

LEGAL & CONTRACTS

# How to Set Up the Legal Entity for Your Medical Practice (PC, PLLC, and the CPOM Problem)

Most states bar physicians from using a standard LLC. How to set up a PC or PLLC instead, what the CPOM doctrine means for ownership, and the filing sequence.



SCAN TO BOOK A CALL

In most states, you cannot set up your medical practice as a standard LLC. State law requires physicians to form a **professional entity** — a professional corporation (PC) or professional limited liability company (PLLC) — owned by licensed physicians. **The reason is the corporate practice of medicine (CPOM) doctrine, which restricts who can own a medical practice and employ physicians to practice.** The filing itself is straightforward once you know your state's required entity type. The expensive mistakes happen when you don't.

## Why you probably can't use a regular LLC

If you've searched "how to set up an LLC," you've seen the generic formation content: pick a name, file articles of organization, pay the fee, done. That advice is written for e-commerce stores and consultancies. It is wrong for a medical practice in most states, and following it creates a problem you'll pay a lawyer to unwind later.

The pattern across states: when the business provides a licensed professional service — medicine, law, dentistry — the state requires a professional entity type. For physicians that usually means a PC or a PLLC, and ownership is typically restricted to licensees. Some states permit only one of the two forms; some require approval from or registration with the medical board, not just the secretary of state. This varies by state — here's how to check yours: look up your secretary of state's business-formation page for "professional entities," and check your state medical board's rules on practice ownership.

A standard LLC formed through a generic online service will often be rejected for a medical practice name — or worse, accepted by the secretary of state (who doesn't check what you do) and only discovered to be the wrong vehicle when a bank, malpractice carrier, or payer asks for your entity documents.

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## It restricts who can be your business partner.

FROM THE BRIEF

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## What is the corporate practice of medicine doctrine?

CPOM is the legal doctrine, recognized in some form by many states, that a corporation or unlicensed person may not practice medicine — and may not employ a physician to practice medicine on its behalf. The policy logic: clinical judgment should answer to a licensed physician, not to shareholders.

Practically, CPOM does three things to your launch:

1. **It dictates your entity type.** In CPOM states, the practice entity generally must be a professional entity owned (sometimes entirely, sometimes majority) by licensed physicians.
2. **It restricts who can be your business partner.** Your spouse, an investor, or an MBA friend generally cannot co-own the clinical entity in strict CPOM states. Non-physician involvement is typically structured through a separate management services organization (MSO) that provides administrative services to the physician-owned practice under contract — the so-called "friendly PC" structure. If anyone proposes co-owning your practice with you, that's a healthcare-attorney conversation, not a handshake.
3. **It varies a lot by state.** Some states enforce CPOM strictly, some recognize it weakly, a few barely at all. The pattern to remember: assume your state restricts ownership until you've confirmed otherwise.

If you're a solo physician launching your own cash-pay practice, CPOM is mostly a non-issue in practice — you're a licensed physician owning your own entity, which is exactly what the doctrine wants. It becomes a real issue the moment non-physicians, investors, or multi-state structures enter the picture.

## PC vs. PLLC: which one do you form?

Where your state offers both, the difference is corporate formality and tax default, not clinical capability.

## EXHIBIT

	PROFESSIONAL CORPORATION (PC)	PROFESSIONAL LLC (PLLC)
Structure	Corporation: bylaws, board, officers, annual meetings	LLC: operating agreement, fewer formalities
Default tax treatment	C-corp by default; most physician PCs elect S-corp status	Pass-through by default; can also elect S-corp
Formalities	More (minutes, resolutions)	Fewer
Availability	Offered essentially everywhere professional entities exist	Not available in every state
Ownership	Licensed physicians (per state rules)	Licensed physicians (per state rules)

Two practical notes. First, the malpractice point that surprises people: **neither entity shields you from liability for your own clinical negligence.** A PC or PLLC protects you from business liabilities (the lease, a vendor dispute, an employee claim) and from a co-owner's malpractice — not your own. Your personal malpractice protection is your insurance policy, not your entity.

Second, the tax election (S-corp or not) is a CPA decision based on your projected income, not something to copy from a forum thread. Get one hour of a CPA's time before you file the election, because some choices are hard to reverse mid-year.

## The setup sequence, step by step

1. **Confirm your state's required entity type.** Secretary of state's professional-entity rules plus your medical board's ownership rules. Thirty minutes of reading that prevents the most common formation error.
2. **Check name requirements.** Professional entities often must include a designator ("P.C.," "PLLC") and some states restrict practice names or require board approval of the name.
3. **File the formation documents.** Articles of incorporation (PC) or articles of organization (PLLC) with the secretary of state. Some states add a medical-board registration or certificate step for professional entities — check before you file, because sequencing differs. Filing fees vary by state.
4. **Get your EIN.** Free, from the IRS, online, same day. This is your business tax ID and unlocks everything downstream.

5. **Get your Type 2 (organizational) NPI.** Via NPPES, for the entity itself — separate from your individual NPI. Banking, e-prescribing, and any future payer work will ask for it. [Licenses and Credentialing You Need to Open a Clinic](#)
6. **Adopt governing documents.** Bylaws (PC) or an operating agreement (PLLC). Even as a solo owner, banks and carriers will ask for these.
7. **Make the tax election with a CPA.** S-corp election deadlines are real; decide deliberately.
8. **Open a business bank account — and use only it.** Commingling personal and practice funds is a common rookie mistake, and it undermines the liability separation the entity exists to provide.

All of this is paperwork, not the practice of medicine — which is why physicians routinely complete it while still employed, before giving notice. Your employment contract's non-compete restricts *practicing*; forming an entity, getting an EIN, and securing an NPI generally don't cross that line, though you should read your specific contract first. [How to Test Your Own Practice Without Quitting Your Job · Physician Non-Compete Clauses, Explained](#)

## What people get wrong

**The generic-LLC mistake is the big one.** Physicians follow ZenBusiness-style content, form a standard LLC, and discover months later — at the bank, at credentialing, or at malpractice binding — that the state required a professional entity. The fix is dissolving and re-forming, re-papering the EIN and bank account, and losing weeks at exactly the wrong moment.

**The second mistake is over-engineering.** A solo cash-pay practice does not need a holding company, a multi-entity structure, or a Delaware anything. One professional entity in the state where you practice, formed correctly, covers the launch. Add structure later if the business earns it.

**The third is treating the entity as the finish line.** Formation is one item on a longer checklist — licensing, malpractice, banking, EHR, HIPAA, brand. The entity is the container, not the practice. [How to Start Your Own Medical Practice From Scratch: The Complete Sequence](#)

## Reality check

- **State variation is the whole game.** Everything above is the pattern; your state is the rule. A healthcare attorney licensed in your state can confirm entity type, ownership rules, and any board registration step in a short engagement — this is one of the highest-value places to spend legal money in the entire launch.

- **CPOM problems are quiet until they're expensive.** An improperly owned practice entity can jeopardize contracts and create regulatory exposure. If any non-physician is involved in ownership or profit-sharing, get the structure reviewed before papers are signed.
- **The entity doesn't protect your license or your malpractice exposure.** It protects business assets and separates business liability. Insurance and good medicine do the rest.
- **Telehealth across state lines multiplies the question.** Practicing into other states raises licensing — and sometimes entity registration — in each patient's state. Plan for it before you advertise availability.

This is general information, not legal advice. For your specific structure, consult a healthcare attorney licensed in your state.

## Frequently asked

### **Can I use a regular LLC for my medical practice?**

In most states, no — physicians must form a professional entity (PC or PLLC), and ownership is generally restricted to licensed physicians. A few states are more permissive. Check your secretary of state's professional-entity rules and your medical board before filing anything.

### **What's the difference between a PC and a PLLC?**

Both are professional entities physicians can own; the difference is corporate formality and default tax treatment. A PC is a corporation (bylaws, officers, usually an S-corp election); a PLLC is an LLC with fewer formalities and pass-through taxation by default. Where your state offers both, the choice is mostly a tax-and-paperwork decision to make with a CPA.

### **Does a PLLC protect me from malpractice lawsuits?**

Not from your own malpractice — no entity does. It protects your personal assets from business liabilities and from a co-owner's negligence. Your malpractice policy is your clinical liability protection.

### **Can a non-physician co-own my medical practice?**

In strict CPOM states, generally no — ownership is limited to licensed physicians, and non-physician participation is structured through a separate management services organization (MSO) instead. This varies by state and is exactly the situation that warrants a healthcare attorney before any agreement is signed.

## Can I form my practice entity while still employed at a hospital?

Usually yes. Forming an entity, getting an EIN, and obtaining an NPI aren't the practice of medicine, so they typically don't trigger a non-compete — but read your contract's non-compete and outside-activity clauses first, and get ambiguous language reviewed.

## Do I need a lawyer to form a PC or PLLC?

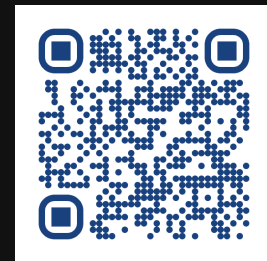
You can file the documents yourself in many states, but a short healthcare-attorney engagement to confirm entity type, ownership rules, and board registration is cheap insurance against the dissolve-and-re-form mistake. If anything about your situation is non-standard — partners, investors, multi-state — use the lawyer.

### HOW OPENWELL CAN HELP

#### Done-for-you, end to end.

If you'd rather not project-manage formation and the filings that follow it, Openwell handles entity setup as part of a done-for-you practice launch — formation, licensing, EHR, compliance, and brand, stood up as one system.

[Book a call → openwellhealth.com/book-a-call](https://openwellhealth.com/book-a-call)



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### RELATED OPENWELL BRIEFS

- [How to Start Your Own Medical Practice From Scratch: The Complete Sequence](#)
- [Licenses and Credentialing You Need to Open a Clinic](#)
- [Physician Non-Compete Clauses, Explained: What They Mean and Whether Yours Is Enforceable](#)
- [How to Test Your Own Practice Without Quitting Your Job](#)