

Buy-In, Buy Out and Operational Considerations for Professional Practices and Closely held Businesses

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Structures of Professional Practices

- ▶ State Law Requirements
 - ▶ Professional Corporations
 - ▶ Professional limited liability company
 - ▶ Other state law restrictions
- ▶ Common Structures
 - ▶ Two professional practices
 - ▶ Specialty groups
 - ▶ Multi-specialty groups
 - ▶ Corporate Groups
 - ▶ Large Practices
 - ▶ Solo practices
 - ▶ Multiple locations

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Tax Classification of Professional Practices

C-Corporation	S-Corporation	Partnership
Double taxation	Pass-through entity	Pass-through entity
Dividends paid	Distributions of Income - Follow ownership interest	Distributions of Income - Flexible
Salaries can be paid to owners	Salaries must be paid to active owners	No salaries can be paid, only guaranteed payments
Double Taxation on sales of Corporation assets.	Non-active owners may have additional Medicare taxes	All income taxed for self-employment
	Passive activity loss issues	Passive activity loss issues
	If S-Corporation is lost, automatically becomes C-Corporation for tax purposes.	No risk of becoming a C-Corporation.

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Buy-In Considerations – Threshold Issues

Partner Qualifications

- ▶ Operating agreement requirements
- ▶ Applicable professional license in good standing
- ▶ Other state and licensing board requirements (e.g., some states only allow physician ownership of medical practices but others permit physicians and physician assistants to jointly own a practice)

W-2 Employee v. K-1 Partner

- ▶ Particularly important for employees/associates being promoted to partner
- ▶ Understanding the tax and financial impact of becoming “self-employed”
- ▶ Differences between the S-Corp and Partnership.

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Buy-In Considerations – Common Approaches

No Contribution	Cash Contributions	Property Contributions
Typically, only entitles recipient to a right to share in future earnings	Can include or exclude right to share in work in process and accounts receivable	Tangible assets, real estate, and/or goodwill
Income/non-equity partner	Experienced professional joining existing practice	Owners of existing practices

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Buy-In Considerations – Valuations and Payments

Practice Valuations

- ▶ Formula
- ▶ Appraisal
- ▶ Agreed Value
- ▶ Discounts

Financing Options

- ▶ Lump sum payments (via third-party loans or internal financing)
- ▶ Compensation deductions
- ▶ Compensation for services

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