

Town Doc, Inc.

Supporting Independent Medical Practices

Legal & Business Formation

A Comprehensive Guide for Independent Medical Practices

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A Comprehensive Guide for Independent Medical Practices

Introduction

The decision to start or restructure an independent medical practice represents one of the most significant professional and financial commitments a physician will make. While clinical expertise forms the foundation of excellent patient care, the legal and business structure of your practice determines its long-term viability, protection from liability, tax efficiency, and ability to scale. The right legal foundation doesn't just protect you from risk—it actively enables growth, facilitates partnerships, and creates options for eventual transition or sale.

Unfortunately, many physicians launch their practices with inadequate legal planning, treating entity selection and contract drafting as administrative afterthoughts rather than strategic imperatives. This approach creates unnecessary exposure to personal liability, tax inefficiency, partnership disputes, and compliance violations that can threaten the practice's existence. The cost of correcting structural deficiencies after the fact almost always exceeds the investment in proper planning from the outset.

This white paper provides a comprehensive framework for understanding the legal and business formation decisions that independent medical practices face. From entity selection and partnership agreements to essential contracts, insurance requirements, and ongoing compliance obligations, we'll explore the critical considerations that protect your practice, optimize your tax position, and position you for sustainable success. Whether you're launching a solo practice, forming a group, or restructuring an existing entity, the principles outlined here will help you build a legally sound foundation that supports your clinical mission and business objectives.

Section 1: Entity Selection

The single most important business formation decision you'll make is choosing the legal structure for your medical practice. This choice affects your personal liability exposure, tax obligations, administrative requirements, ability to raise capital, and options for bringing in partners or selling the practice. While the decision may seem purely technical, it has profound practical implications that will impact your practice for years to come.

Sole Proprietorship

The sole proprietorship represents the simplest business structure—essentially, you and your practice are legally indistinguishable. While this simplicity appeals to many solo practitioners, it comes with significant drawbacks. You have unlimited personal liability for all practice debts and obligations, meaning creditors can pursue your personal assets if the practice faces financial difficulties. From a tax perspective, all practice income flows directly to your personal return as self-employment income, subject to both income tax and the full 15.3% self-employment tax on profits. In 2025's heightened liability environment, most practice management advisors strongly recommend against sole proprietorships for physicians, regardless of practice size. The modest savings in formation costs and administrative simplicity simply don't justify the liability exposure and tax inefficiency.

Limited Liability Company (LLC)

The LLC has become increasingly popular among independent practices because it combines liability protection with tax flexibility and minimal administrative burden. An LLC shields your personal assets from practice liabilities while allowing you to choose how the entity is taxed—as a sole proprietorship (single-member LLC), partnership (multi-

member LLC), S-Corporation, or even C-Corporation. This flexibility is particularly valuable as your practice evolves. For solo practitioners, a single-member LLC taxed as an S-Corporation often provides optimal tax treatment by allowing you to split income between reasonable W-2 wages (subject to payroll taxes) and distributions (not subject to self-employment tax). Multi-member LLCs work well for group practices that want operational flexibility and straightforward profit allocation. The primary disadvantages are the need for more formal operating agreements and, in some states, higher annual fees compared to corporations.

S-Corporation

The S-Corporation provides liability protection while allowing practice income to flow through to shareholders' personal returns, avoiding the double taxation that affects C-Corporations. The key tax advantage is the ability to minimize self-employment taxes by paying yourself a reasonable salary (subject to payroll taxes) while taking additional profits as distributions (subject only to income tax, not self-employment tax). For many practicing physicians, this structure saves tens of thousands of dollars annually in self-employment taxes. However, S-Corporations come with restrictions: you're limited to 100 shareholders (all of whom must be U.S. citizens or residents), you can only issue one class of stock, and you must maintain strict formalities including regular board meetings, corporate minutes, and separate business bank accounts. In 2025, S-Corporations remain one of the most popular structures for profitable medical practices with one to five physician owners.

Professional Corporation (PC) and Professional Limited Liability Company (PLLC)

Many states require physicians to practice through professional entities—either a Professional Corporation (PC) or Professional Limited Liability Company (PLLC). These structures are nearly identical to standard C-Corporations and LLCs respectively, with one critical distinction: they can only be owned by licensed professionals providing the services (in this case, physicians). PLLCs and PCs don't shield you from liability arising from your own malpractice, but they do protect you from general business liabilities and, in the case of group practices, from liability arising from your partners' malpractice (though you should still maintain robust malpractice insurance). The tax treatment mirrors the underlying entity—a PLLC can elect S-Corporation taxation, while a PC is taxed as a C-Corporation unless it makes an S-Corporation election. Check your state's specific requirements, as regulations vary significantly regarding professional entities.

Current 2025 Trends

In 2025, we're seeing several notable trends in medical practice entity selection. First, there's growing interest in C-Corporation structures for practices with significant retained earnings or plans for institutional investment, driven by the relatively low 21% federal corporate tax rate established by the 2017 Tax Cuts and Jobs Act (which remains in effect). Second, multi-specialty groups are increasingly using holding company structures, where a management company (often an LLC or C-Corp) owns and operates the business assets while separate professional entities employ the physicians and provide clinical services. This structure provides additional liability protection and operational flexibility. Third, more practices are converting to S-Corporations or LLC-taxed-as-S-Corps to maximize the Qualified Business Income (QBI) deduction under Section 199A, which allows eligible owners to deduct up to 20% of qualified business income, though physicians face income limitations that require careful tax planning to optimize this benefit.

Section 2: Partnership Agreements

Forming a medical practice partnership represents a professional marriage that will likely outlast many personal relationships. Like any marriage, it requires clear expectations, aligned values, and a framework for handling disagreements and eventual separation. A comprehensive partnership agreement doesn't signal distrust—it demonstrates professionalism and protects all parties by establishing clear rules before conflicts arise.

When to Use Partnership Structures

Partnership structures make sense when two or more physicians want to share ownership, governance, financial risk, and rewards of a practice. This might include founding partners launching a new practice, an established physician bringing in an associate as a partner, or multiple practices merging into a single entity. The key consideration is ensuring all partners have genuinely aligned interests and compatible practice philosophies. Revenue-sharing arrangements work best when partners contribute relatively equally (or when compensation formulas explicitly account for different contribution levels). Before formalizing a partnership, consider whether the relationship might work better as an employment arrangement, independent contractor relationship, or collaborative

arrangement between separate practices. True partnerships require shared financial risk, joint decision-making authority, and mutual liability—commitments that shouldn't be entered into lightly.

Key Partnership Agreement Provisions

A robust partnership agreement addresses six critical areas. First, **ownership and capital contributions** establish each partner's equity stake, initial capital requirements, and procedures for additional capital calls if the practice needs funding. This section should specify whether ownership percentages are fixed or can change based on productivity, seniority, or other factors. Second, **compensation and profit distribution** define how the practice pays partners—whether through equal splits, production-based formulas, hybrid models, or other arrangements. This is often the most contentious provision and should be revisited regularly as the practice evolves. Third, **governance and decision-making** establish voting rights, meeting requirements, and thresholds for different types of decisions (day-to-day operations might require simple majority, while major decisions like adding partners or taking on debt might require supermajority or unanimous consent).

Fourth, **roles and responsibilities** clarify each partner's duties, time commitments, call coverage obligations, and administrative responsibilities. This prevents the common scenario where one partner feels they're carrying an unfair burden of practice management while others focus solely on clinical work. Fifth, **restrictive covenants** (discussed more below) typically include non-compete clauses preventing departing partners from immediately competing nearby, non-solicitation provisions protecting patient and employee relationships, and confidentiality requirements. Finally, **dispute resolution** mechanisms establish procedures for handling disagreements, typically including informal negotiation, formal mediation, and (if necessary) binding arbitration, with the goal of avoiding costly and relationship-destroying litigation.

Buy-Sell Agreements and Exit Strategies

The buy-sell agreement, often included within the broader partnership agreement, addresses what happens when a partner wants to leave, becomes disabled, dies, or needs to be involuntarily removed. This is the partnership's prenuptial agreement, and it's far easier to negotiate when everyone is optimistic and getting along than in the midst of a crisis or conflict. Key provisions include **triggering events** that activate the buy-sell provisions (voluntary withdrawal, disability, death, termination for cause, retirement, bankruptcy, or loss of medical license), **valuation methods** for determining the departing partner's

buyout price (fixed formulas based on revenue or EBITDA multiples, independent appraisal, or hybrid approaches), and **payment terms** specifying whether the buyout is paid in a lump sum or installments and over what timeframe.

The agreement should also address **funding mechanisms**—many partnerships maintain life insurance and disability insurance on each partner to fund buyouts in case of death or disability, ensuring the practice has liquidity to purchase a departing partner's interest without financial strain. For voluntary departures or retirements, installment payments over three to five years are common, allowing the remaining partners to fund the buyout from practice cash flow. Finally, the agreement should specify the **transition period** during which the departing partner continues to see patients while transferring care, typically 30-90 days, and clarify how revenue and expenses are allocated during this transition.

Avoiding Common Partnership Pitfalls

Partnership disputes almost always stem from a handful of predictable issues. The most common is **unequal effort perception**—one partner believes they're working significantly harder, seeing more patients, taking more call, or handling more administrative duties than their partners. Address this proactively by clearly defining expectations, tracking key metrics, and maintaining open communication about workload balance. Second, **lifestyle and practice philosophy differences** create tension when partners disagree about work hours, patient volume expectations, investment in new technology, hiring decisions, or practice growth strategies. Surface these philosophical differences during partnership formation and revisit them regularly, as values and priorities often shift over time.

Third, **compensation formula dissatisfaction** arises when partners believe their contribution isn't fairly reflected in their compensation. Production-based models can reduce this tension but create other problems (competition among partners, cherry-picking profitable services, reluctance to take complex or time-consuming cases). Regular reviews and adjustments to compensation formulas demonstrate good faith and maintain alignment. Fourth, **communication breakdowns** occur when partners stop having honest conversations about concerns, leading to resentment and passive-aggressive behavior. Establish regular partner meetings with protected time to discuss not just operations but also relationships and satisfaction. Finally, **lack of planning for change**

creates problems when practices fail to anticipate transitions, growth, or market changes. Build flexibility into your partnership agreement and create a culture of adaptability rather than rigidity.

Section 3: Essential Contracts & Agreements

Beyond the entity formation documents and partnership agreements, successful medical practices rely on a foundation of well-drafted contracts that protect the practice's interests while clearly defining relationships with employees, contractors, and vendors. These agreements prevent misunderstandings, establish enforceable rights, and provide clarity when disputes arise.

Employment Agreements for Physicians and Staff

Physician employment agreements serve multiple functions: they protect the practice's patient relationships and confidential information, establish clear compensation and benefits, define duties and performance expectations, and provide structured pathways for addressing underperformance or separation. Key provisions include **compensation structure** (base salary, productivity bonuses, quality incentives, benefits, professional development allowances), **term and renewal** (initial term, automatic renewal provisions, notice requirements), **duties and time commitment** (clinical hours, call obligations, administrative responsibilities, geographic locations), and **performance expectations** (productivity targets, quality metrics, patient satisfaction standards).

Critical protective provisions include **restrictive covenants** (discussed below), **termination provisions** specifying grounds for termination with cause (misconduct, license loss, quality issues) and without cause (typically with 90-180 days notice), and **tail coverage** addressing malpractice insurance continuation after separation. In 2025, employment agreements increasingly include **telemedicine provisions** defining virtual care expectations and compensation, **social media policies** protecting practice reputation, and **moonlighting restrictions** preventing conflicts of interest. For non-physician staff, employment agreements are typically less detailed but should still address confidentiality, at-will employment status (in most states), benefits eligibility, and any specialized training or certification requirements.

Independent Contractor Agreements

Independent contractor relationships—whether with locum tenens physicians, advanced practice providers, or service providers like medical billing companies—require carefully drafted agreements that properly classify the relationship and protect the practice. The agreement must support the independent contractor classification by demonstrating that the contractor controls how they perform the work (not just what work is performed), provides their own tools and equipment, works for multiple clients, and bears financial risk. Include provisions addressing **scope of services, compensation and invoicing** (typically fee-for-service, not hourly wage), **term and termination, professional liability insurance** requirements (including required coverage amounts and tail coverage responsibility), and **credentialing and privileging** obligations.

Critical protective provisions include **indemnification** (the contractor assumes liability for their own negligence), **confidentiality and HIPAA compliance** (contractors must sign Business Associate Agreements and comply with privacy regulations), and **non-solicitation** provisions preventing the contractor from recruiting your staff or patients. Importantly, avoid provisions that suggest employment (set schedules, detailed control over work methods, provision of equipment), as this can lead to reclassification, resulting in back taxes, penalties, and loss of the liability protection that independent contractor status provides.

Non-Compete and Non-Solicitation Clauses

Restrictive covenants protect the practice's investment in building patient relationships, training staff, and developing competitive advantages. However, courts view physician non-compete agreements skeptically because they implicate patient access to care and physician livelihood. To be enforceable, non-compete clauses must be **reasonable in scope** (geographic area), **reasonable in duration** (typically 1-2 years), **reasonable in scope of restricted activities** (practicing in the same specialty, not all medical practice), and **supported by consideration** (employment, partnership admission, practice purchase, or other benefit).

In 2025, enforceability varies significantly by state—California, Colorado, North Dakota, and Oklahoma essentially ban physician non-competes entirely, while states like Texas, Florida, and Georgia enforce them when properly drafted. Even in enforcement-friendly states, courts are increasingly narrowing geographic restrictions and time periods, particularly in underserved areas where patient access concerns are heightened. Many

practices are shifting emphasis from non-compete clauses to **non-solicitation provisions**, which courts view more favorably because they protect business relationships without completely restricting a physician's ability to practice. Non-solicitation clauses typically prohibit departing physicians from actively recruiting the practice's patients or employees but don't prevent patients from following the physician of their own accord.

Vendor and Supplier Contracts

Medical practices depend on numerous vendors—from electronic health record systems and medical equipment suppliers to janitorial services and medical waste disposal. While it's tempting to simply sign vendors' standard agreements, taking time to negotiate key terms protects your practice and prevents unpleasant surprises. Critical provisions include **service level agreements** specifying uptime guarantees, response times, and remedies for failures (particularly critical for EHR and practice management systems), **pricing and escalation** clauses capping annual price increases or allowing you to terminate if prices increase beyond specified thresholds, **term and termination** provisions ensuring you're not locked into multi-year agreements without performance guarantees or escape clauses, and **data ownership and portability** (especially for EHR vendors) ensuring you can export your data in usable formats if you change vendors.

Other important provisions include **indemnification** addressing who bears liability if the vendor's products or services cause harm, **HIPAA Business Associate Agreements** for any vendor accessing patient data, **insurance requirements** specifying minimum coverage vendors must maintain, and **limitation of liability** clauses (which you should negotiate to reduce, as vendors often try to cap their liability at the amount you've paid them, regardless of the actual damages their failures cause). For critical services, include **disaster recovery and business continuity** obligations ensuring the vendor can restore services after disruptions.

Payor Contracts

Contracts with insurance companies and government payors define the financial foundation of most medical practices. Yet many physicians sign payor contracts without adequate review, accepting unfavorable terms that reduce revenue and increase administrative burden. While individual practices often have limited negotiating leverage with major payors, you should still review and understand these agreements thoroughly. Key provisions include **reimbursement rates** (fee schedules, percentage of Medicare, or case rates), **timely filing deadlines** specifying how quickly you must submit claims,

clean claim payment timeframes establishing how quickly the payor must pay undisputed claims (often mandated by state law), and **medical necessity and authorization** requirements defining when you need prior authorization and who determines medical necessity.

Critical protective provisions include **termination and notice** requirements (understanding how you or the payor can exit the relationship and with how much notice), **dispute resolution** and **appeals processes** for claim denials, **hold harmless** clauses (resist provisions preventing you from balance billing patients if the payor fails to pay), and **credentialing standards** and **re-credentialing procedures**. In 2025, pay particular attention to **value-based care provisions** establishing quality metrics, risk-sharing arrangements, and downside risk—these provisions are becoming increasingly common but can expose practices to financial penalties if not carefully managed. Before signing any payor contract, run financial models to understand the actual reimbursement you'll receive relative to your costs and compare it to your existing payor mix.

Section 4: Insurance & Risk Management

Insurance represents a critical component of practice risk management, transferring catastrophic risks to insurance carriers while allowing you to focus on clinical care rather than potential financial disasters. However, insurance is only valuable if you maintain adequate coverage types and limits, understand policy exclusions and conditions, and maintain coverage continuously without gaps.

Professional Liability (Malpractice) Insurance

Professional liability insurance protects you against claims of medical negligence, defending lawsuits and paying settlements or judgments up to policy limits. The two fundamental policy types are **claims-made** coverage, which covers claims filed during the policy period for incidents that occurred while the policy was in force, and **occurrence** coverage, which covers incidents that occurred during the policy period regardless of when claims are filed. Claims-made policies are more common and generally less expensive initially, but they create a critical issue when you change carriers or retire—you need "tail" coverage to protect against future claims for incidents that occurred during the claims-made policy period.

Coverage limits are typically expressed as a per-claim limit and an aggregate annual limit (e.g., \$1 million/\$3 million means up to \$1 million per claim and \$3 million total in any policy year). Required coverage levels vary by specialty—higher-risk specialties like obstetrics and neurosurgery often need \$2 million/\$4 million or higher, while lower-risk specialties like dermatology or psychiatry may adequately covered with \$1 million/\$3 million. However, don't base coverage decisions solely on specialty risk—consider your local litigation environment, your personal asset exposure, and whether you practice in a state with damage caps.

In 2025's liability environment, several trends are noteworthy. First, **malpractice insurance premiums** have stabilized or declined slightly in many markets after years of increases, though high-risk specialties in litigation-heavy states still face steep premiums. Second, **cyber liability endorsements** are increasingly available as additions to malpractice policies, covering liability arising from data breaches or telemedicine incidents. Third, **consent-to-settle clauses** (giving you veto power over settlement decisions) are becoming more common, allowing physicians to protect their reputations by refusing settlements for meritless claims. Fourth, some carriers now offer **risk management discounts** for practices implementing patient safety programs, EHR documentation tools, or communication training.

General Liability and Property Insurance

Commercial general liability (CGL) insurance covers claims of bodily injury or property damage occurring on your premises—slip-and-fall accidents in your waiting room, injuries from defective medical equipment, or damage caused by your operations. While these claims are typically less severe than malpractice claims, they're often more frequent and can still result in significant damages. Standard CGL policies typically provide \$1 million per occurrence with a \$2 million aggregate limit, coverage that's adequate for most medical practices.

Property insurance covers your building (if you own it), equipment, furniture, supplies, and improvements to leased space. Coverage should be based on replacement cost rather than actual cash value to avoid depreciation deductions when you need to replace damaged property. Key provisions include **business personal property** coverage for equipment and supplies, **improvements and betterments** coverage for buildouts to leased space, **valuable papers** coverage for medical records (though increasingly less relevant as

practices move to electronic records), and **equipment breakdown** coverage for mechanical and electrical failures of expensive equipment like MRI machines or X-ray equipment.

Consider adding **umbrella or excess liability** coverage providing an additional layer of protection (typically \$1-5 million) above your underlying general liability and other policies. Umbrella coverage is relatively inexpensive and provides valuable protection against catastrophic claims that exhaust your underlying policy limits. Many lenders and landlords require specific minimum coverage levels, so review these requirements when purchasing insurance.

Cyber Liability and Data Breach Coverage

Cyber liability insurance has evolved from a specialty coverage to an essential protection for all medical practices. Healthcare data is among the most valuable targets for cybercriminals, and practices of all sizes face ransomware attacks, phishing schemes, and data breaches. A comprehensive cyber liability policy covers both **first-party costs** (forensic investigation, notification to affected patients, credit monitoring services, public relations, legal counsel, business interruption, and ransomware payments or data recovery) and **third-party liability** (lawsuits by patients whose data was compromised, regulatory defense costs and penalties from HIPAA violations, and payment card industry fines if credit card data is compromised).

Coverage limits for cyber insurance typically range from \$1 million to \$5 million depending on practice size and patient volume. In 2025, underwriters are increasingly scrutinizing cybersecurity practices before issuing coverage, often requiring multi-factor authentication, regular security training, endpoint detection and response software, and regular data backups. Practices with weak cybersecurity often face higher premiums or coverage exclusions. Many insurers now offer **pre-breach services** including security assessments, employee training, and incident response planning as part of cyber policies, services that not only reduce risk but demonstrate good faith efforts to protect data.

Critical policy provisions include **retroactive dates** (covering claims from incidents that occurred before the policy period), **business interruption** limits and waiting periods (typically 8-24 hours before coverage begins), **social engineering** coverage (protecting against fraudulent wire transfer requests), and **regulatory defense and penalties**

coverage (though some policies exclude fines and penalties that aren't insurable under law). Review exclusions carefully—many policies exclude **acts of war, prior known incidents**, or **unencrypted portable devices**.

Business Interruption Insurance

Business interruption (also called business income) insurance replaces lost income and covers continuing expenses when your practice can't operate due to covered property damage—fires, floods, or other disasters. This coverage is typically added to property insurance policies and provides benefits during the **period of restoration** (the time reasonably required to rebuild or repair with due diligence). Coverage includes **lost business income** based on your historical financial performance, **continuing expenses** like payroll, rent, and loan payments that continue even when you can't see patients, and **extra expenses** incurred to resume operations quickly, such as temporary location costs or equipment rentals.

Key policy provisions include the **waiting period** or **time deductible** (typically 48-72 hours) before coverage begins, **extended period of indemnity** providing coverage for a period after physical repairs are complete while you rebuild patient volume (typically 30-180 days), and **coverage limits** typically based on 12 months of projected business income. Calculate your coverage needs carefully—underinsurance is common because practices underestimate the time required to fully restore operations and patient volume.

In 2025, practices should pay particular attention to **communicable disease exclusions** that many insurers added after COVID-19, potentially excluding pandemic-related closures. Some carriers now offer **contingent business interruption** coverage protecting against disruptions to critical suppliers or service providers, and **civil authority** coverage providing benefits when government orders force your closure even without physical damage to your property.

Current 2025 Insurance Market Conditions

The medical professional liability insurance market in 2025 has stabilized after volatility in previous years, with rates holding steady or declining slightly in many markets. However, significant regional variation exists—states with recent tort reform (caps on damages, certificate of merit requirements, or statute of limitations reforms) are seeing more competitive markets and lower premiums, while states with plaintiff-friendly litigation

environments face continued upward pressure on rates. High-risk specialties, particularly obstetrics and surgical subspecialties, continue to face steep premiums in some markets, with some rural areas experiencing carrier withdrawals that limit coverage options.

The cyber liability market remains challenging, with carriers reducing coverage limits, increasing premiums by 25-50% annually for some practices, and implementing stricter underwriting requirements. Practices with recent breach history or weak cybersecurity controls may find coverage difficult to obtain at any price. The trend toward **claims-made** cyber policies means practices must maintain continuous coverage or purchase tail coverage when changing carriers—an often-expensive requirement that locks practices into existing carriers.

Bundled insurance programs offering professional liability, general liability, cyber, employment practices, and other coverages through a single carrier are increasingly popular, often providing modest premium discounts and simplified administration. However, compare bundled pricing carefully against standalone policies, as savings aren't guaranteed. Finally, **high-deductible policies** paired with **captive insurance programs** or **risk retention groups** are gaining traction among larger practices and multi-practice organizations as a way to reduce premiums while maintaining control over claims handling.

Section 5: Ongoing Legal Compliance

Forming your practice entity and obtaining insurance represent critical first steps, but legal compliance is an ongoing obligation requiring regular attention. Neglecting these continuing requirements can result in entity dissolution, personal liability, fines, or loss of corporate protections.

Corporate Governance and Record-Keeping

Maintaining your entity's legal status requires adhering to corporate formalities appropriate to your entity type. For corporations (including professional corporations), this means holding and documenting **annual shareholder and board meetings**, maintaining **corporate minutes** recording major decisions, keeping **stock ledgers** documenting share ownership and transfers, and maintaining **separate financial records** and bank accounts that clearly distinguish between personal and corporate

finances. While LLCs typically have fewer formal requirements, you should still maintain **operating agreement compliance**, documenting any amendments or modifications, holding **member meetings** for significant decisions even if not legally required, and keeping **capital account records** tracking each member's contributions and distributions.

The critical principle is **respecting the corporate form**—treating the entity as a separate legal person distinct from its owners. Commingling personal and practice funds, failing to maintain separate bank accounts, using practice funds for personal expenses without proper documentation, or ignoring corporate formalities can lead courts to "pierce the corporate veil," holding owners personally liable for practice obligations despite the entity structure. Develop systems to ensure compliance: calendar annual meeting requirements, maintain a corporate records book (physical or electronic) with all formation documents, amendments, minutes, and resolutions, and work with your accountant to ensure clean separation between personal and business finances.

Annual Filings and Renewals

Most states require annual reports, franchise tax filings, or similar submissions to maintain your entity's good standing. These filings typically require updating registered agent information, confirming officers and directors or members and managers, and paying annual fees or franchise taxes. Filing deadlines vary—some states base them on formation date, others on fiscal year-end, and still others use fixed annual dates. Missing these deadlines can result in administrative dissolution of your entity, late penalties, and reinstatement fees.

Beyond state filings, medical practices face numerous other recurring compliance obligations: **professional license renewals** for all practitioners, **DEA registration renewals** (every three years), **Medicare and Medicaid provider enrollment renewals** (every five years or as required), **CLIA certification renewals** if you perform laboratory testing (every two years), **OSHA compliance** including annual bloodborne pathogen training, and **HIPAA risk assessments** (at least annually or when significant changes occur). Create a comprehensive compliance calendar tracking all filing deadlines, renewal dates, and recurring training requirements, with automated reminders well in advance of deadlines.

Contract Reviews and Updates

Employment agreements, partnership agreements, vendor contracts, and payor agreements shouldn't be "set and forget" documents. Business relationships, compensation expectations, market conditions, and legal requirements evolve, and your contracts should evolve with them. Establish a regular review cycle—annually for critical agreements like partnership agreements and employment contracts for key physicians, every 2-3 years for vendor agreements, and whenever significant changes occur (new partners, compensation model changes, major practice expansion or contraction).

When reviewing contracts, consider whether **compensation formulas** still reflect current contribution levels and market rates, **restrictive covenants** are appropriately tailored and likely enforceable under current law, **vendor pricing** remains competitive (use reviews as opportunities to negotiate better terms or consider alternative vendors), **insurance requirements** in your agreements reflect appropriate coverage levels, and **compliance provisions** address current regulatory requirements (HIPAA, anti-kickback, Stark, etc.). Document all amendments in writing, signed by all parties—verbal modifications to written contracts are often unenforceable and create ambiguity.

Employment Law Compliance

Medical practices are employers subject to numerous federal and state employment laws. Compliance requirements scale with practice size—certain laws only apply once you reach specific employee thresholds. Key federal employment laws include the **Fair Labor Standards Act (FLSA)** establishing minimum wage, overtime pay, and recordkeeping requirements, **Title VII** prohibiting discrimination based on race, color, religion, sex, or national origin (applies to employers with 15+ employees), **Americans with Disabilities Act (ADA)** requiring reasonable accommodations for disabled employees and patients (applies to employers with 15+ employees), **Family and Medical Leave Act (FMLA)** providing unpaid protected leave for qualifying medical and family reasons (applies to employers with 50+ employees), and **Affordable Care Act (ACA)** employer mandate requiring health insurance for employers with 50+ full-time equivalent employees.

State and local laws often impose additional requirements—state minimum wages typically exceed federal minimums, state anti-discrimination laws may cover smaller employers and additional protected categories, paid sick leave requirements exist in many jurisdictions, and state-specific meal and rest break requirements vary significantly. In 2025, pay equity laws are proliferating, requiring equal pay for substantially similar work and, in some

jurisdictions, prohibiting salary history inquiries. Many states have also enacted or expanded pay transparency requirements, mandating salary range disclosure in job postings.

Maintain compliance by implementing clear **written policies** covering anti-discrimination and harassment, wage and hour practices, leave policies (FMLA, sick leave, vacation), workplace safety, confidentiality and HIPAA, and social media and technology use. Provide regular **training** to supervisors on employment law obligations, discrimination and harassment prevention, and proper documentation and discipline procedures. Conduct **periodic audits** of exempt vs. non-exempt classifications (misclassification of employees as overtime-exempt is a common and costly error), independent contractor classifications, and pay equity across similar positions. When in doubt, consult with employment counsel—employment claims are among the most common and expensive risks facing medical practices.

Relationship with Legal Counsel

No white paper can substitute for individualized legal advice tailored to your specific situation. Establish a relationship with qualified legal counsel experienced in healthcare and medical practice issues before you need emergency assistance. The ideal approach is a hybrid model: maintain a primary healthcare attorney who understands your practice and can provide general business, corporate, and contract guidance, plus specialized counsel for particular issues (employment law, real estate, complex litigation, tax planning, etc.).

Work with counsel proactively, not just reactively. Engage counsel when **forming or restructuring** your practice entity, **drafting or significantly amending** partnership agreements, employment agreements, or other critical contracts, **buying or selling** a practice or bringing in new partners, **navigating disputes** with partners, employees, payors, or vendors, **responding to investigations** or regulatory inquiries, and conducting **periodic compliance reviews** to identify and address potential issues before they become problems. While legal fees may seem expensive, they're invariably less costly than the litigation, fines, penalties, and business disruption that result from inadequate legal planning.

Legal & Business Formation Checklist

Use this comprehensive checklist to ensure you've addressed all critical legal and business formation requirements:

Entity Selection & Formation

- ☐ Evaluate entity options (sole proprietorship, LLC, S-Corp, C-Corp, PC/PLLC) considering liability protection, tax implications, and operational needs
- ☐ Determine whether state law requires professional entity (PC or PLLC)
- ☐ File formation documents (Articles of Organization or Articles of Incorporation) with state
- ☐ Obtain Employer Identification Number (EIN) from IRS
- ☐ Draft and execute Operating Agreement (LLC) or Bylaws and initial resolutions (Corporation)
- ☐ Make S-Corporation election (Form 2553) if desired, within required timeframe
- ☐ Register for state taxes (sales tax, withholding, unemployment, etc.) as required
- ☐ Open separate business bank accounts and establish clean separation from personal finances

Licensing & Credentialing

- ☐ Obtain business license from city/county
- ☐ Obtain state medical practice license if separate from individual professional licensure
- ☐ Register with DEA for controlled substance prescribing
- ☐ Obtain NPI (National Provider Identifier) for practice and all practitioners
- ☐ Apply for CLIA certificate if performing laboratory testing
- ☐ Complete Medicare enrollment and credentialing
- ☐ Complete Medicaid enrollment and credentialing

- ☐ ☐ Complete commercial payor credentialing for all target insurance networks

Agreements & Contracts

- ☐ ☐ Draft and execute partnership or shareholder agreement addressing ownership, compensation, governance, and buy-sell provisions
- ☐ ☐ Develop employment agreement template for employed physicians
- ☐ ☐ Develop employment agreement template for clinical staff
- ☐ ☐ Draft independent contractor agreements for any IC relationships
- ☐ ☐ Execute Business Associate Agreements with all vendors accessing PHI
- ☐ ☐ Review and negotiate major vendor contracts (EHR, medical billing, equipment leases)
- ☐ ☐ Execute facility lease with appropriate healthcare-specific provisions
- ☐ ☐ Review and execute payor participation agreements

Insurance & Risk Management

- ☐ ☐ Obtain professional liability (malpractice) insurance with appropriate coverage limits
- ☐ ☐ Obtain commercial general liability insurance
- ☐ ☐ Obtain property insurance covering building (if owned), equipment, and business personal property
- ☐ ☐ Obtain cyber liability and data breach coverage
- ☐ ☐ Obtain business interruption insurance
- ☐ ☐ Obtain workers' compensation insurance (required in most states)
- ☐ ☐ Obtain employment practices liability insurance (EPLI)
- ☐ ☐ Consider umbrella/excess liability coverage for additional protection
- ☐ ☐ Ensure appropriate tail coverage provisions in professional liability policies

Compliance & Operations

- ☐ ☐ Develop HIPAA Privacy and Security policies and procedures
- ☐ ☐ Conduct HIPAA Security Risk Assessment

- ☐ ☐ Provide HIPAA training to all workforce members
- ☐ ☐ Develop employment policies and employee handbook
- ☐ ☐ Implement I-9 employment verification process
- ☐ ☐ Establish payroll and benefits administration
- ☐ ☐ Develop clinical policies and procedures
- ☐ ☐ Establish quality assurance and patient safety protocols
- ☐ ☐ Implement medical records retention and destruction policies
- ☐ ☐ Create compliance calendar for all recurring filings, renewals, and training requirements

Conclusion

The legal and business foundation you establish for your medical practice profoundly impacts everything that follows—your personal liability exposure, tax efficiency, ability to attract and retain partners, operational flexibility, and ultimate practice value when you're ready to transition or sell. While the entity selection decisions, contract negotiations, and compliance requirements outlined in this white paper may seem daunting, they're manageable with proper planning, qualified advisors, and systematic execution.

The common thread throughout all these considerations is proactive planning. Waiting until you face a partnership dispute to establish clear buy-sell provisions, until you face a lawsuit to ensure adequate insurance coverage, or until a compliance audit to implement proper policies invariably costs more in time, money, and stress than addressing these issues prospectively. The physicians who build sustainable, valuable, legally sound practices don't treat legal and business planning as distractions from clinical care—they recognize these activities as essential infrastructure that enables them to focus on medicine rather than constantly managing crises and risks.

How Town Doc Supports Your Legal & Business Foundation

Town Doc provides comprehensive support for independent medical practices navigating the complex landscape of legal formation and ongoing compliance. Our legal structuring services include entity selection guidance tailored to your specific situation, practice agreement drafting and review covering partnerships, employment, and vendor relationships, and contract negotiation support to ensure favorable terms with payors, vendors, and partners. We connect practices with qualified healthcare attorneys for specialized needs while providing ongoing practical guidance on routine legal matters.

Beyond initial formation, Town Doc supports practices with ongoing legal compliance through automated tracking of filing deadlines and renewal requirements, periodic contract reviews and updates, employment law guidance and policy development, and proactive risk management to identify and address potential issues before they become problems. We believe every independent practice deserves access to the same caliber of legal structuring and support that large health systems enjoy—without the overwhelming cost or complexity.

Ready to build a solid legal foundation for your practice? Contact Town Doc today to discuss how we can help you navigate entity selection, draft protective agreements, ensure ongoing compliance, and position your practice for long-term success. Visit our website or call to schedule a consultation with our practice formation specialists.

Disclaimer

This white paper provides general information about legal and business formation for medical practices and is not intended as legal advice for any specific situation. Laws vary significantly by state and change frequently, and individual circumstances differ. The information presented here should not be relied upon as a substitute for consultation with qualified legal counsel licensed in your jurisdiction.

Before making any legal or business formation decisions, consult with an attorney experienced in healthcare law and medical practice formation who can provide advice tailored to your specific situation, practice structure, and jurisdiction. Similarly, tax implications of entity selection and structure should be reviewed with a qualified tax professional or CPA familiar with medical practice taxation.

Town Doc and the authors of this white paper make no representations or warranties regarding the accuracy, completeness, or currentness of the information provided, and disclaim any liability for decisions made or actions taken in reliance on this information. This white paper does not create an attorney-client relationship between the reader and Town Doc or any affiliated legal professionals.

State laws governing medical practice entities, professional licensing, employment relationships, and contract enforceability vary significantly. What's permissible or advisable in one state may be prohibited or ill-advised in another. Always verify current law in your state and ensure compliance with state-specific requirements.

The insurance recommendations in this white paper are general guidelines only. Appropriate coverage types and limits depend on numerous factors including your specialty, practice size, location, asset exposure, and risk tolerance. Consult with a qualified insurance advisor to determine appropriate coverage for your specific situation.

Town Doc – Empowering Independent Medical Practices

Legal & Business Formation White Paper | 2025 Edition

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