

ANALYSIS OF HOUSE BILL 2867

Regarding the corporate practice of medicine.

SPONSORS: Representative Dyer

BACKGROUND: The corporate practice of medicine— doctrine evolved from case law and was last enunciated in this state in Morelli vs.Ehsam 110 Wn.2nd. 555 (1988). The court ruling held, citing cases relating to physicians, optometrists, and dentists, that these practitioners cannot be employed by a corporation unless the entity has only those individuals licensed to render the same professional services as its shareholders, directors, and officers. The rationale for these rulings is that corporate nonprofessionals cannot direct the course of licensed medical care. In essence, the doctrine restricts the employment of these practitioners, the ownership of their practices, and the distribution of profits from the practice through corporate enterprises.

The doctrine found currency at a time when the customary practice of health care was largely based on individual practices utilizing a fee-for-service system of reimbursement. The health market place today is characterized by managed care, capitated provider contracting, and a push toward multi-specialty integrated group practices.

The legislature has since enacted laws authorizing the formation of professional service corporations by health care providers; authorized the employment of health care providers by health maintenance organizations; and permitted regulated health professionals to render services through limited liability companies for pecuniary profit with the same or other health professionals.

SUMMARY: There is a declaration of legislative intent that the ban on the corporate practice of medicine, articulated in early court holdings, is an impediment to innovative practice arrangements for physicians and other health care practitioners in an evolving health care market. It unduly restricts the ability of corporations to employ physicians and other health care providers, and limits ownership of physician practices. It is the intent of the legislature to abrogate the doctrine to allow for the development of flexible and appropriate organizational structures that best serve the interests and needs of the public health, including access by patients

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to necessary health services, without relieving health care providers from their professional responsibilities under law nor affecting their obligation to comply with laws addressing fraud.

The corporate practice of medicine doctrine is abrogated as it applies to health care providers, except dentists, veterinarians and hospitals, and health care providers may form any type of business organization permitted by law.

A professional service corporation, professional limited liability company, or professional limited liability partnership, may convert to a business corporation, limited liability company, or limited liability partnership by amending its articles of incorporation or charter.

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