

MSO Rules for Med Spas

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Med spas are booming across the U.S., blending aesthetic beauty treatments with medical-grade services like Botox, fillers, and laser therapy. With demand soaring, many entrepreneurs and non-physicians are eager to enter the market.

However, state laws often prohibit non-doctors from owning or directly operating medical practices. That's where Management Services Organizations (MSOs) come in. **An MSO is a separate business entity that handles non-clinical operations such as staffing, marketing, billing, and office management, while the medical side must remain fully under the control of a licensed healthcare professional.**

This post explains what an MSO is and how it operates. It also highlights the core rules MSOs must follow, and points you to trusted legal experts who can help you set up or scale your med spa the right way.

What Is an MSO in Healthcare?

A Management Services Organization, or MSO, is a separate business entity that provides non-clinical management services to healthcare practices. The MSO does not participate in medical procedures or clinical practice, nor does it make medical decisions. **Instead, it operates on the business side of a healthcare venture, enabling licensed physicians, nurse practitioners, and physician assistants to focus on patient care.**

In both general healthcare and aesthetic medicine, MSOs serve a critical function by allowing medical professionals to delegate administrative and operational duties. For medical spa practices, in particular, this separation is essential due to strict state laws that regulate who may own or operate a medical practice. MSOs help align with these healthcare laws by separating medical services from business management, ensuring that healthcare providers remain compliant while benefiting from improved operational efficiency.

Why Med Spas Use MSOs

The rise of medical aesthetics and the popularity of medical spas have led to increased interest from entrepreneurs, investors, and professionals without a medical background. However, in many states, **corporate practice of medicine laws prohibit non-physicians from owning or controlling a medical practice.** This legal restriction exists to prevent unfair business practices and to ensure that only qualified healthcare providers make decisions related to patient care, informed consent practices, and medical treatments.

To navigate these legal barriers, med spas often adopt the MSO model. In this setup, the **clinical side of the med spa must be owned and controlled by a licensed physician or medical doctor**, while the MSO, usually owned by a non-physician, handles all non-medical management services. This includes everything from branding, marketing, support services, and

financial management to handling malpractice insurance, medical equipment, and laws governing marketing and medical devices.

This arrangement provides regulatory compliance and gives non-physician stakeholders a legal pathway to operate medical spas. **For many, the MSO structure offers increased branding/licensing flexibility, better control of financial health, and the ability to build a profitable healthcare business without violating corporate practice restrictions.**

What Is the Difference Between an MSA and an MSO?

An MSO is the legal entity that offers non-clinical services, while an MSA, or Management Services Agreement, is the legal contract that defines the relationship between the MSO and the professional entity or medical practice. The MSA outlines which management services the MSO will provide, the scope of its business operations, and how the management fees will be structured.

It is crucial that this agreement respects fair market value principles to avoid issues with fee-splitting or violations of state laws. For example, MSOs cannot be paid a percentage of revenue from medical services in jurisdictions that strictly enforce the corporate practice of medicine. Instead, payments must reflect fair market compensation for the specific services rendered, whether that's handling financial management, providing office space, or overseeing administrative functions like patient referrals or good-faith exams.

The MSA is what legally binds the healthcare providers and the MSO together, clearly separating the medical interests of the licensed professionals from the business interests of the MSO. This clear division supports regulatory compliance, protects against liability, and ensures that medical board expectations are met.

What Activities Can the MSO Perform for My Medical Spa?

A Management Services Organization (MSO) plays a vital role in supporting the business operations of a medical spa, especially in states that enforce corporate practice of medicine (CPOM) laws. **While the medical practice remains under the control of licensed physicians, the MSO is responsible for a wide range of non-clinical services that keep the spa running smoothly and efficiently.**

These include:

- **Administrative support:** The MSO can manage daily operations, coordinate staff, and ensure compliance with healthcare regulations.
- **Payroll and human resources:** It may handle staff payroll, hiring, onboarding, and benefits administration for non-clinical employees.
- **Marketing and advertising:** The MSO can promote the med spa's brand, develop marketing campaigns, and manage digital and print advertising, while avoiding any claims of medical outcomes without physician approval.
- **Office space and equipment leasing:** It can lease and maintain office space and arrange for medical and non-medical equipment used in the facility.
- **Scheduling and front desk operations:** The MSO can oversee appointment booking, receptionist tasks, and client intake processes.
- **Billing and collections (non-clinical):** It may manage payment collections for cosmetic or elective services that do not involve third-party insurance billing.
- **Vendor and supply management:** The MSO can handle relationships with product vendors and ensure adequate inventory of medical and spa supplies.
- **IT support and software systems:** It can maintain practice management software, electronic health records systems, and other IT infrastructure.

- **Financial reporting and bookkeeping:** The MSO may oversee accounting, generate financial statements, and track revenue and expenses for the business.
- **Staff training (non-medical):** It can organize training programs for front office staff, receptionists, and management personnel in areas like customer service and HIPAA compliance.

What the MSO Cannot Do?

While the MSO is instrumental in managing the business side of a medical aesthetics practice, it must strictly avoid any involvement in clinical practice or medical services. **Under CPOM laws, here are some things the MSO cannot do:**

- **Provide or supervise medical treatments:** The MSO cannot administer injectables, perform laser therapy, or oversee any clinical care.
- **Employ or control medical professionals:** Physicians, nurse practitioners, physician assistants, and registered nurses must be hired and supervised by the medical entity, not the MSO.
- **Make medical decisions or set clinical protocols:** Only licensed clinicians may create treatment plans, determine clinical procedures, or alter care protocols.
- **Diagnose, treat, or prescribe:** The MSO cannot be involved in any form of diagnosis or prescription, which are strictly medical functions.
- **Influence patient care or outcomes:** Business personnel must not influence clinical outcomes, patient decisions, or the type of treatment provided.
- **Share in medical revenue tied to procedures:** The MSO cannot receive compensation based on a percentage of medical income, as this may violate fee-splitting laws.
- **Advertise services as “medical” without physician oversight:** All marketing related to medical treatments must be reviewed or overseen by a licensed medical provider.
- **Determine pricing for clinical services:** Only the physician-owned medical entity can set prices for Botox, fillers, or other regulated medical procedures.
- **Own the medical entity (in states with CPOM laws):** The MSO may not have an ownership interest in the professional corporation or PLLC that delivers medical care.
- **Represent the practice as a healthcare provider:** The MSO should never present itself as the source of medical care. All medical services must be clearly attributed to the physician-owned entity.

Core MSO Rules Med Spas Must Follow

MSOs allow non-physicians to provide certain important business management and support services to a professional entity that delivers medical services, such as Botox, dermal fillers, and laser procedures. **However, to remain compliant with healthcare regulations, it’s essential that both the MSO and the medical practice follow specific rules that govern their relationship, especially when it comes to dividing medical interests from business operations.**

They include:

Separation of Clinical and Management Services

One of the most important rules for operating under an MSO model is the strict separation of clinical and management services. Only licensed physicians, nurse practitioners, and physician assistants are allowed to engage in the clinical practice of medicine.

The medical doctor or medical director must retain full control over medical decisions, including informed consent practices, treatment planning, good faith exams, and supervision of medical procedures. The physician is also

responsible for staffing clinical personnel, developing clinical protocols, and ensuring patient safety and ethical standards in patient care.

On the other hand, the MSO is permitted to handle non-clinical business operations. This includes marketing, administrative functions, financial management, office space leasing, human resources, and managing payroll for non-medical staff. The MSO may also implement practice management software, oversee medical equipment logistics, provide IT support, and manage vendor relationships. These duties help improve operational efficiency while keeping the MSO away from any direct involvement in medical treatments or medical decisions.

Compliance With Corporate Practice of Medicine (CPOM) Laws

Every MSO arrangement must comply with corporate practice of medicine restrictions, which are designed to prevent non-physicians from owning or controlling medical practices. **These state laws ensure that only healthcare providers with the appropriate medical background make clinical decisions and supervise medical professionals.** CPOM regulations are especially relevant in medical spas, where the line between cosmetic services and regulated healthcare services can blur.

Some states, such as California and Texas, have detailed CPOM laws and allow MSO models under strict guidelines. Others prohibit any kind of ownership or control of a medical entity by a non-physician, making it critical to structure the business using a separate business entity for the MSO. Understanding and following state-specific laws is essential to avoid unfair business practices, loss of license, fines, or investigations by the medical board. Ultimately, the MSO must never represent itself as a healthcare provider or interfere in clinical practice.

Fee Structuring Must Avoid “Fee Splitting”

Another key area of concern in MSO arrangements is fee structuring, particularly in avoiding what is known as fee splitting. **Fee splitting occurs when a non-physician entity receives a share of the medical practice’s revenue in exchange for referrals or general business services.** This is illegal in many states because it can influence medical judgment and violate healthcare laws.

To maintain regulatory compliance, MSOs must be paid based on fair market value for the key services they provide. Acceptable arrangements often include a fixed management fee or reimbursement based on actual costs and labor.

This protects both the MSO and the medical entity from liability and ensures the relationship is built on ethical business practices. Management services agreements should clearly define the services rendered, the scope of the relationship, and the basis for management fees, all while complying with healthcare venture laws and avoiding any tie to clinical performance or volume.

Licensing and Credentialing

Only licensed physicians may provide medical services at a medical spa, and those medical providers must be credentialed and authorized under state laws. This includes all clinical staff involved in medical aesthetics, such as registered nurses, physician assistants, and nurse practitioners. **The MSO cannot employ or supervise these providers nor can it play any role in decisions related to medical coding, diagnoses, or medical treatments.**

If a non-physician crosses into the territory of providing or directing medical services, it may be considered unlicensed practice of medicine. This is a serious violation that could lead to fines, criminal penalties, or the shutdown of the entire operation.

Therefore, all medical spa owners and MSO operators must clearly define the boundary between the business side and clinical side. This ensures that healthcare providers handle the medical services and the MSO remains focused solely on support services.

How Do MSO Rules Vary by State?

MSO rules for medical spas can vary significantly depending on the state laws governing the corporate practice of medicine (CPOM). **States like California, Texas, and New York are known for having some of the strictest CPOM restrictions, making it illegal for non-physicians to own or control any part of a medical practice that provides medical services.**

In these jurisdictions, only licensed physicians or properly structured professional entities may own or direct the clinical practice. This includes medical decisions, patient care, medical treatments, and supervision of medical professionals like registered nurses, physician assistants, and nurse practitioners.

Because of these strict regulations, the Management Services Organization (MSO) model in states like California must be carefully tailored to ensure that the MSO operates strictly on the business side of the practice. The MSO may provide management services such as marketing, office space leasing, human resources, financial management, and IT support, but it must avoid any involvement in clinical practice, including medical coding, setting medical protocols, or determining pricing for medical procedures. Contracts like a Management Services Agreement (MSA) must reflect fair market value for services rendered and avoid any arrangements that could be interpreted as fee splitting.

In contrast, some states are more flexible with CPOM laws and allow greater collaboration between non-physician investors and medical entities, though even in these states, medical decisions must remain under the control of a licensed medical doctor or medical director. **For example, in states with relaxed CPOM enforcement, limited liability companies may be used creatively to structure healthcare ventures, but care must still be taken to maintain proper separation between medical services and business operations.**

Because state-specific regulations and interpretations of CPOM laws can differ greatly, it's best to consult with local legal counsel experienced in healthcare law, particularly in medical spa compliance and regulatory guidance. A qualified attorney can help structure your MSO and professional entity properly, ensure that your practice management software, marketing strategy, and management fees are compliant, and protect your business from regulatory violations, malpractice insurance issues, and medical board investigations.

How Can You Keep Your Med Spa MSO Compliant?

To ensure your medical spa and Management Services Organization (MSO) remain compliant, it is important to build a structure that respects the boundaries between medical services and business operations. First and foremost, **always consult with experienced healthcare attorneys** who understand the intricacies of state laws, CPOM regulations, and medical spa practices. Legal guidance at the outset of your healthcare venture can help you avoid costly mistakes and regulatory violations.

It is also important to **clearly define and separate the two legal entities**: the professional entity that delivers medical treatments, and the MSO that handles the administrative functions. The medical entity must be owned and controlled only by licensed physicians or otherwise qualified medical professionals, while the MSO should be a separate business entity that provides management services like marketing, office space, financial management, and practice management software. These roles should be outlined in a **carefully drafted Management Services Agreement (MSA)** that reflects fair market value and avoids illegal fee-splitting arrangements.

Financial independence is another cornerstone of compliance. Your MSO should not receive revenue tied to medical procedures or patient care, and all payments must be structured as fixed or cost-based management fees to ensure regulatory compliance.

Finally, **schedule regular legal compliance audits to review your business structure, operations, and contracts**. These checks can help catch issues before they escalate into violations involving the medical board, malpractice insurance risks, or allegations of unfair business practices.

When Should You Hire a Lawyer for Your Med Spa MSO?

A healthcare attorney should be part of your team early on, not just when trouble hits. Here are key moments when legal

guidance is essential:

- **When starting a new med spa:** Before launching your healthcare venture, legal advice is critical for setting up compliant ownership structures and avoiding violations of corporate practice laws.
- **When forming or reviewing an MSO agreement:** A healthcare attorney can draft or review your Management Services Agreement (MSA) to ensure that roles, payments, and responsibilities between the MSO and medical practice are clearly and legally defined.
- **During state investigations or audits:** If your medical spa is facing scrutiny from the medical board, health department, or other regulatory agencies, you'll need legal representation to protect your license and operations.
- **If you're unsure who should "own" what part of the business:** Ownership and control must be carefully split between the clinical practice and the MSO. A lawyer can help ensure that only licensed physicians are making medical decisions, while non-physicians stay on the business side of things.

Common Legal Mistakes With MSOs in Med Spas

Below are common legal mistakes you should avoid with MSOs in med spas:

- **Co-mingling clinical and non-clinical finances:** One of the most frequent compliance errors occurs when the medical practice and Management Services Organization (MSO) fail to maintain separate financial accounts. This can blur the line between medical services and business operations, creating exposure to violations of corporate practice of medicine (CPOM) laws and risking sanctions by the medical board or other regulatory bodies.
- **Letting the MSO influence medical decisions:** Under no circumstances should an MSO control or direct patient care, clinical protocols, or medical decisions. Only licensed physicians, nurse practitioners, or physician assistants working under proper supervision can provide medical treatments. If the MSO crosses this line even unintentionally, it can result in claims of practicing medicine without a license.
- **Poorly drafted MSO agreements:** A weak or vague Management Services Agreement (MSA) can lead to confusion over responsibilities, improper delegation of authority, and violations of healthcare laws. Your MSA must clearly outline the MSO's role in areas like marketing, office space, human resources, and practice management software, while making it clear that the medical professionals retain control over all aspects of the clinical practice.
- **Revenue-based compensation that risks fee-splitting violations:** Tying MSO compensation to a percentage of the medical spa's income from medical procedures is a major red flag. This is often considered illegal fee splitting, especially in states with strict CPOM rules like California, Texas, and New York. Instead, MSOs should be compensated through fair market value or fixed management fees based on specific key services provided.

Don't Risk Legal Trouble – Set Up Your MSO the Right Way

Setting up a Management Services Organization (MSO) for your medical spa can be a powerful way to grow and streamline your business, but only if done correctly. Without clear legal boundaries between medical services and management services, you risk violating corporate practice of medicine (CPOM) laws, exposing yourself to regulatory investigations, medical board scrutiny, and potential loss of licensure or revenue.

When properly structured, an MSO allows non-physicians to participate in the business side of the med spa, handling everything from financial management to office space, human resources, and marketing. This ensures that licensed physicians and other medical professionals retain full control over patient care, medical procedures, and clinical decisions. **With a well-drafted Management Services Agreement (MSA), a compliant legal entity structure, and ongoing legal oversight, an MSO becomes a smart, strategic tool rather than a legal liability.**

FAQs About MSOs and Med Spas

Who Can Own a Medical Spa?

Only licensed physicians or approved healthcare providers can legally own the medical side of a med spa in states with corporate practice of medicine (CPOM) laws. Non-physicians can own an MSO that manages non-clinical business operations.

Can a Non-Doctor Own a Med Spa?

Non-doctors cannot own clinical practices, but they can legally own and operate MSOs that provide management services to medical entities as long as they do not influence medical decisions.

What Are the Benefits of an MSO?

An MSO allows licensed physicians to focus on patient care, while the MSO handles administrative functions like marketing, payroll, and office operations. It also enables non-physician investors to legally profit from a med spa without violating healthcare laws, while improving operational efficiency and scalability.

Can I Make Money From a Med Spa if I'm Not a Physician?

Yes, non-physicians can earn income through fixed or fair market value management fees via an MSO, but cannot receive a percentage of revenue tied directly to medical procedures.

Do Med Spas Need an MSO?

Med spas may not legally require an MSO, but in states with corporate practice of medicine (CPOM) laws, it's often the only compliant way for non-physicians to participate in ownership and management. An MSO ensures the business side is separated from the clinical practice, protecting both parties from legal risks.

What Happens if I Violate MSO Rules?

Violating MSO rules can result in regulatory investigations, medical board sanctions, civil penalties, or even criminal charges for unauthorized practice of medicine or fee splitting.

How Much Control Can an MSO Have?

An MSO can control administrative functions like marketing, staffing (non-clinical), financial management, and office operations, but cannot direct patient care, hire medical professionals, or set clinical protocols.