules and regulations, partnerships are increasingly flexible but complex entities. Each partner is jointly and severally liable for the partnership’s obligations. Like proprietorships, a partner’s personal assets can be seized to satisfy debts of the partnership. Partnerships report their income and expenses on Form 1065. Each partner will receive a Form K-1 from Form 1065. This will have his or her share of taxable income which is reported on the partner’s personal tax return.

PROFESSIONAL LIMITED LIABILITY COMPANIES (PLLC)

Professional limited liability companies (PLLCs) are business entities created under state law and are available in most states. PLLCs combine the best attributes of partnerships and ‘S’ corporations. These attributes include treatment as a partnership for federal tax purposes (if the entity elects to be treated as such) and limiting the member’s liability. Additionally, in a PLLC, liabilities such as malpractice created by one individual are not assessed individually against other members of the PLLC. You will need to discuss the liability issues with your attorney as state law differs. Only licensed professionals may be members of a PLLC.

A second variation on this entity is a single member PLLC. Here the owner receives the liability protection of a corporation. The owner may also report his/her practice's income and expenses on their personal tax return (via Schedule C of Form 1040). This negates the need for a separate tax filing as is the case with partnerships or corporations. As a single member PLLC there can be additional benefits for sheltering into pension funds and the possible savings on Social Security tax if there is outside W-2 income.

A third variation for a 2 or more member entity is a limited liability partnership (LLP). This entity is mostly used by a general partnership which wants to take advantage of the liability protection mentioned above. The partnership would select an LLP instead of a PLLC as the conversion to an LLP is simple to accomplish.

CORPORATIONS

Corporations are business entities created under state law. They are characterized as artificial persons created for the purpose of conducting business. As such, they can hire employees, enter into contracts, acquire assets, and incur liabilities. An important feature is that they generally enable their owners (shareholders) to limit their non-service related liability to the extent of their investment in the corporation. Corporations can be "C" Corporations or regular Corporations which pay taxes on their profits or "S" Corporations which generally pass income or losses to the owners to be reported on their individual tax returns. A "PC" or Professional Corporation can be taxed either as a "C" or "S" Corporation but has the additional professional liability limitations noted in the PLLC.

By carefully analyzing this chart with your professional team, you will be able to make your choice of entity that suits both your tax and business needs.

*William B. Siegel, CPA, is a partner of **Judelson, Giordano & Siegel, CPA, P.C.** with over 25 years of experience in public accounting. Bill is a member of the New York State Society of Certified Public Accountants and the American Institute of Certified Public Accountants.*

Source: Practitioners Publishing Company
PPC's Guide to Small Business Consulting Engagement, Volume 2