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December 7, 1992

The Honorable Robert S. Bloxom
Member, House of Delegates
Box 27
Mappsville, Virginia 23407

My dear Delegate Bloxom:

You ask whether a proposed agreement between a hospital and an orthopedic surgeon, under which the surgeon would be employed directly by the hospital as a full-time member of its medical staff, would violate any of the provisions of Title 54.1 of the *Code of Virginia* pertaining to the practice of medicine. You also ask whether the proposed employment is prohibited by statutes pertaining to professional corporations.

I. Facts

A nonstock, nonprofit corporation operates Northampton-Accomack Memorial Hospital (the "Hospital") in Nassawaddox, Virginia. The Hospital services two Eastern Shore counties, both of which have widely dispersed populations and a relatively high percentage of patients who are indigent or whose medical services are paid for by government programs. The closest other hospitals are 75 miles to the north, in Maryland, and 55 miles to the south, across the Chesapeake Bay. You state that the Hospital's rural location has hampered its efforts to recruit physicians, particularly specialists.

Under the proposed agreement, the Hospital would employ an orthopedic surgeon, licensed by the Commonwealth to practice medicine, as a full-time member of its medical staff. This physician would be paid a salary by the Hospital. The Hospital would bill patients for the physician's services and would retain all amounts collected. The physician would be permitted to exercise independent professional judgment and would be solely responsible both for the medical care of patients and for the supervision of any "technical" employees of the Hospital who assist the physician in rendering medical services. I assume that these "technical" employees could include unlicensed individuals who administer various diagnostic tests and treatments ordered by physicians in accordance with Hospital protocols.

II. Applicable Statutes

A. Practice of Medicine

Articles 1 through 6, Chapter 29 of Title 54.1, containing §§ 54.1-2900 through 54.1-2973, define the practice of medicine and other specialties regulated by the Board of Medicine (the "Board"), establish eligibility requirements for licensure in the Commonwealth and detail the unprofessional conduct

that may subject a licensee of the Board to professional discipline. Generally, the "'[p]*ractice of medicine or osteopathic medicine*' means the prevention, diagnosis and treatment of human physical or mental ailments, conditions, diseases, pain or infirmities by any means or method." Section 54.1-2900. Section 54.1-2901(6) provides that personnel employed by a physician, to whom the physician delegates nondiscretionary duties for which the physician assumes responsibility, are expressly excluded from the definition of the practice of medicine and thus from the licensing requirements in Chapter 29. Sections 54.1-2902 and 54.1-2929 make it unlawful to practice medicine without a license.

Section 54.1-2903 defines the practice of medicine as follows:

> Any person shall be regarded as practicing the healing arts who actually engages in such practice as defined in this chapter, or who opens an office for such purpose, or who advertises or announces to the public in any manner a readiness to practice or who uses in connection with his name the words or letters "Doctor," "Dr.," "M.D.," "D.O.," "D.P.M.," "D.C.," "Healer," "Physical Therapist," "R.P.T.," "P.T.," "L.P.T.A.," "Clinical Psychologist," or any other title, word, letter or designation intending to designate or imply that he is a practitioner of the healing arts or that he is able to heal, cure or relieve those suffering from any injury, deformity or disease.

Section 54.1-2964 defines certain standards of medical practice:

> A. Any practitioner of the healing arts shall, prior to referral of a patient to any facility or entity engaged in the provision of health-related services, appliances or devices, including but not limited to physical therapy, hearing testing, or sale or fitting of hearing aids or eyeglasses provide the patient with a notice in bold print that discloses any known material financial interest of or ownership by the practitioner in such facility or entity and states that the services, appliances or devices may be available from other suppliers in the community. In making any such referral, the practitioner of the healing arts may render such recommendations as he considers appropriate, but shall advise the patient of his freedom of choice in the selection of such facility or entity. This section shall not be construed to permit any of the practices prohibited in § 54.1-2914.

Section 54.1-2914 details the grounds on which a physician may be considered guilty of unprofessional conduct. The division of fees between surgeons and other physicians is prohibited by § 54.1-2962. Section 54.1-2962.1 provides:

> No practitioner of the healing arts shall knowingly and willfully solicit or receive any remuneration directly or indirectly, in cases or in kind, in return for referring an individual or individuals to a facility or institution as defined in § 37.1-179 or a hospital as defined in § 32.1-123. The Board shall adopt regulations as necessary to carry out the provisions of this section. Such regulations shall exclude from the definition of "remuneration" any payments, business arrangements, or payment practices not prohibited by Title 42, Section 1320a-7b (b) of the United States Code, as amended, or any regulations promulgated pursuant thereto.

The federal statute to which § 54.1-2962.1 refers provides that the prohibition against receiving remuneration for patient referrals shall not apply to "any amount paid by an employer to an employee (who has a bona fide employment relationship with such employer) for employment in the provision of covered items or services." 42 U.S.C. § 1320a-7b(b)(3)(B).

B. Professional Corporations

556. Professional corporations are organized under Chapter 7 of Title 13.1, §§ 13.1-542 through 13.1-

A "professional corporation" is defined in § 13.1-543(B) as

> (i) a corporation which is organized under this chapter for the sole and specific purpose of rendering professional service and which has as its shareholders only individuals who themselves are duly licensed or otherwise legally authorized within this Commonwealth to render the same professional service as the corporation; or ... (iii) a corporation which is organized under this chapter or under Chapter 10 [pertaining to nonstock corporations] of this title for the sole and specific purpose of rendering the professional services of one or more practitioners of the healing arts, licensed under the provisions of Chapter 29 of Title 54.1 ... and all of whose shares are held by or all of whose members are persons duly licensed or otherwise legally authorized to perform the services of a practitioner of the healing arts ....

Licensed professionals may organize and become shareholders in a professional corporation for pecuniary profit and may become members of a nonstock corporation for the "sole and specific purpose of rendering the same and specific professional service, subject to any laws, not inconsistent with the provisions of this chapter, which are applicable to the practice of that profession in the corporate form." Section 13.1-544.

Section 13.1-546 provides:

> No corporation organized and incorporated under this chapter may render professional services except through its officers, employees and agents who are duly licensed or otherwise legally authorized to render such professional services within this Commonwealth ....

III. "Corporate Practice of Medicine" Doctrine Precluding Hospital Corporation's Employment of Physician Not Adopted in Virginia Statute or Court Decision

The courts in a number of other states have developed what is known as the "corporate practice of medicine" doctrine, holding that, since a corporation may not lawfully practice medicine, a corporation may not employ a doctor as an agent to practice medicine for it. Under the doctrine, a physician hired by the corporation would also be unlawfully practicing medicine. *See, e.g., Dr. Allison, Dentist, Inc. v. Allison*, 360 Ill. 638, 196 N.E. 799 (1935); *Parker v. Board of Dental Examiners*, 216 Cal. 285, 14 P.2d 67 (1932); *see also Rockett v. Texas State Board of Medical Examiners*, 287 S.W.2d 190 (Tex. Civ. App. 1956). Those decisions were influenced primarily by statutory and public policy concerns that the medical community could be subject to commercial exploitation that would result in divided loyalties,

motivated by profit and improper lay control over professional decisions. These concerns generally were allayed by structuring contractual relationships in which the physician maintains an "independent contractor" status with the hospital and sole control over diagnosis and treatment of the patient. Although there is no court decision or statute in Virginia adopting the "corporate practice of medicine" doctrine,[1]

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[1]The fact that Virginia does not adhere strictly to the "corporate practice of medicine" doctrine has been recognized by the *Report of the Department of Health and the Department of Health Professions on Commercial Walk-In Medical Clinics in the Commonwealth*: "The [American Medical Association] encourages states to consider prohibitions on the 'corporate practice of medicine,' but in the view of the Task Force the use of the state's regulatory authority to restrict physicians from affiliating with commercial corporations may invite federal scrutiny under antitrust provisions of the Sherman and Federal Trade Commission Acts. In Virginia, statutes prohibiting physician practice in connection with commercial or mercantile establishments were repealed in 1986." 2 H. & S. DOCS., H. DOC. NO. 45, at 18 (1990 Sess.). Under one such repealed statute, § 54-278.1, it was unlawful for a physician to practice "as a lessee of any commercial or mercantile establishment." VA. CODE ANN. *id.* (Michie Repl. Vol. 1982).

Arguments favoring the existence of the "corporate practice of medicine" doctrine in Virginia are predicated only on inference. First, proponents of the doctrine infer its existence from the fact that only an individual, and not a corporation, may be licensed to practice medicine. That fact, however, does not preclude a corporation from employing a licensed individual. *See* §§ 54.1-2901, 54.1-2902.

Second, proponents of the doctrine note that § 38.2-4319(C) states: "A licensed health maintenance organization shall not be deemed to be engaged in the unlawful practice of medicine. All health care providers associated with a health maintenance organization shall be subject to all provisions of law." There is, however, another explanation for this statutory language. Health maintenance organizations ("HMOs") arrange, pay for or reimburse costs of health care services for its members or enrollees. *See* § 38.2-4303. Without the exception in § 38.2-4319(C), HMO enrollees or their physicians might argue that a refusal of an HMO's agent, presumably unlicensed, to authorize reimbursement for certain medical services, such as extra days of hospitalization for a routine operation, constitutes the unlawful practice of medicine by an unlicensed person.

Third, proponents of the "corporate practice of medicine" doctrine cite § 54.1-2941, which provides express authority for state-owned medical care institutions to employ licensed practitioners, and infer from this language that other institutions may not do so. However, § 54.1-2941 was enacted before the repeal of other statutes prohibiting physician practice in commercial or mercantile establishments that might have been construed to prohibit corporate employment of physicians. Moreover, the Commonwealth may have a different relationship with patients at state institutions than private hospitals have with their patients. Without the express authority for state employment of physicians in § 54.1-2941, patients treated in state facilities might claim their physicians had a conflict of interests. This concern underscores the importance of all licensees' maintaining their independent professional judgment, whether employed in state or private institutions, but § 54.1-2941 does not preclude private hospitals from employing licensed physicians under appropriate circumstances.

Further, Virginia's professional corporation statutes, §§ 13.1-542 through 13.1-556, apply to professions in addition to those practicing the healing arts, and the availability of this corporate form has multiple purposes. It would be overreaching to conclude that the statutory framework for professional corporations precludes nonprofessional corporations from employing physicians. Indeed, other statutes illustrate the General Assembly's willingness to prohibit employment relationships for other health care professionals. *See, e.g.*, §§ 54.1-3205, 54.1-3205.1, 54.1-2716 to 54.1-2718 (expressly prohibiting commercial or mercantile employment of optometrists and dentists). If the General Assembly had intended to impose a similar prohibition on corporate employment of physicians, it could have done so in the same express manner.

many Virginia hospitals desiring to retain physicians' services have contracted with physicians as independent contractors. *See, e.g., Stuart Circle Hosp. Corp. v. Curry*, 173 Va. 136, 3 S.E.2d 153 (1939); 1954-1955 ATT'Y GEN. ANN. REP. 146.

IV. Professional Corporation Statutes Permit Properly Licensed Employee to Practice Medicine

In Virginia, a licensed professional, such as a physician, may become a member of a nonstock corporation organized to render professional services. Section 13.1-544. Such a professional corporation likewise has specific statutory authority to employ other persons licensed in the same profession to provide professional services. *See* § 13.1-546.

From the facts you provide, it is not clear whether the nonstock corporation operating the Hospital is a "professional corporation" as defined in § 13.1-543(B) or, if so, whether the physician will be a member of such a professional corporation. If those are the circumstances, the Hospital clearly has authority to employ the physician. According to a recent opinion of the Supreme Court of Virginia, however, § 13.1-546 "does not allow a professional corporation to render professional services through an independent contractor." *Palumbo v. Bennett*, 242 Va. 248, 251, 409 S.E.2d 152, 153 (1991).[2]

V. Physician May Perform Professional Services for Nonprofessional Corporation as Employee if Professional Independence Guaranteed

A prior Opinion of this Office concludes that a foundation organized as a nonstock, nonprofit corporation that has no members may employ physicians to provide medical care, and not be deemed to be practicing medicine unlawfully, as long as the physicians' exercise of professional judgment is not controlled or influenced in any way by the corporation. 1989 ATT'Y GEN. ANN. REP. 283, 285.[3]

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[2]In *Palumbo*, the Court held that, although a contract defining a physician as an independent contractor violated the statute, the contract might not be unenforceable. Although the Court recognized that "certain professionals [may] render professional services as officers, employees, or agents of a professional corporation," 242 Va. at 252, 409 S.E. 2d at 154, the Court apparently did not consider an independent contractor to be an "agent" of the professional corporation for purposes of § 13.1-546 under the facts of that case.

[3]An earlier Opinion of the Attorney General concludes that, under the medical licensure statutes in effect in 1955, a hospital which employed a physician might be engaging in the practice of medicine if there was a direct patient-physician relationship, but the hospital billed the patient for the physician's services. That Opinion further concludes that a physician having direct access to the patient should have billed that patient directly. Conversely, the hospital could bill for the services of a radiologist who provided support services for a patient, but did not have direct patient contact. That Opinion also concludes that a determination of what constitutes the practice of medicine must be made on a case-by-case basis. 1954-1955 ATT'Y GEN. ANN. REP. 146, 147. Under the current statutes, with more complex corporate structures now in use, sophisticated professional specialties, and more complicated liability issues, it is my opinion that this determination is more properly based on the physician's retention of professional judgment, rather than on the extent of his patient access or billing.

You indicate that the proposed employment agreement between the physician and the Hospital will give the physician exclusive control over decisions requiring professional medical judgment. Even though the physician is an employee of the Hospital, therefore, it is my opinion that the Hospital will not be engaging in the unlawful practice of medicine merely by paying a salary to the physician.

You also state that the proposed agreement would give the physician supervisory responsibility for unlicensed technical employees of the Hospital. Under § 54.1-2901(6), unlicensed individuals in the personal employ of a physician to whom the physician delegates nondiscretionary duties are expressly excluded from the definition of the practice of medicine. In the facts you present, however, the technical personnel would be employees of the Hospital, although supervised by the physician. Because the activities of these employees would not automatically be excluded from the definition of the practice of medicine, these unlicensed individuals must not engage in practices for which licensure is required. *See also* § 54.1-111.

VI. Conclusion

Based on the above, it is my opinion that Virginia statutes and court decisions allow the Hospital to retain the physician as an employee, as long as the agreement authorizes the physician to exercise control over the diagnosis and treatment of the patient, the physician's professional judgment is not improperly influenced by commercial or lay concerns and the physician-patient relationship is not altered.

With kindest regards, I am

Sincerely,

Mary Sue Terry
Attorney General

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