



VETERINARY BUSINESS ADVISORS, INC.
Counsel for the Veterinary Profession

There is No Excuse For Not Practicing Through a Company![®]

Gerard Lacroix, JD, LLM, DEA Droit Sorbonne
Veterinary Business Advisors, Inc.
Flemington, New Jersey
www.veterinarybusinessadvisors.com

Why do I need a company? You need a company for three reasons:

First, you can usually cut your tax bill. If you form a company and elect “S corporation” (“S” for “small”) status with the IRS, you can (within limits) reduce the payroll taxes on the amounts you pay yourself. Certain requirements must be fulfilled to qualify for S corp status, but almost all veterinarian practices can satisfy them.

The principal difference between an S corp and a standard “C corp” is that an S corp incurs no corporate income tax. As “pass through” entities, S corp income is included in the shareholder’s personal income and taxed at ordinary rates. C corp income, on the other hand, is subject to corporate income tax. Since C corp shareholders must pay income on the C Corp dividends they receive (currently at a reduced rate), C corp income, unlike S corp income, is taxed twice, once at the corporate level, and again at the shareholder level.

Accordingly, S corps are usually more tax efficient than C corps (or sole proprietorships for that matter). But if you are just starting out, you may want to start out as sole proprietorship or a partnership (i.e. a limited liability company taxed as a partnership when there are multiple owners) and then switch to S corp status if you anticipate having losses for the first few years. This is because there are limits on deducting S corp losses that do not apply to limited liability companies taxed as partnerships or sole proprietorships.

Second, by practicing through a company, you shield your personal assets from creditors and others who may sue you as a practicing veterinarian. This shield will only stop certain bullets however. Practicing through a company will not prevent malpractice claims, or claims based on your personal negligence. The first and best defense to avoid liability in connection with your practice is good insurance. (Failing to pay close attention to your insurance policies, can result in some rather nasty surprises.) Practicing in corporate form nevertheless does provide real protection against certain claims (such as resulting from a client “slipping” and falling” in the hospital), so it would be worth forming a company even if there were no tax benefits to doing so.

Third, it’s the only practical way for two or more veterinary owners to practice together.

How do I form a company? How much does it cost? Forming a company (either a corporation or a limited liability company) is relatively easy and inexpensive. “Start up kits” are available on the internet. (A short internet research session will also yield sites discussing the pros and cons of corporations and limited liability companies, and explaining company anatomy.) Your

attorney can form the company for you, but this will cost more of course. Either way, you should at least have your attorney review your forms before submitting them to the proper authorities.

Once formed, is maintaining a company burdensome? Generally not. On the tax front, S corps do not generate too much additional Federal tax preparation work compared with a sole proprietorship. State tax compliance burdens vary. Check with your accountant. Aside from taxes, you will need to hold at least one annual shareholders' meeting and board of directors meeting, and a board of directors meeting whenever the company needs to take an important action. While this sounds burdensome, for a single shareholder company, this means signing some resolutions once a year or whenever entering into a significant contract (such as leases and employment agreements).

What is the most important thing to do before forming a company? Consult with your accountant to ensure that all the tax implications have been identified and understood (including what will happen taxwise when you sell the practice, or sell shares to a veterinarian who you want to partner with).

What is the most important thing to understand when practicing through a company? The most important thing to understand is that you now have a few additional hats to wear, as a company employee and as a shareholder, director, and officer of a corporation (or member and/or manager of a limited liability company). While these additional roles are not overly complicated to learn, you do need to devote some time to understanding company anatomy and the functions of the various company organs. At bottom, practicing through a company involves a change in attitude, like using cutlery to eat instead of your fingers. The key point to understand is that *you no longer own or operate the practice, the company does*. You no longer act in your individual capacity. Your only individual acts are as a veterinarian employee working for the company.

What's the dumbest thing I can do when having a company? Forgetting why you started one. Many veterinarians go through the burdens and expense of forming a company, toss the documents in a drawer and forget them. Veterinarians fail to spend the few minutes it takes to update corporate records, and/or fail to distinguish between their role as individual veterinarians and corporate shareholders, directors or officers (or members and/or managers in the case of a limited liability company).

What are the disadvantages to having a company? As described above, increased paperwork.

What if I already have a sole proprietorship practice? Then in addition to forming a company, you will need to transfer the practice assets *and liabilities* to the new company. This is generally done by *contributing* these assets and liabilities to the company in exchange for shares issued by the company (by giving you a stock certificate). The asset transfer is evidenced by a bill of sale; the transfer of liabilities by an assumption agreement. (These are one page documents.) While the transfer mechanics are relatively simple, it is very important to consult with your accountant to ensure that the transfer triggers no taxes.