



# **The Ultimate IOLTA Guide:**

**Setup, Compliance, Mistakes to Avoid,  
How to Implement with Ease**

# **IOLTA Accounts are the key to make your law firm profitable!**

If you never have to chase money, always get paid in full and on time, why would you do it any other way?

## **This guide will take you through the nitty gritty of IOLTA trust retainer management:**

What it is, what it means, and why it's a great idea for any modern law firm.

We will also explain how LeanLaw will set you up with evergreen IOLTA retainers that are compliant with state bar regulations so that you can focus on lawyering rather than chasing your clients for payment.

# Table of Contents:

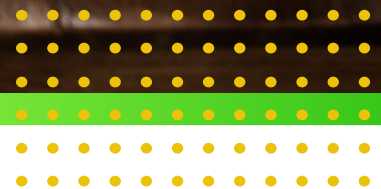
What is an IOLTA Account?	4
The History of IOLTA Accounts	5
What Are Client Funds and How are They Managed?	6
What Happens to the Interest Earned on an IOLTA Account?	7
How is Interest Earned in an IOLTA Account Transferred?	8
Does Every State Have an IOLTA Fund Program?	9
How Does an IOLTA Work?	10
How Do I Set Up My Firm's IOLTA Account?	12
Do You Need Help Establishing Your IOLTA Accounts?	13
How Do I Make Sure I Manage My IOLTA Account Properly?	15
A Checklist for Properly Managing Your IOLTA Accounts	16
Do You Want to Get Started on Your IOLTA Today?	18
LeanLaw Is the Best Tool for All Your Accounting Needs	19
Help for Your Firm...From Your IOLTA Trust Accounts and Beyond	20

# What is an IOLTA Account?

**The term IOLTA stands for Interest on Lawyers Trust Accounts.**

First established in 1981, IOLTA accounts were created so that law firms could hold client funds collectively in an interest bearing trust account until the time those funds were needed.

Law firms are required to hold their client's funds separately from the law firm's operating account funds. The reason for this is that an attorney or the law firm can't benefit from client money or any interest earned on it.



# The History of IOLTA Accounts

Up until the early 1980s, American law firms and their lawyers had been given relatively loose protocols and guidelines when it came to client trust accounts and the various ways they were expected to be managed.

## **That changed in 1981. From the American Bar Association:**

Since 1981, IOLTA has generated over \$4 billion in revenue throughout the United States. In 2020, IOLTA grants nationwide totaled over \$175 million. IOLTA is a significant source of funding for programs that provide civil legal services to those living in poverty, with over 90 percent of grants awarded by IOLTA programs (~\$168 million in 2020) supporting legal aid offices and pro bono programs.

**IOLTA Trust Accounting  
Made Easy with LeanLaw**



# What Are Client Funds and How are They Managed?



For most law firms, it is customary practice to ask a new client for a legal retainer before any attorney hours are billed on that client's behalf.

A retainer is usually a set amount of money that the law firm collects from the client for work that will be done at a later date. A retainer may be for a particular matter or general services over a period of time.

Often, if a client has been asked to provide the law firm with a large retainer, that client's money may very well be held in a separate trust account that is specifically established for that client.

For client retainers that are not substantial enough to warrant their own bank account, a law firm will be required to place those client funds into a general IOLTA account, where the funds will be held with the retainers of other clients as well.

LeanLaw IOLTA

# What Happens to the Interest Earned on an IOLTA Account?

When a firm deposits a client's money into an IOLTA account, the interest earned on those dollars are then transferred to that state's IOLTA program.

Since it is illegal (and would be unethical) for an attorney to benefit from any interest that is earned on their client's retained funds, the money that is generated from an IOLTA is instead used for various charitable endeavors throughout each state.

Most IOLTA programs are run by the state's bar association. The funding provides civil legal services throughout that specific state: from legal aid for underserved residents to scholarships for low-income students. The interest earned through IOLTA accounts goes a long way in helping each state find ways to serve certain populations that need it the most.

By participating in their state's IOLTA program, law firms can comfortably count on their client trust accounts being safe, secure, and in compliance.

**It is imperative that law firms follow state bar regulations when setting up these accounts.**

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# How is Interest Earned in an IOLTA Account Transferred?

One vitally important part of the IOLTA process is making sure that the interest on lawyers trust accounts is properly transferred and accounted for.

IOLTA regulations will vary from state to state: it's imperative that a law firm become familiar with the timeline for transferring money from their IOLTA account into their state's IOLTA program.

Penalties for the mismanagement of money held in an IOLTA trust account can be severe, and may even include disbarment if not handled according to state bar regulations.

Once you establish your firm's IOLTA account with a banking institution that is accustomed to IOLTA lawyer trust accounts, you will need to familiarize yourself with the timeline and process for transferring interest earned funds in the appropriate way, according to your state's guidelines.

**You'll also need to make sure that you accurately account for those funds.**

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# Does Every State Have an IOLTA Fund Program?

Every state has adopted an IOLTA program, but not every state makes it mandatory for an attorney or law firm to participate in the program.

Though many of the rules around an IOLTA account are set by the American Bar Association, each state has the option to adjust and amend these rules as they see fit for the practice of law in their specific state.

Some differences in each state's management and operation of an IOLTA program are based on how certain funds and deposits need to be handled, how the accounting and record-keeping need to be shared, and how often reporting must be done.

Because the rules around an IOLTA program can vary by state, it's important for an attorney and/or their administrative team to thoroughly understand the laws around an IOLTA trust account for their specific state.



## How Does an IOLTA Work?

When a law firm asks a client for a retainer for legal services not yet rendered, those funds need to be held in a way that will keep them secure but won't allow those funds to be mistaken for the law firm's operating expense funds.

**It is against the law for a firm to use any unrendered client funds for anything other than legal services for that client.**

Payroll expenses, rent or mortgage payments, or any other type of expense associated with running the law firm can not be paid with client money that's being held in a lawyer's trust account. These expenses – usually referred to as operating expenses – must be paid out of a separate account from the one holding client money.

By placing short term client funds into an IOLTA account, these funds can then be guaranteed to remain separate from other monies that the firm is in possession of.

A law firm also can't benefit financially from any interest earned on these funds. Each state's IOLTA program allows for any interest earned on these funds to be used for various purposes across each state.

**Most states have decided to direct a large portion of the interest earned in an IOLTA interest bearing trust account toward providing civil legal aid to the underserved population in their state.**

# How Does an IOLTA Work?



Different states have different organizations that oversee the IOLTA program. **Though many administer their IOLTA accounts through the state's bar association, IOLTA accounts can also be monitored and managed by other entities as well.**

Regardless of what organization is accountable for the management of the IOLTA accounts and the administration of the funds, it is each specific law firm's responsibility to make sure that their client's IOLTA account's interest earned is being recorded, managed, and administered properly.

**Failure of a firm to manage its client funds and/or IOLTA accounts in the correct manner can result in grave consequences for the law firm or the individual attorneys.**

Some of the potential consequences include penalties, fines, and even disbarment from that state's bar association.

# How Do I Set Up My Firm's IOLTA Account?

Setting up an IOLTA account for your firm is not complicated, as long as you follow certain guidelines to get you through the process.

**Most larger banks will have the ability to open and maintain an IOLTA account for you.** If your bank does not participate in your state's IOLTA program, you will need to establish a relationship with a bank that does.

**Once you've decided where to open your firm's IOLTA account, you'll fill out relatively standard paperwork.**

Client funds will be deposited into this account. Interest earned will transfer from this account to your state's IOLTA program, so you want to make sure that only client funds are deposited here.

LeanLaw's cloud-based, native integration with QuickBooks Online helps your law firm:

- stay in compliance with IOLTA state bar standards and practices
- automate the way your law practice manages client funds
- increase cash flow and decrease AR

A true, cloud-based solution — LeanLaw continually updates with three way reconciliation.

[Request Demo](#)

# Do You Need Help Establishing Your IOLTA Accounts?

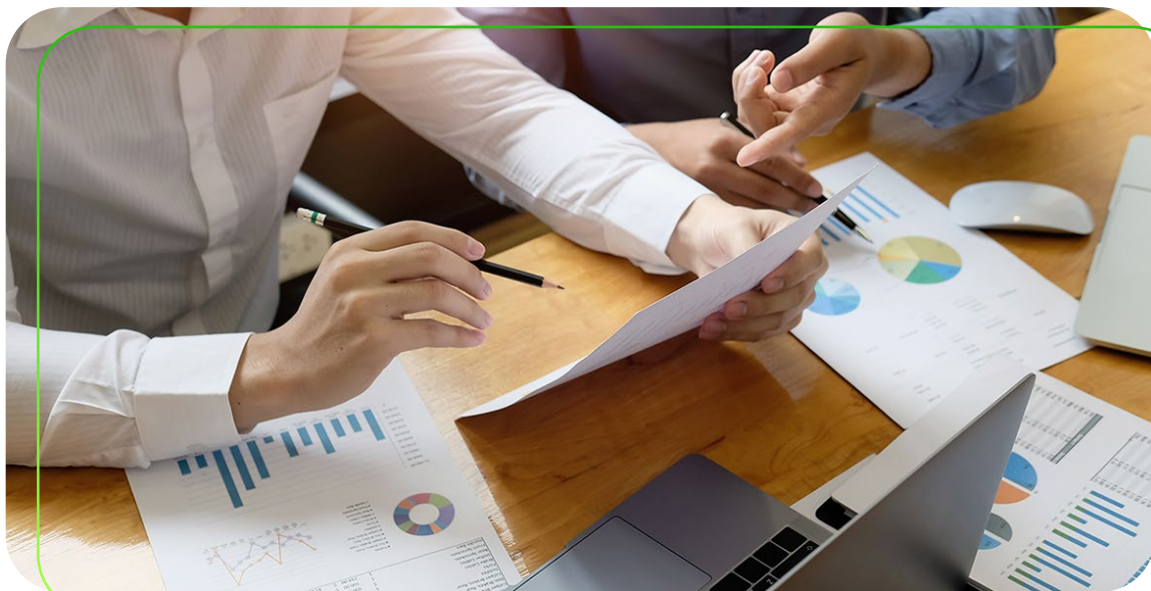
If you're ready to learn more about IOLTA accounts and how to set up interest bearing checking accounts in your state, consider reaching out to **LeanLaw Accounting Pros** to help with any and all of your law firm's accounting needs.

LeanLaw Accounting Pros are experts in law firm accounting (including IOLTA), LeanLaw and are certified QuickBooks ProAdvisors.

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*LeanLaw has created the most streamlined and comprehensive accounting software for law offices across the country and can help you with anything from establishing lawyers' trust accounts to managing accounts receivable or invoicing needs.*

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# Do You Need Help Establishing Your IOLTA Accounts?

The approach to law firm accounting software is simple at LeanLaw.

By focusing on the most important aspects of your firm's business, LeanLaw can help law firms get paid faster with streamlined invoice delivery and online payments.

If you are ready to take your accounting to a new level, request a demo from our online site today.

LeanLaw software is created to understand the complexities of running a law firm and the importance of client fund management and transparency. With LeanLaw software, your firm's accounting department can assign trust accounts and bank accounts for each of your client funds as needed and keep track of how each is being distributed.

From managing your firm's IOLTA account to creating easy to access, **data-driven reports**, LeanLaw can make running your law firm much easier for everyone involved.

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*If you'd like to learn more about how LeanLaw accounting software can help your law firm request a **demo** from our website today.*

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# How Do I Make Sure I Manage My IOLTA Account Properly?



Two Golden Rules for managing your IOLTA accounts:

- 1. Funds that are deposited into an IOLTA account must never be deposited into an operating account until after the client has been invoiced for a service rendered.**
- 2. The interest earned on the IOLTA account must be properly transferred (and documented) to the state IOLTA program.**

# A Checklist for Properly Managing Your IOLTA Accounts

Though IOLTA accounts serve a great purpose in helping guarantee civil legal services for those who need them, they can be intimidating for many law firms to manage.

Following is a checklist of some best practices to put into place regarding your firm's IOLTA account:

- **Make sure that your firm's operating funds and client funds are always kept in separate accounts.**
- **Educate yourself on the benefits of three-way reconciliation software in order to be able to sync your various accounts and create real-time accounting between your individual client accounts, your law firm's account ledger, and your bank account's monthly statements.**
- **Reconcile IOLTA accounts (using three-way reconciliation) at least once a month and more frequently if possible.**
- **Deposit all incoming retainer checks immediately into the appropriate IOLTA trust accounts.**
- **Move earned fees out of your IOLTA account in a timely manner, or as specified by your state's IOLTA program.**
- **Keep accurate and up-to-date records of all IOLTA funds, trust accounts, and any other of your firm's interest bearing accounts. Err on the side of over-accounting for all trust funds, no matter how big or small.**



# Properly Managing Your IOLTA Accounts

Even when a firm is painstakingly aware of the importance of accuracy, simple errors can happen that can put the whole firm in jeopardy. Avoiding these common errors is going to require a firm's time and attention — both of which are precious commodities in a lawyer's life.

A true, cloud-based solution, LeanLaw continually updates with three way reconciliation.



# Do You Want to Get Started on Your IOLTA Today?



LeanLaw was founded by an attorney who was tired of endless hours of manual work spent on back office functions like figuring out trust accounting, billing software, bank statements, and accounts receivable reports.

LeanLaw's industry-specific software can do all of that for you, plus a lot more.

IOLTA management is a sweet spot for LeanLaw. Our integration with QuickBooks takes away the hassle of trust accounting.

[Request Demo](#)

# LeanLaw Is the Best Tool for All Your Accounting Needs

Understanding the operations of an IOLTA account is important for every law firm.

LeanLaw is accounting software designed to make the process easy to manage.

**LeanLaw is a financial operating system that is built specifically for law firms.**

Designed by a team of passionate lawyers, engineers and communicators, the team at LeanLaw has created a product that will empower your firm to ensure that everything billable is being captured correctly, that money is flowing through each account properly and that reports, and invoices are accurate and easy to print and prepare.

**Using the QuickBooks Online platform, a firm can rest assured that all of their bank accounts and trust accounts are in continuous sync and compliant with each state bar's standards. LeanLaw is cloud based and all transactions can be viewed in real-time.**

[Request Demo](#)

# Help for Your IOLTA Trust Accounts and Other Legal Specific Operations



Sourcing the best tool for the complex tasks of managing your law firm's accounting and record keeping can sometimes feel overwhelming.

Our software focuses on the most important aspects of your firm's business and helps law firms get paid faster with invoice delivery and online payments.

LeanLaw software is created for the complexities of running a law firm and the importance of client fund management and transparency. LeanLaw will help keep your firm in compliance with all state and federal rules and regulations surrounding your practice.

LeanLaw is also designed to help your firm track profitability by each attorney, client, or specific matter.

[Request Demo](#)

# Articles to Consider:

**Case Study: Rust Law solves IOLTA, ditches MyCase, and gains law firm accounting expert**



**IOLTA Trust Accounting for Law Firms**



**Law Firm Accounting 101**



**Benefits of Outsourced Accounting and Bookkeeping for Law Firms**



**eBook: Law Firm Software Buyers' Guide**



**Law Firm Automation 2.0: The Power of a Tailored Legal Tech Stack over an All-in-One Solution**

