CHAPTER 496C

PROFESSIONAL CORPORATIONS

Referred to in §10B.4, §10B.7, §169.4A, §489.1115, §490.1701, §542.7, §547.1, §669.14

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496C.1 Short title.

This chapter shall be known and may be cited as the *"Iowa Professional Corporation Act"*. [C71, 73, 75, 77, 79, 81, §496C.1]

496C.2 Definitions.

For words used in this chapter, unless the context otherwise requires, the definitions contained in the Iowa business corporation Act, chapter 490, apply, and:

1. *"Employees"* or *"agents"* does not include clerks, stenographers, secretaries, bookkeepers, technicians, or other persons who are not usually and ordinarily considered by custom and practice to be practicing a profession, nor any other person who performs all that person's duties for the professional corporation under the direct supervision and control of one or more officers, employees, or agents of the professional corporation who are duly licensed in this state to practice a profession which the corporation is authorized to practice in this state. This chapter shall not be construed to require any such persons to be licensed to practice a profession if they are not required to be licensed under any other law of this state.

2. *"Foreign professional corporation"* means a corporation organized under laws other than the laws of this state for a purpose for which a professional corporation may be organized under this chapter.

3. *"Licensed"* includes registered, certified, admitted to practice, or otherwise legally authorized under the laws of this state.

4. *"Profession"* means the profession of certified public accountancy, architecture, chiropractic, dentistry, physical therapy, practice as a physician assistant, psychology, professional engineering, land surveying, landscape architecture, law, medicine and surgery, optometry, osteopathic medicine and surgery, accounting practitioner, podiatry, real estate brokerage, speech pathology, audiology, veterinary medicine, pharmacy, and the practice of nursing.

5. *"Professional corporation"* means a corporation subject to this Act, except a foreign professional corporation.

6. *"Regulating board"* means any board, commission, court, or governmental authority which, under the laws of this state, is charged with the licensing, registration, certification, admission to practice, or other legal authorization of the practitioners of any profession.

7. *"Voluntary transfer"* includes any sale, voluntary assignment, gift, pledge, or encumbrance; any voluntary change of legal or equitable ownership or beneficial interest; or any voluntary change of persons having voting rights with respect to any shares, except

as proxies; but does not include any transfer of an individual's shares or other property to a guardian or conservator appointed for such individual or the individual's property.

[C71, 73, 75, 77, 79, 81, §496C.2]

90 Acts, ch 1205, §31; 2007 Acts, ch 13, §2; 2008 Acts, ch 1088, §141; 2010 Acts, ch 1131, §5

496C.3 Applicability of Iowa business corporation Act.

The Iowa business corporation Act, chapter 490, shall be construed as part of this chapter and shall apply to professional corporations, including, but not limited to, their organization, reports, fees, authority, powers, rights, and the regulation and conduct of their affairs. The provisions of the Iowa business corporation Act, chapter 490, on foreign corporations shall apply to foreign professional corporations. The provisions of this chapter shall prevail over any inconsistent provisions of the Iowa business corporation Act, chapter 490, or any other law.

[C71, 73, 75, 77, 79, 81, §496C.3]

2001 Acts, ch 24, §62

496C.4 Purposes and powers.

1. A professional corporation shall be organized only for the purpose of engaging in the practice of one specific profession, or two or more specific professions which could lawfully be practiced in combination by a licensed individual or a partnership of licensed individuals, and for the additional purpose of doing all lawful things which may be incidental to or necessary or convenient in connection with the practice of the profession or professions. The articles of incorporation shall state in substance that the purposes for which the corporation is organized are to engage in the general practice of a specified profession or professions, or one or more specified branches or divisions thereof, and to do all lawful things which may be incidental to or necessary or convenient in connection with the practice of the profession or professions. Each professional corporation, unless otherwise provided in its articles of incorporation or unless expressly prohibited by this chapter, shall have all powers granted to corporations by the Iowa business corporation Act, chapter 490.

2. *a.* For purposes of this section, medicine and surgery, osteopathic medicine and surgery, and practice as a physician assistant shall be deemed to be professions which could lawfully be practiced in combination by licensed individuals or a partnership of licensed individuals.

b. Nothing in this section shall be construed to expand the scope of practice of a physician assistant or modify the requirement in section 148C.4 that a physician assistant perform medical services under the supervision of a licensed physician.

[C71, 73, 75, 77, 79, 81, §496C.4]

2001 Acts, ch 24, §64; 2010 Acts, ch 1131, §6

Referred to in **§496C.7**, **§496C.16**

496C.5 Corporate name.

The corporate name of a professional corporation, the corporate name of a foreign professional corporation or its name as modified for use in this state, and any fictitious name or trade name adopted by a professional corporation or foreign professional corporation shall contain the words "professional corporation" or the abbreviation "P. C.", and except for the addition of such words or abbreviation, shall be a name which could lawfully be used by a licensed individual or by a partnership of licensed individuals in the practice in this state of a profession which the corporation is authorized to practice. Each regulating board may by rule or regulation adopt additional requirements as to the corporate names and fictitious or trade names of professional corporations and foreign professional corporations which are authorized to practice a profession which is within the jurisdiction of the regulating board.

[C71, 73, 75, 77, 79, 81, §496C.5]

90 Acts, ch 1205, §32

496C.6 Who may incorporate.

One or more individuals having capacity to contract, each of whom is licensed to practice in this state a profession which the professional corporation is to be authorized to practice, may act as incorporators of a professional corporation.

[C71, 73, 75, 77, 79, 81, §496C.6]

496C.7 Practice by professional corporation.

1. Notwithstanding any other statute or rule of law, a professional corporation may practice a profession, but may do so in this state only through shareholders, directors, officers, employees, and agents who are licensed to practice the same profession in this state.

2. In its practice of a profession, no professional corporation shall do any act which could not lawfully be done by individuals licensed to practice the profession which the professional corporation is authorized to practice.

3. *a.* This section shall not prohibit persons practicing medicine and surgery, persons practicing osteopathic medicine and surgery, or persons practicing as physician assistants from practicing their respective professions in lawful combination pursuant to section 496C.4.

b. Nothing in this section shall be construed to expand the scope of practice of a physician assistant or modify the requirement in section 148C.4 that a physician assistant perform medical services under the supervision of a licensed physician.

[C71, 73, 75, 77, 79, 81, §496C.7]
2010 Acts, ch 1131, §7

496C.8 Professional regulation.

No professional corporation shall be required to register with or to obtain any license, registration, certificate, or other legal authorization from any regulating board in order to practice a profession. Except as provided in this section, nothing in this chapter shall restrict or limit in any manner the authority or duties of any regulating board with respect to individuals practicing any profession which is within the jurisdiction of the regulating board, even if the individual is a shareholder, director, officer, employee, or agent of a professional corporation or foreign professional corporation and practices the individual's profession through such corporation.

[C71, 73, 75, 77, 79, 81, §496C.8]

496C.9 Relationship and liability to persons served.

This chapter does not modify any law applicable to the relationship between an individual practicing a profession and a person receiving professional services, including, but not limited to, any liability arising out of such practice and any law respecting privileged communications.

This chapter does not modify or affect the ethical standards or standards of conduct of any profession, including, but not limited to, any standards prohibiting or limiting the practice of the profession by a corporation or prohibiting or limiting the practice of two or more professions in combination. All such standards shall apply to the shareholders, directors, officers, employees, and agents through whom a professional corporation practices any profession in this state, to the same extent that the standards apply to an individual practitioner.

Unless otherwise provided in the articles of incorporation, the liability of the shareholders of a professional corporation, as shareholders, shall be limited in the same manner and to the same extent as in the case of a corporation organized under the Iowa business corporation Act, chapter 490.

[C71, 73, 75, 77, 79, 81, §496C.9]
2001 Acts, ch 24, §64

496C.10 Issuance of shares.

Shares of a professional corporation may be issued, and treasury shares may be disposed of, only to individuals who are licensed to practice in this state, or in any other state or territory

of the United States or in the District of Columbia, a profession which the corporation is authorized to practice.

Unless otherwise provided in the articles of incorporation or bylaws, the affirmative vote or consent in writing of all of the outstanding shareholders entitled to vote, or such lesser proportion as may be provided in the articles or bylaws, is necessary in order to authorize the issuance of any shares or the disposal of any treasury shares, and to fix the consideration for shares or treasury shares.

No shares of a professional corporation shall at any time be issued in, transferred into, or held in joint tenancy, tenancy in common, or any other form of joint ownership or co-ownership.

The Iowa securities law shall not be applicable to nor govern any transaction relating to any shares of a professional corporation.

[C71, 73, 75, 77, 79, 81, §496C.10]

496C.11 Transfer of shares.

No shareholder or other person shall make any voluntary transfer of any shares in a professional corporation to any person, except to the professional corporation or to an individual who is licensed to practice in this state a profession which the corporation is authorized to practice.

Unless otherwise provided in the articles of incorporation or bylaws, the affirmative vote or consent in writing of all of the outstanding shareholders entitled to vote, or such lesser proportion as may be provided in the articles or bylaws, is necessary in order to authorize any voluntary transfer of any shares of a professional corporation.

The articles of incorporation or bylaws may contain any additional provisions restricting the transfer of shares.

[C71, 73, 75, 77, 79, 81, §496C.11]

496C.12 Convertible securities — stock rights and options.

No professional corporation shall create or issue any securities convertible into shares of the professional corporation. The provisions of this chapter with respect to the issuance and transfer of shares and disposal of treasury shares apply to the creation, issuance, and transfer of any rights or options entitling the holder to purchase from a professional corporation any shares of the corporation, including treasury shares. Rights or options shall not be transferable, whether voluntarily, involuntarily, by operation of law, or in any other manner. Upon the death of the holder, or whenever the holder ceases to be licensed to practice in this state a profession which the corporation is authorized to practice, the rights or options shall expire.

[C71, 73, 75, 77, 79, 81, §496C.12]

496C.13 Voting trust — proxy.

No shareholder of a professional corporation shall create or enter into a voting trust or any other agreement conferring upon any other person the right to vote or otherwise represent any shares of a professional corporation, and no such voting trust or agreement is valid or effective. Any proxy of a shareholder of a professional corporation shall be an individual licensed to practice in this state a profession which the corporation is authorized to practice. Any provision in any proxy instrument denying the right of the shareholder to revoke the proxy at any time or for any period of time is not valid or effective. This section does not otherwise limit the right of a shareholder to vote by proxy, but the articles of incorporation or bylaws may further limit or deny the right to vote by proxy.

[C71, 73, 75, 77, 79, 81, §496C.13]

496C.14 Required purchase by professional corporation of its own shares.

1. *a.* Notwithstanding any other statute or rule of law, a professional corporation shall purchase its own shares as provided in this section; and the shareholders of a professional corporation and their executors, administrators, legal representatives, and successors in interest shall sell and transfer the shares held by them as provided in this section.

b. The corporation may validly purchase its own shares even though its net assets are less than its stated capital, or even though by so doing its net assets would be reduced below its stated capital.

c. Upon the death of a shareholder, the professional corporation shall immediately purchase all shares held by the deceased shareholder.

2. In order to remain a shareholder of a professional corporation, a shareholder shall at all times be licensed to practice in this state a profession which the corporation is authorized to practice. Whenever any shareholder does not have or ceases to have this qualification, the corporation shall immediately purchase all shares held by that shareholder.

3. Whenever any person other than the shareholder of record becomes entitled to have shares of a corporation transferred into that person's name or to exercise voting rights, except as a proxy, with respect to shares of the corporation, the corporation shall immediately purchase such shares. Without limiting the generality of the foregoing, this section shall be applicable whether the event occurs as a result of the appointment of a guardian or conservator for a shareholder or the shareholder's property, transfer of shares by operation of law, involuntary transfer of shares, judicial proceedings, execution, levy, bankruptcy proceedings, receivership proceedings, foreclosure or enforcement of a pledge or encumbrance, or any other situation or occurrence. However, this section does not apply to any voluntary transfer of shares as defined in this chapter.

4. Shares purchased by the corporation under the provisions of this section shall be transferred to the corporation as of the close of business on the date of the death or other event which requires purchase. The shareholder and the shareholder's executors, administrators, legal representatives, or successors in interest shall promptly do all things which may be necessary or convenient to cause transfer to be made as of the transfer date. However, the shares shall promptly be transferred on the stock transfer books of the corporation as of the transfer date, notwithstanding any delay in transferring or surrendering the shares or certificates representing the shares, and the transfer shall be valid and effective for all purposes as of the close of business on the transfer date. The purchase price for such shares shall be paid as provided in this chapter, but the transfer of shares to the corporation as provided in this section shall not be delayed or affected by any delay or default in making payment.

5. Notwithstanding subsections 1 through 4, purchase by the corporation is not required upon the occurrence of any event other than death of a shareholder if the corporation is dissolved or voluntarily elects to adopt the provisions of the Iowa business corporation Act, as provided in section 490.1701, subsection 2, within sixty days after the occurrence of the event. The articles of incorporation or bylaws may provide that purchase is not required upon the death of a shareholder if the corporation is dissolved within sixty days after the death. Notwithstanding subsections 1 through 4, purchase by the corporation is not required upon the death of a shareholder if the corporation voluntarily elects to adopt the provisions of the Iowa business corporation Act, as provided in section 490.1701, subsection 2, within sixty days after death.

6. Unless otherwise provided in the articles of incorporation or bylaws or in an agreement among all shareholders of the professional corporation:

a. The purchase price for shares shall be their book value as of the end of the month immediately preceding the death or other event which requires purchase. Book value shall be determined from the books and records of the professional corporation in accordance with the regular method of accounting used by the corporation, uniformly and consistently applied. Adjustments to book value shall be made, if necessary, to take into account work in process and accounts receivable. Any final determination of book value made in good faith by any independent certified public accountant or firm of certified public accountants employed by the corporation for the purpose shall be conclusive on all persons.

b. The purchase price shall be paid in cash as follows:

(1) Upon the death of a shareholder, thirty percent of the purchase price shall be paid within ninety days after death, and the balance shall be paid in three equal annual installments on the first three anniversaries of the death.

(2) Upon the happening of any other event referred to in this section, one-tenth of the

purchase price shall be paid within ninety days after the date of such event, and the balance shall be paid in three equal annual installments on the first three anniversaries of the date of the event.

c. Interest from the date of death or other event shall be payable annually on principal payment dates, at the rate of six percent per annum on the unpaid balance of the purchase price.

d. All persons who are shareholders of the professional corporation on the date of death or other event, and their executors, administrators, and legal representatives, shall, to the extent the corporation fails to meet its obligations hereunder, be jointly liable for the payment of the purchase price and interest in proportion to their percentage of ownership of the corporation's shares, disregarding shares of the deceased or withdrawing shareholder.

e. The part of the purchase price remaining unpaid after the initial payment shall be evidenced by a negotiable promissory note, which shall be executed by the corporation and all shareholders liable for payment. Any person liable on the note shall have the right to prepay the note in full or in part at any time.

f. If the person making any payment is not reasonably able to determine which of two or more persons is entitled to receive a payment, or if the payment is payable to a person who is unknown, or who is under disability and there is no person legally competent to receive the payment, or who cannot be found after the exercise of reasonable diligence by the person making the payment, it shall be deposited with the treasurer of state and shall be subject to the provisions of the Iowa business corporation Act, chapter 490, with respect to funds deposited with the treasurer of state upon the voluntary or involuntary dissolution of a corporation.

g. Notwithstanding the provisions of this section, no part of the purchase price shall be required to be paid until the certificates representing such shares have been surrendered to the corporation.

h. Notwithstanding the provisions of this section, payment of any part of the purchase price for shares of a deceased shareholder shall not be required until the executor or administrator of the deceased shareholder provides any indemnity, release, or other document from any taxing authority, which is reasonably necessary to protect the corporation against liability for estate, inheritance, and death taxes.

7. The articles of incorporation or bylaws or an agreement among all shareholders of a professional corporation may provide for a different purchase price, a different method of determining the purchase price, a different interest rate or no interest, and other terms, conditions, and schedules of payment.

8. The articles of incorporation or bylaws or an agreement among all shareholders of a professional corporation may provide for the optional or mandatory purchase of its own shares by the corporation in other situations, subject to any applicable law regarding such purchase.

[C71, 73, 75, 77, 79, 81, §496C.14]
2001 Acts, ch 24, §62; 2003 Acts, ch 66, §8; 2009 Acts, ch 133, §165

496C.15 Certificates representing shares.

Each certificate representing shares of a professional corporation shall state in substance that the certificate represents shares in a professional corporation and is not transferable except as expressly provided in this chapter and in the articles of incorporation and bylaws of the corporation.

[C71, 73, 75, 77, 79, 81, §496C.15]

496C.16 Management.

All directors of a professional corporation and all officers of a professional corporation, except assistant officers, shall at all times be individuals who are licensed to practice in this state a profession, or a lawful combination of professions pursuant to section 496C.4, which the corporation is authorized to practice. However, upon the occurrence of any event that requires the corporation either to be dissolved or to elect to adopt the provisions of the Iowa business corporation Act, chapter 490, as provided in section 496C.19, provided the corporation ceases to practice the profession that the corporation is authorized to practice,

as provided in section 496C.19, then individuals who are not licensed to practice in this state a profession that the corporation is authorized to practice may be appointed as officers and directors for the sole purpose of carrying out the dissolution of the corporation or, if applicable, the voluntary election of the corporation to adopt the provisions of the Iowa business corporation Act, as provided in section 496C.19.

[C71, 73, 75, 77, 79, 81, §496C.16]

2003 Acts, ch 66, §9; 2004 Acts, ch 1086, §79; 2010 Acts, ch 1131, §8

496C.17 Bylaws.

The initial bylaws of a professional corporation shall be adopted by its board of directors. The power to alter, amend, or repeal the bylaws or adopt new bylaws is reserved to and vested in the shareholders unless granted to the board of directors by the articles of incorporation.

[C71, 73, 75, 77, 79, 81, §496C.17]

496C.18 Merger or consolidation.

No professional corporation shall merge or consolidate with any other corporation except another professional corporation subject to this chapter. Merger or consolidation shall not be permitted unless the surviving or new corporation is a professional corporation which complies with all requirements of this chapter.

[C71, 73, 75, 77, 79, 81, §496C.18]

496C.19 Dissolution or liquidation.

Violation of any provision of this chapter by a professional corporation or any of its shareholders, directors, or officers shall be cause for its involuntary dissolution, or liquidation of its assets and business by the district court, as provided in the Iowa business corporation Act, chapter 490. Upon the death of the last remaining shareholder of a professional corporation, or whenever the last remaining shareholder is not licensed or ceases to be licensed to practice in this state a profession which the corporation is authorized to practice, or whenever any person other than the shareholder of record becomes entitled to have all shares of the last remaining shareholder of the corporation transferred into that person's name or to exercise voting rights, except as a proxy, with respect to such shares, the corporation shall not practice any profession and it shall either be promptly dissolved or shall promptly elect to adopt the provisions of the Iowa business corporation Act, as provided in section 490.1701, subsection 2. However, if prior to such dissolution all outstanding shares of the corporation are acquired by one or more persons licensed to practice in this state a profession which the corporation is authorized to practice, the corporation need not be dissolved and may practice the profession as provided in this chapter.

[C71, 73, 75, 77, 79, 81, §496C.19]

2001 Acts, ch 24, §64; 2003 Acts, ch 66, §10

Referred to in §496C.16

496C.20 Foreign professional corporation.

A foreign professional corporation may practice a profession in this state if it complies with the provisions of the Iowa business corporation Act, chapter 490, on foreign corporations. The secretary of state may prescribe forms for such purpose.

A foreign professional corporation may practice a profession in this state only through shareholders, directors, officers, employees, and agents who are licensed to practice the profession in this state. The provisions of this chapter with respect to the practice of a profession by a professional corporation apply to a foreign professional corporation.

The certificate of authority of a foreign professional corporation may be revoked by the secretary of state as provided in the Iowa business corporation Act, chapter 490, if the foreign professional corporation fails to comply with any provision of this chapter.

This chapter shall not be construed to prohibit the practice of a profession in this state by an individual who is a shareholder, director, officer, employee, or agent of a foreign professional corporation if the individual could lawfully practice the profession in this state in the absence of any relationship to a foreign professional corporation. The preceding sentence shall apply

regardless of whether or not the foreign professional corporation is authorized to practice a profession in this state.

[C71, 73, 75, 77, 79, 81, §496C.20]

2001 Acts, ch 24, §62

496C.21 Biennial report.

1. Each biennial report of a professional corporation or foreign professional corporation shall, in addition to the information required by the Iowa business corporation Act, chapter 490, set forth:

a. The name and address of one shareholder.

b. In the case of a professional corporation, a statement under oath whether or not all shareholders, directors, and officers, except assistant officers, of the corporation are licensed to practice in this state a profession which the corporation is authorized to practice, and whether or not all employees and agents of the corporation who practice a profession in this state on behalf of the corporation are licensed to practice the profession in this state.

c. In the case of a foreign professional corporation, a statement under oath whether or not all shareholders, directors, officers, employees, and agents who practice a profession in this state on behalf of the corporation are licensed to practice the profession in this state.

d. Additional information necessary or appropriate to enable the secretary of state or regulating board to determine whether the professional corporation or foreign professional corporation is complying with this chapter.

2. Information shall be set forth on forms prescribed and furnished by the secretary of state.

3. A corporation subject to the provisions of this chapter shall pay the biennial filing fee and make the biennial report in a form and manner and at the time specified in chapter 490.

[C71, 73, 75, 77, 79, 81, §496C.21]

83 Acts, ch 144, §5; 97 Acts, ch 171, §25; 2000 Acts, ch 1022, §4, 5; 2001 Acts, ch 24, §64; 2012 Acts, ch 1023, §157

496C.22 Corporations organized under other laws.

This chapter shall not apply to or interfere with the practice of any profession by or through any corporation hereafter organized under any other law of this state or any other state or country if such practice is lawful under any other statute or rule of law of this state.

Any corporation subject to the provisions of the Iowa business corporation Act, chapter 490, may voluntarily elect to adopt this chapter and become subject to its provisions by amending its articles of incorporation to be consistent with all provisions of this chapter and by stating in its amended articles of incorporation that the corporation has voluntarily elected to adopt this chapter.

Any corporation organized under any law of any other state or country may become subject to the provisions of this chapter by complying with all provisions of this chapter with respect to foreign professional corporations.

[C71, 73, 75, 77, 79, 81, §496C.22]

2001 Acts, ch 24, §62