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Case Studies: Small Professional Services Organization and Large Professional Services Organization

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CASE NO. 5
SMALL PROFESSIONAL SERVICES ORGANIZATION

The five anesthesiologists of Smalltown Community Hospital currently operate as sole proprietor, independent contractors. Smalltown Community Hospital is a 501(c)(3) exempt organization.

The physicians decided to combine their individual practices into one entity. Each physician will own an equal share of the new entity. The new entity will employ an independent contractor billing service and will have no employees other than a new physician-employee that will be added during the first twelve months of operations. The plan is for the new physician-employee to become an owner after three years of service as an employee.

The new entity will have little or no need to acquire capital equipment and should have little or no debt.

The physicians plan to have the new entity fully fund its qualified plans (\$30,000 per year per physician) and desire to avail themselves of all tax-advantaged fringe benefits.

The physicians generally believe that compensation should be equal among the physicians with a small percentage of earnings allocated on productivity.

The group has been informed by the hospital that it may desire to purchase the anesthesia group within three to five years.

CASE NO. 6

LARGE PROFESSIONAL SERVICES ORGANIZATION

Bigtown Eye Doctors, Inc. is a C corporation with seven physician shareholders. The Corporation uses a June 30 fiscal year; it has \$250,000 of bank debt that must be repaid over the next seven years. The seven physicians own equal shares of the corporation

Eye Doctors Real Estate is a partnership that owns the office building from where the practice operates. Each of the seven physicians owns an equal interest in this entity.

The Bigtown Eye Institute is a partnership composed of fourteen physician partners. In addition to operating the physician's practices' this partnership operates a very successful surgery center. The surgery center has a fair market value of \$2,500,000 and is subject to a debt of \$1,000,000 repayable over fifteen years.

The physicians of the two groups desire to combine their respective professional practices into one entity.

In addition, the physicians desire to combine the office building partnership with the surgery center in a new entity separate and apart from the professional practice entity. The physicians have a plan to market the expertise gained from operating the surgery center by establishing other surgery centers throughout the state and then, selling the surgery center to an HMO or a publicly traded physicians services group. For reasons related to the Medicare fraud statutes, the physicians will not be able to draw compensation from this entity.

Because of the differences in value between the real estate partnership and the surgery center, the seven physicians of Bigtown Eye Doctors will have to purchase a portion of their interest in the new Surgery Center entity.