



## CHAPTER 5: MANAGING REVENUE

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A big surprise for new lawyers opening their own business is that it's actually a business. Running a business requires an effective accounting system to keep track of time, invoices and expenses. One problem facing solo and small firm practitioners is that they cannot afford to spend money on an outside accountant to manage the entire accounting system, and the traditional legal software products are too expensive.

Fortunately, there is a solution that is inexpensive if you are willing to spend some time learning how to operate an accounting system. QuickBooks has been a popular resource for small business accounting systems for years. However, in evaluating which version of QuickBooks to use, consider subscribing to the QuickBooks Online service. This service hosts your entire accounting system on the Internet. The major benefit of hosted services is that you will not have to worry about backing up your data or installing a new version of the software every year.

There is one particular feature of QuickBooks Online that is a fantastic feature for attorneys: the ability to enter time anywhere you have an Internet connection. This is particularly important if you have more than one time keeper. Instead of having to enter all time on the one computer which contains Quickbooks, you can instruct all timekeepers to log into the website and enter their own time. Importantly, you can give your time keepers varying levels of access to the accounting books. For example, you may want to give a contract attorney the ability to enter time without the ability to access the entire accounting system. By contrast, a partner may be granted full access.

When it comes time to generate end of the year tax statements, you can also give your accountant varying levels of access to QuickBooks Online. This is quite useful if your accountant is in another city.

Attorneys who are not familiar with accounting should take some time to learn the basics. There is a plethora of help forums and videos available specifically for QuickBooks which should help you through the toughest of accounting problems. It is not uncommon to have to spend several hours a day working on your accounting system when you first start your law firm until the accounts are set up and balanced. You will need to evaluate and decide whether you should do this work yourself or whether you should pay someone else to do it for you so you can spend your time engaging in other tasks.

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**HOW TO OBTAIN A TAX ID**

You need an Employer Identification Number (EIN) if you have done any of the following:

- started a new business
- hired or will hire employees, including household employees
- opened a bank account that requires an EIN for banking purposes
- changed the legal character or ownership of your organization (for example, you incorporate a sole proprietorship or form a partnership)
- purchased an existing business
- created a trust
- created a pension plan as a plan administrator
- are a withholding agent for taxes on non-wage income paid to an alien (such as an individual, a corporation, or a partnership)
- formed a corporation
- formed a partnership
- administered an estate formed as a result of a person's death

This EIN is your permanent number and can be used immediately for most of your business needs, including opening a bank account, applying for business licenses, and filing a tax return by mail. However, no matter how you apply (phone, fax, mail, or online), it will take up to two weeks before your EIN becomes part of the permanent records of the IRS. You must wait until this occurs before you can file an electronic return, make an electronic payment, or pass an IRS Taxpayer Identification Number matching program.

The easiest place to obtain an EIN is at [www.IRS.gov](http://www.IRS.gov). There is a short wizard tool that will walk you through the application process to obtain your EIN.

**CLIENT TRUST ACCOUNTS**

It is imperative that you not mingle client trust funds with money in your law firm's operating account. Lawyers have been put in jail for improperly raiding client trust accounts to cover business expenses.

Each licensed attorney, if handling client funds, is required to set up a separate IOLTA trust account. While it is permissible to use one IOLTA account for all clients, it is necessary to keep accurate and detailed records on transactions for each client.

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A separate interest bearing non-IOLTA trust account must be established for client funds to be held for a longer period of time which are expected to earn interest in excess of the cost of maintaining a separate account. The interest earned in these cases belongs to the client.

The requirements for IOLTA accounts specify that an attorney or law firm must direct the financial institution:

1. To remit, at least quarterly, interest earned on the average daily balance in the account, less reasonable service charges, to the Texas Access to Justice Foundation (“TAJF”);
2. To provide TAJF with information regarding the name of the attorney or law firm for whom this remittance is made, the interest rate applied, and the amount of service charges, if any, deducted.
3. To provide the attorney with a copy of all the information sent to the TAJF.

TAJF uses the money to fund legal aid organizations that provide legal services to the poor. TAJF provides an IOLTA Notice to Financial Institutions and Foundations form which must be completed by the attorney or law firm and given to the financial institution. A copy of this form must be sent to TAJF within thirty days of establishing the IOLTA account. Additionally, in the event of any change in account status or account closure, you must notify TAJF in writing within thirty days of either event.

When choosing a bank for your general operating account, you should first inquire whether the bank provides IOLTA accounts. There are special requirements for IOLTA. When selecting your bank, visit [www.teajf.org](http://www.teajf.org) to ensure compliance. You can also look for the TAJF Prime Partners, who have committed to providing the highest interest rates, thus providing more funding for legal aid. Be sure your bank is approved by TAJF before opening an IOLTA account. Having your operating account and trust account at the same bank typically makes account transfers easier, and banks are willing to provide the IOLTA service so they can get your business on the operating side.

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### CONFLICTS OF INTERESTS

When you are just starting out, it is likely that the number of clients you have will be manageable to determine whether or not there are conflicts among parties. However, it is a good idea to start a database at the beginning of your practice to track party names and identities on matters which your firm is involved. Should your firm grow, it will be impossible to go back and recreate this database from memory. Failing to keep track of parties and conflicts could put you at risk for complaints in the future. Additionally, all professional liability carriers require you to maintain a client database to check for conflicts. If there is any question regarding a conflict of interest, check the most up to date Professional Rules at <http://www.texasbar.com>. In addition, you can contact the State Bar of Texas's attorney ethics helpline for any questions you have about your ethical obligations or conflicts at 1-800-532-3947.