Investing in a medical practice entails special planning

In this [article](), Oklahoma City Attorney [Erica K. Blackstock]() answers questions about the basics of investing in a medical practice.

Erica K. Blackstock represents individuals and businesses in a broad range of transactional matters.

What does it mean to buy-in to a medical practice?

Small health care practices are typically owned by one or more of the health care providers at the practice. Such practices are usually organized as professional corporations (PCs) or professional limited liability companies (PLLCs). Although PCs and often PLLCs are considered corporations for legal and tax purposes, where the owners are technically "shareholders," owners of a medical practice are colloquially referred to as "partners." For a junior provider in a small practice, the pathway to partnership and the partnership itself can take on many different forms, but the key concerns are generally the same in every case.

Health care providers interested in purchasing ownership in a practice should invest with a comprehensive understanding of the valuation of the business, the compensation structure among partners and the exit strategies available to each of the partners. Retaining advisors who can alleviate this burden, such as an accountant and an attorney having experience in medical practice transactions, will ensure the tax implications are favorable and the exposure to risk is minimized.

How are medical practices valued and how do partners buy-in?

Ordinarily, valuations consider the values of the hard assets, the accounts receivables and other intangibles, and the goodwill of the practice. Unlike other types of companies, it is common in health care practices for all partners to share ownership equally. This means a new partner to an existing two-partner practice will own a full 33.33% of the practice either immediately or shortly after the buy-in.

How the new partner pays for his or her share of the business varies. Sometimes, buy-ins are structured over time. For example, if a buy-in were to take place over the course of three years, the new partner would pay one-third of the total purchase price every year, and he or she would slowly purchase their interest in the practice, not becoming an equal partner with full voting power until the third payment in the third year. Alternatively, a practice may grant the new partner his or her full ownership (with full voting power) at the outset, and treat the buy-in like a loan being paid off over time. In either event, the payoff of the purchase price is frequently in the form of income-shifting or plain reductions in salary and/or bonuses.

How are the partners paid?

Compensation structures in medical practices also differ across the board. Many times, a partner's compensation is determined, at least in part, by the partner's "productivity" in the practice according to how much revenue each provider generates, how many patients each provider sees, how many hours each provider works, or a combination of any of the foregoing. Other variables used in determining partner compensation include the management duties of the partners, seniority, special training, and allocations of expenses. Such formulas among the partners ought to be negotiated and agreed upon prior to a buy-in.

How do partners get out of practices?

Before partners invest in a medical practice, they need to understand how to get out – and how the other partners can get out at their expense. Shareholder agreements in professional corporations and operating agreements in professional limited liability companies usually set forth the procedures for a partner leaving the practice in the event of employment termination, retirement, and death, as well as the calculations for valuing the exiting partner's ownership. In most cases, the other partners will be ultimately responsible for buying that partner (or his/her estate) out of the business. In addition, practices often bind their partners to noncompetition covenants, which restrict them from competing with the practice after they leave the practice.

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