

HOUSE BILL REPORT

HB 2389

As Reported By House Committee On:

Law & Justice

Title: An act relating to facilitating interstate operations for Washington professional corporations.

Brief Description: Allowing for interstate professional services corporations.

Sponsors: Representatives Sheahan, Constantine and Costa.

Brief History:

Committee Activity:

Law & Justice: 1/15/98, 1/20/98 [DPS].

HOUSE COMMITTEE ON LAW & JUSTICE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives Sheahan, Chairman; McDonald, Vice Chairman; Sterk, Vice Chairman; Costa, Ranking Minority Member; Constantine, Assistant Ranking Minority Member; Carrell; Cody; Kenney; Lambert; Lantz; Mulliken; Robertson and Sherstad.

Staff: Trudes Hutcheson (786-7384).

Background: People practicing certain professions in Washington, such as certified public accountants, physicians, and attorneys, are required to be licensed or otherwise authorized to practice the profession in this state. People practicing these professions may form either professional service corporations or professional limited liability companies.

Professional Service Corporations

Generally, only persons licensed or otherwise authorized to practice the same professional service in Washington may be shareholders of a professional service corporation. All directors and officers, other than the secretary and the treasurer, must be licensed or authorized to perform such services in this state. A professional service corporation may only offer professional services through individuals who are licensed or authorized to perform those services in Washington. Professional service corporations

may not engage in any other business or offer any other service than the professional service for which it was incorporated.

If a shareholder, officer, director, agent, or employee of the corporation becomes disqualified to perform the professional services in the state, he or she generally becomes ineligible to be a member of the corporation and must sever all employment and financial interests with the professional service corporation.

A director, officer, shareholder, agent or employee of a professional service corporation is personally and fully liable for the negligent or wrongful acts that person commits and the negligent or wrongful acts committed by any person under his or her direct supervision and control, while performing professional services on behalf of the corporation. The professional service corporation is liable for any negligent or wrongful acts committed by any of its directors, officers, shareholders, agents, or employees while they are engaged in the professional service on behalf of the corporation.

Professional Limited Liability Companies

Professional limited liability companies are subject to all the requirements of professional service corporations, except that professional limited liability companies may have as members professionals who are licensed or authorized to practice in a state other than Washington. A professional limited liability company may offer services outside of Washington by professionals not authorized to practice in Washington.

A professional limited liability company is required to maintain professional liability insurance, bond, or other evidence of financial responsibility in the amount of at least \$1 million. If the company fails to maintain the insurance, the members are personally liable to the extent the liability in question would have been covered had insurance been maintained.

Summary of Substitute Bill: Persons licensed or otherwise authorized to perform the same professional services in another state may become members of a Washington professional service corporation that offers the same professional service. Persons engaged in the professional service may operate as a professional service corporation as long as each shareholder practicing the profession in this state is licensed or authorized to practice in Washington, and either (a) at least one officer and one director of the corporation is licensed or authorized to practice in Washington; or (b) each officer in charge of an office in Washington is licensed or authorized to practice the profession in this state.

A person remains qualified to be a member of a professional service corporation as long as the person remains licensed or authorized to practice the professional service in at least one state in which the corporation conducts business.

The statute governing professional limited liability companies is amended to reflect the change in the statutes governing professional service corporations.

Substitute Bill Compared to Original Bill: The substitute bill deleted a superfluous phrase in the original bill.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: Some professional service corporations located near the borders serve this state and neighboring states. They would like to allow professionals from out of state to be members of the corporations. This would not change the requirement that anyone practicing in Washington must be licensed in Washington.

Testimony Against: None.

Testified: Dale Carlisle, Washington State Bar Association (pro).