

Professional Group Practice Options

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(updated for 2021)
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There are many ways licensed professionals (such as attorneys and dentists) can work together in group practice. In California, the available mechanisms are Corporations, LLPs (limited liability partnerships), Partnerships, Group Solos (expense sharing), and Subleases.

These mechanisms also can be combined in various ways to meet more of the group's goals. Other entities such as LLCs (limited liability companies) and PAs (professional associations) are not available to California professionals, and LLPs are available only to California attorneys, CPAs, architects, engineers, and land surveyors.

Those considering group practice should have detailed discussions to confirm they have complementary individual and group goals before looking at any other specifics. The best combination also requires review of tax issues, limited liability concerns, compensation, income and expense allocations, and succession planning, with the group's long term viability and success being the ultimate target.

Each entity and combination has its own advantages and drawbacks (Subleases discussed separately), starting with an Executive Summary:

Entity Combination and Benefits	LLP *	Corporation	Partnership of Corporations	Group Solo of Corporations **	Sublease **
Simplicity	😊😊😊	😊😊😊	😞	😊😊	😊😊😊😊
Flexibility	😊😊	😞	😊😊😊😊	😊😊😊😊	😊😊😊😊
Autonomy	😊😊	😞	😊😊😊	😊😊😊😊	😊😊😊😊
Cost	😊😊	😊😊😊	😞	😊😊	😊😊😊😊
Limited Liability	😊😊😊😊	😊😊😊😊	😊😊😊😊	😊😊😊😊	😊😊
Current Tax Benefit	😞	😊😊😊	😊😊😊😊	😊😊😊😊	😞
Non-Competes	😊😊😊😊	😊😊😊😊	😊😊😊😊	😞	😞
Succession Planning	😊😊😊	😊😊	😊😊😊😊	😞	😞

* Assumes no S election. LLPs with an S election are like Corporations but with less simplicity and higher cost.

** When shared employees are paid directly by only one professional, Group Solos and Subleases hide the risks of employment law violations (e.g., benefits, worker's compensation, discrimination claims).

Simplicity, Flexibility and Autonomy: A Partnership of Corporations is the most complex combination, since three separate entities and tax returns are required, but that complexity provides the best avenue to reduce taxes and professional discord, and increase autonomy, expansion and third party sale opportunities. A Group Solo of Corporations provides more autonomy, is less complex (with one less entity and tax return), and has similar flexibility benefits. A single Corporation or LLP is the simplest structure, but professionals can no longer act independently, and tax/ financial/ professional disputes increase with identical treatment of dissimilarly situated professionals (less so for LLPs than Corporations).

Cost: A new Corporation or LLP without buyout arrangements (on death, disability, loss of license or other depart-

ure) is the least expensive option (\$2,000 or more; add the \$800 1st year franchise tax for LLPs). A single Corporation or LLP with buyout arrangements costs about the same as a Partnership or Group Solo if professionals already have personal Corporations in place (\$8,500 or more; add \$800 for LLPs). Partnerships or Group Solos without existing personal Corporations require \$2,000 or more per new Corporation. Annual tax returns and regulatory compliance typically cost \$2,000 and up per Corporation or LLP and \$1,200 and up per Partnership.

Limited Liability: Insulating personal assets from liability created by employees, managers, and other professionals is of paramount concern, so a limited liability entity must exist somewhere between the professional and the group. This can take the form of a Corporation, LLP, Partnership

