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CLOSELY HELD BUSINESS COMMITTEE
ABA SECTION OF TAXATION
SAN FRANCISCO, CALIFORNIA
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SPLITTING UP THE FAMILY PROFESSIONAL PRACTICE

- I. Distinguishing Family Professional Practices From Other Family Businesses**
- II. Hiring Family Members – Both Professional and Non-Professional**
 - A. Professional
 - B. Non-Professional
- III. Elevating Family Member(s) to Ownership**
 - A. Valuation
 - B. Tax and Business Structure
 - C. Terms and Payment
 - D. Importance of Arm's Length Agreements
- IV. Operational Matters**
 - A. Allocation of Compensation
 - B. Decision Making Control
 - 1. Percentage of Ownership
 - 2. Close Corporation Statutes
 - C. Voting Deadlock
 - D. Dispute Resolution Devices
 - 1. Buy-Sell Agreement
 - 2. Arbitrator

- 3. Shoot-Out Provisions
- 4. Corporate Division
- E. Employment of Additional Family Member(s)
- F. Employment of the Non-Professional and Professional Spouse in the Family Professional Practice
- G. Admitting Non-Family Member(s) as Owner(s)

V. Buy-Out of Family Member or Non-Family Member

- A. Business and Tax Structure
- B. Triggering Events
 - 1. Death
 - 2. Permanent Disability
 - 3. Election to Transfer
 - 4. Termination of Employment/Dispute
 - 5. Retirement
- C. Valuation Formula
- D. Share Cross Purchase Agreement
- E. Share Redemption Agreement
- F. Purchase of Personal Goodwill
- G. Deferred Compensation
- H. Buy-Sell Agreement Provisions for Non-Family Member
- I. Maintaining Separate Patient/Client/Referral Source Bases
- J. Post-Retirement Employment of Professional Family Member
- K. Problems With Selling Stock at Low Value With Unwritten Side Agreements and Questionable Gifts
- L. Importance of Arm's Length Agreements
- M. Real Estate Lease/Purchase Option/Right of First Refusal or Purchase of Real Estate
- N. Post-Retirement Health Insurance

- O. Post-Retirement Tail Coverage
- P. Problems With Payments Over Time

VI. Four Examples

- A. Brother/Brother – Brother/Sister Rivalries
- B. Child Who Leaves the Parent's Practice
- C. Admitting a Third Party as an Owner in the Family Practice
- D. Father/Son, Plus Father's Partner Who Is Concerned With Continuation of Deferred Compensation Buy-Out