Opening the Doors to Justice

INTEREST ON LAWYERS TRUST ACCOUNTS
The Arizona Program for the Community It Serves
What is IOLTA?

The Arizona Supreme Court has a program known by its acronym, IOLTA (pronounced eye-ole-ta). IOLTA stands for “Interest on Lawyers Trust Accounts.”

Why should you care about IOLTA? If you’re the client of a lawyer, you might have paid the lawyer an advance fee for services before the lawyer earned the money. In that case, the lawyer has to safeguard your money in a financial institution until the lawyer earns it. In addition, you might have benefitted from the programs that IOLTA funds.

In this brochure, the State Bar of Arizona and the Arizona Foundation for Legal Services & Education explain how IOLTA works and benefits Arizona.

What is a lawyer trust account?

An account in which lawyers hold funds that do not belong right now to the lawyer or are disputed. Lawyers most commonly hold two types of funds in their trust accounts: client payments for work the lawyer has not yet performed and money which may be owed to a third party, such as a medical provider. Lawyers must safeguard these funds in an account in a financial institution, most commonly a bank. Lawyers and law firms each may collect all of these types of funds into a pooled account that earns interest. These types of pooled accounts are referred to as IOLTA accounts.
What happens to interest earned on IOLTA accounts?
That’s the heart of the IOLTA program! Under the Arizona Supreme Court rules, the interest earned on IOLTA accounts is entrusted to the Arizona Foundation for Legal Services & Education, a non-profit organization that exists to improve access to justice and education about our justice system.

Why don’t the clients receive the interest generated by this pooled account?
If a client’s funds are a large amount, and will be held for a long time, the lawyer may keep the client’s funds in a separate account and the client may receive the interest earned. However, an individual client’s funds are often not large enough, nor held long enough, to earn any interest in a trust account. The IOLTA program provides a cost-effective way for lawyers to safeguard these funds in a pooled account with many other clients’ funds, where the pooled funds can earn interest, which is used for the public good. The lawyer is responsible for determining the best way to safeguard the funds according to Supreme Court guidelines.
How do the clients know the money in the pooled accounts is safe?

Lawyers must comply with Supreme Court rules relating to their conduct, including how they manage their IOLTA accounts. They must maintain IOLTA accounts only at regulated and approved financial institutions whose deposits are federally insured, who agree to comply with required reporting, and to transmit funds as required to the Foundation.

Is the IOLTA program legal?

Yes. IOLTA programs have now been created in 50 states, the District of Columbia, and the Virgin Islands. The U.S. Supreme Court has determined that IOLTA programs are allowed because the interest is used to support non-profit agencies that benefit communities with law-related services.

Who makes sure the Foundation receives the interest?

Lawyers are responsible for making sure the financial institution sets up the IOLTA account so that it pays the interest directly to the Foundation. Lawyers have many resources to help ensure the account is set up properly. In addition, the State Bar provides education to lawyers about IOLTA accounts and the Foundation works with financial institutions to make sure they understand the process.

Who pays the IOLTA account fees and service charges?

The Arizona Supreme Court rule governing the IOLTA program allows financial institutions to keep a small fee from the interest earned on an IOLTA, but many financial institutions waive those fees to benefit the IOLTA program. The lawyer is responsible for all other fees, such as the cost of check printing.

Who pays taxes on the IOLTA account interest?

No one. The Internal Revenue Service has concluded that interest income from IOLTA accounts payable to a tax-exempt organization, such as the Foundation, is not taxable to (or deductible by) the client or the lawyer.

Why do we need an IOLTA program?

Without taxing the public, and at no cost to lawyers or their clients, the interest from pooled lawyer trust accounts provides legal aid to the poor and law-related education programs for the public. The IOLTA program has generated more than $2 billion nationwide for some of our country’s most vulnerable residents.
How does the Foundation spend the interest?

The Foundation supports programs to help the poor get legal services, to support programs that teach people about the legal system, and to fund studies or programs that improve the administration of justice. Arizona’s IOLTA program currently provides more than $2.5 million each year benefiting more than 18,000 people with free legal services and reaching more than 300,000 children with education about the law, our justice system, and their rights and responsibilities as citizens.
This brochure is offered to you by your attorney.

For a complete list of programs funded by the Arizona IOLTA program, visit the Foundation’s Web site at

www.azflse.org

In addition, the Foundation provides public legal information and education through these Web sites:

www.AZLawHelp.org
www.LawForSeniors.org
www.LawforKids.org

Arizona Foundation for
LEGAL SERVICES
& EDUCATION

For more information about the Arizona Foundation for Legal Services & Education, go to

www.azflse.org or call 602-340-7366

STATE BAR OF ARIZONA

For more information about the State Bar of Arizona, go to

www.azbar.org or call 602-252-4804