

Professional Corporations: Part 1

Avoiding Liability Bulletin - August 2006

MFTs and other licensed professionals sometimes conduct their practices as professional corporations rather than as sole proprietorships. I have spoken to many practitioners who have told me that they incorporated with the assistance of an attorney. When I inquire about the name of the corporation and who owns shares in the corporation, I am sometimes able to tell from the answer given that the wrong kind of corporation has been formed. It occasionally turns out that the attorney wasn't aware that if certain kinds of health practitioners want to do business in the for-profit corporate form, they must form a professional corporation. Because the law varies from state to state, one must proceed carefully and must be sure that they determine what kind of corporation is legally permissible to render the kind of mental health or other services involved.

When non-healthcare businesses form corporations, they often form what is referred to as a "general business corporation." One of the reasons why businesses incorporate is to limit their liability. In other words, they are seeking to avoid unlimited personal liability and are hoping to only have corporate liability should the corporation or its employees act in a negligent manner. Generally, healthcare practitioners cannot limit their liability for professional negligence, even when they form a professional corporation. I again caution that because the law varies from state to state and from profession to profession, it is important to ascertain what the law is in your state, and what is permissible (or required) when it relates to doing business in the corporate form.

To read a more recent Avoiding Liability Bulletin regarding professional corporations, click [here](#).

Author:
Richard Leslie