

14A:17-1 to 18

August 17, 1970

LEGISLATIVE NOTES ON R.S. 14A:17-1 to 16  
(Professional Service Corporations)

COPY DI

No similar bills introduced, 1967-1969

I. 1969-Chapt. 232-3841  
Introduced November 11 by Mc Dermott (and others)

No statement

Not amended during passage

Article enclosed:

"Professional service corporations" (Editorial)  
Essex County Dental Society Bulletin  
Vol. 37, No. 7, April 1970, page 3

Clipping enclosed: (N.F.--New Jersey--Lawyers)

Hughes OK's incorporation for lawyers. APP 12-17-69

Attorneys bill passes assembly. NEN 12-2-69

Lawyer's corporation bill signed. NEN 12-17-69

Hughes signs lawyers bill. TET 12-17-69

See also the following articles in New Jersey Law Journal:

Letter to editor - professional corporations -  
92NJLJ164, March 13, 1969

Professional service corporations in New Jersey  
92NJLJ673, October 16, 1969

Report of Supreme Court Special Committee on incorporation of  
attorneys. 92NJLJ737, November 13, 1969

Letter to editor... professional corporations -  
92NJLJ740, November 13, 1969

New professional corporation act -  
92NJLJ841, December 25, 1969

(TEXT OF LAW ONLY - NO COMMENTS)

*For materials  
see copy 2  
muph's file  
11/21/73*

CHAPTER 232 LAWS OF N. J. 19 69  
APPR. VLD 12-16-69

SENATE, No. 841

STATE OF NEW JERSEY

INTRODUCED NOVEMBER 17, 1969

By Senators McDERMOTT, GUARINI, SEARS, WHITE,  
MILLER, WALDOR, SCIRO, KAY, SCHOEM, SISCO, MAT-  
TURRI, LACORTE, DELTUFO, SCHIAFFO, MUSTO and  
HAGEDORN

(Without Reference)

AN ACT revising the law concerning professional service corpora-  
tions, repealing P. L. 1962, chapter 233 and supplementing Title  
14A of the New Jersey Statutes.

1 BE IT ENACTED *by the Senate and General Assembly of the State*  
2 *of New Jersey:*

1 1. Legislative intent. It is the legislative intent to provide for  
2 the incorporation of an individual or group of individuals to render  
3 the same professional service to the public for which such indi-  
4 viduals are required by law to be licensed or to obtain other legal  
5 authorization.

1 2. Short title. This act may be cited as "The Professional Ser-  
2 vice Corporation Act."

1 3. Terms defined. As used in this act, the following words shall  
2 have the meaning indicated:

3 (1) The term "professional service" shall mean any type of  
4 personal service to the public which requires as a condition prece-  
5 dent to the rendering of such service the obtaining of a license  
6 or other legal authorization and which prior to the passage of this  
7 act and by reason of law could not be performed by a corporation.  
8 By way of example and without limiting the generality thereof,  
9 the personal services which come within the provisions of this act  
10 are the personal services rendered by certified public accountants,  
11 architects, optometrists, professional engineers, chiropractors,  
12 dentists, osteopaths, physicians and surgeons, doctors of medicine,  
13 doctors of dentistry, podiatrists, chiropodists, veterinarians and,  
14 subject to the Rules of the Supreme Court, attorneys at law;

15 (2) The term "professional corporation" means a corporation

16 which is organized under this act for the sole and specific purpose  
17 of rendering the same professional service as its shareholders,  
18 each of whom must be licensed or otherwise legally authorized  
19 within this State to render such professional service.

1 4. Application of act. This act shall not apply to any individual  
2 or groups within this State who, prior to the passage of this act,  
3 were permitted to organize a corporation and perform personal  
4 services to the public by the means of a corporation, and this act  
5 shall not apply to any corporations organized by such individual  
6 or group of individuals prior to the passage of this act; provided,  
7 however, any such individual or group of individuals or any such  
8 corporation may bring themselves and such corporation within the  
9 provisions of this act by amending the certificate of incorporation  
10 in such a manner so as to be consistent with all the provisions of  
11 this act and by affirmatively stating in the amended certificate of  
12 incorporation that the shareholders have elected to bring the cor-  
13 poration within the provisions of this act.

1 5. Professional corporation. One or more persons, each of whom  
2 is duly licensed or otherwise legally authorized to render the same  
3 professional service within this State, may organize and become  
4 a shareholder or shareholders of a professional corporation for  
5 pecuniary profit under the provisions of the Business Corporation  
6 Act of New Jersey (Title 14A, Corporations, General, of the New  
7 Jersey Statutes), for the sole and specific purpose of rendering  
8 such professional service.

1 6. Directors and officers. A professional corporation which has  
2 only one shareholder need have only one director, who shall be  
3 such shareholder. Such one shareholder shall also serve as the  
4 president of the corporation. The other officers of the corporation  
5 in such a case need not be licensed or otherwise legally authorized  
6 to render the same professional service within this State, as such  
7 one shareholder. A professional corporation which has only 2  
8 shareholders need have only 2 directors who shall be such share-  
9 holders. The 2 shareholders shall, between them, fill all the officer-  
10 ships of the professional corporation.

1 7. Rendering of professional service limited to licensed person-  
2 nel; charges authorized. No professional corporation may render  
3 professional services except through its officers, employees and  
4 agents who are duly licensed or otherwise legally authorized to  
5 render such professional services within this State; provided,  
6 however, that this provision shall not be interpreted to include in  
7 the term "employee" as used herein clerks, secretaries, nurses,

8 administrators, bookkeepers, technicians and other assistants who  
9 are not usually and ordinarily considered by law, custom and  
10 practice to be rendering professional service to the public for which  
11 a license or other legal authorization is required in connection with  
12 the profession to be practiced, nor does the term "employee" in-  
13 clude any other person who performs all his employment under  
14 the direct supervision and control of an officer, agent or employee  
15 who is himself rendering professional service to the public on  
16 behalf of the professional corporation; provided, that no person  
17 shall, under the guise of employment, practice a profession unless  
18 duly licensed to practice that profession under the laws of this  
19 State. Notwithstanding any other or contrary provisions of the  
20 laws of the State, a professional corporation may charge for its  
21 services, may collect such charges, and may compensate its officers,  
22 employees and agents, including those persons excluded from the  
23 term "employee" as used herein.

1 8. Professional relationship; personal liability; corporate liabil-  
2 ity. Nothing contained in this act shall be interpreted to abolish,  
3 repeal, modify, restrict or limit the law now in effect in this State  
4 applicable to the professional relationship and the contract, tort  
5 and other legal liabilities between the person furnishing the pro-  
6 fessional services and the person receiving such professional ser-  
7 vice and to the standards for professional conduct, including the  
8 confidential relationship between the person rendering the pro-  
9 fessional services and the person receiving such professional  
10 service, if any; and all confidential relationships previously enjoyed  
11 under the laws of this State or hereafter enacted shall remain  
12 inviolate. Any officer, shareholder, agent or employee of a pro-  
13 fessional corporation shall remain personally and fully liable and  
14 accountable for any negligent or wrongful acts or misconduct com-  
15 mitted by him, or by any person under his direct supervision and  
16 control, while rendering professional service on behalf of the cor-  
17 poration to the person for whom such professional service was  
18 being rendered; provided, that the personal liability of share-  
19 holders of a professional corporation, in their capacity as share-  
20 holders of such corporation, shall be no greater in any aspect  
21 than that of a shareholder-employee of a corporation organized  
22 under the provisions of the Business Corporation Act of New  
23 Jersey, exclusive of this act. The corporation shall be liable up to  
24 the full value of its property for any negligent or wrongful acts  
25 or misconduct committed by any of its officers, shareholders, agents  
26 or employees while they are engaged on behalf of the corporation  
27 in the rendering of professional service. The assets of a profes-

28 sional corporation shall not be liable to attachment for the in-  
29 dividual debts of its shareholders. Notwithstanding the foregoing,  
30 the relationship of an individual to a professional corporation with  
31 which such individual is or may be associated, whether as share-  
32 holder, director, officer, employee or agent, shall in no way modify,  
33 extend or diminish the jurisdiction over such individual, of and  
34 by whatever State, agency, office or authority which licensed or  
35 otherwise legally authorized him to render service in a particular  
36 field of endeavor.

1 9. Limitations on corporate business activity. No professional  
2 corporation shall engage in any business other than the rendering  
3 of the professional services for which it was specifically incorpo-  
4 rated; provided, that nothing in this act or in any other provisions  
5 of existing law applicable to corporations shall be interpreted to  
6 prohibit such corporation from investing its funds in real estate,  
7 mortgages, stocks, bonds or any other type of investments, or from  
8 owning real or personal property necessary for, or appropriate or  
9 desirable in, the fulfillment or rendering of its professional services.

1 10. Who may own shares; voting trust; estate ownership. No  
2 professional corporation may issue any of its shares to anyone  
3 other than an individual who is duly licensed or otherwise legally  
4 authorized to render the same professional service as that for  
5 which the corporation was incorporated. No shareholder of a  
6 professional corporation shall enter into a voting trust agreement  
7 or proxy or any other type of agreement vesting another person  
8 not a shareholder of the corporation with the authority to exercise  
9 the voting power of any or all of his shares. Subject to the pro-  
10 visions of the corporation's certificate of incorporation, the estate  
11 of a deceased shareholder may continue to hold the shares of such  
12 shareholder for a reasonable period of administration of the estate,  
13 but shall not be authorized to participate in any decisions concern-  
14 ing the rendering of professional service.

1 11. Disqualification to render service. If any officer, shareholder,  
2 agent or employee of a professional corporation becomes legally  
3 disqualified to render the same professional service as that for  
4 which the corporation was organized, he shall forthwith sever all  
5 employment with such corporation and shall not, directly or in-  
6 directly, participate or share, as a shareholder, in any earnings  
7 or profits realized by such corporation on account of professional  
8 services rendered on or after the effective date of such dis-  
9 qualification.

1 12. Transfer of shares. No shareholder of a professional corpo-  
2 ration may transfer his shares in such corporation except to the

3 corporation or to another individual who is eligible to be a share-  
4 holder of such corporation.

1 13. Corporate existence; corporation to convert to business cor-  
2 poration; acquisition of shares of disqualified or deceased share-  
3 holder.

4 (a) A professional corporation shall have perpetual existence  
5 until dissolved in accordance with the provisions of the Business  
6 Corporation Act of New Jersey.

7 (b) Whenever all shareholders of a professional corporation  
8 shall cease at any one time and for any reason to be duly licensed or  
9 otherwise legally authorized to render the same professional ser-  
10 vice for which such corporation was organized, or if such corpora-  
11 tion shall for any reason fail to comply or require compliance with  
12 the provisions of this section or of section 11 of this act, said  
13 corporation shall thereupon be treated as converted into and shall  
14 operate thereafter solely as a business corporation under applicable  
15 provisions of the Business Corporation Act of New Jersey, ex-  
16 clusive of this act.

17 (c) Within 375 days following the date of death of a shareholder,  
18 or within 90 days following his disqualification to own shares in  
19 the corporation, all of the shares of such shareholder shall be  
20 transferred to, and acquired by, the corporation or persons qualified  
21 to own such shares. If such transfer and acquisition is not other-  
22 wise effected within said period, the corporation shall forthwith  
23 purchase and redeem all of his shares at the book value thereof,  
24 determined as of the end of the month immediately preceding  
25 death or disqualification. For this purpose, the book value shall  
26 be determined by an independent certified public accountant em-  
27 ployed by the professional corporation from the books and records  
28 of the corporation in accordance with the regular methods of  
29 accounting used by it. Such determination shall be conclusive on  
30 the professional corporation and its shareholders. Nothing con-  
31 tained in this section shall prevent the parties involved from making  
32 any other arrangement or provision in the certificate of incorpora-  
33 tion or by-laws, or by agreement, to transfer the shares of a de-  
34 ceased or disqualified shareholder to the corporation or to persons  
35 qualified to own the same, whether made before or after the death  
36 or disqualification of the shareholder, provided that within the  
37 period herein specified, all the stock involved shall have been so  
38 transferred.

1 14. Corporate name. The corporate name of a professional cor-  
2 poration shall contain the full or last names of one or more of  
3 the shareholders or a name descriptive of the type of professional

4 service in which the corporation will be engaged and shall also  
5 contain the words "chartered" or "professional association," or  
6 the abbreviation "P. A." The use of the word "company," "cor-  
7-9 poration" or "incorporated," or any other word, words, ab-  
10 breviations, affix or prefix indicating that it is a corporation,  
11 in the corporate name of a professional corporation, other than  
12 the words "chartered" or "professional association," or the ab-  
13 breviation "P. A.," is specifically prohibited. It shall be per-  
14 missible, however, for the corporation and the shareholders to  
15 render professional services to exercise its authorized powers  
16 under a name which is identical to its corporate name except that  
17 the words "chartered" or "professional association" or the ab-  
18 breviation "P. A." is omitted.

1 15. Applicable law, consolidation, merger, report; contents.  
2 The Business Corporation Act of New Jersey shall be applicable to  
3 a professional corporation except to the extent that any of the  
4 provisions of this act are interpreted to be in conflict with the  
5 provisions of the Business Corporation Act of New Jersey, and in  
6 such event the provisions and sections of this act shall take  
7 precedence with respect to a professional corporation. A pro-  
8 fessional corporation organized under this act may consolidate  
9 or merge only with another professional corporation organized  
10 under this act and empowered to render the same professional  
11 service. A merger or consolidation with any foreign corporation  
12 is prohibited. A professional corporation shall furnish a report  
13 to the office of the Secretary of State by March 31 of each year  
14 showing the names and post-office addresses of all its shareholders,  
15 directors and officers, which shall certify that, with the exception  
16 permitted in section 6, all such persons are duly licensed or  
17 otherwise legally authorized to render the same professional  
18 service in this State. This report shall be made on forms pre-  
19 scribed and furnished by the Secretary of State, but shall contain  
20 no information except that expressly called for by this section.  
21 It shall be signed by the president or vice-president and the  
22 secretary or an assistant secretary of the corporation, and  
23 acknowledged by the persons signing the report before a notary  
24 public or other officer duly authorized to administer oaths, shall be  
25 filed in the office of the Secretary of State, and shall be in lieu of  
26 the regular annual report of corporations otherwise required  
27 by the Business Corporation Act of New Jersey.

1 16. Provisions severable; repealer. If any provision of this act  
2 or the application thereof to any person or circumstances be held

3 invalid, such invalidity shall not affect other provisions or appli-  
4 cations of this act which can be given effect without the invalid  
5 provision or application, and to this end the provisions of this act  
6 are declared to be severable. All laws and parts of laws in conflict  
7 with any of the provisions of this act are hereby repealed, to the  
8 extent so in conflict.

1 17. Construing. The provisions of this act shall not be con-  
2 strued as repealing, modifying or restricting the applicable pro-  
3 visions of law relating to incorporations, sales of securities or  
4 regulating the several professions enumerated in this act except  
5 insofar as such laws conflict with the provisions of this act.

1 18. Chapter 233 of the laws of 1962, as amended, is hereby  
2 repealed, but all corporations formed under the provisions thereof  
3 shall continue and shall be governed by the provisions of this act.

1 19. This act shall take effect immediately.