Are Non-Lawyers Allowed to Own a Law Firm?

Written by Mike Robinson

If there has been one constant about the qualifications to own an American law firm, it has been this–you must be a lawyer. With the exception of the District of Columbia, the default rule in U.S. jurisdictions for decades has been that non-lawyers cannot own law firms. However, this is now changing, with many states relaxing this prohibition.

So where does this leave the practice ownership prospects of non-attorneys, including other legal professionals such as paralegals? The answer depends on the state and the exact circumstances, as we explore here.

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Who typically owns a law firm?

Outside of a few exceptions, the general rule in the U.S. is that only licensed attorneys can own law firms. Exceptions exist, such as in Washington, D.C., where non-lawyers can hold minority stakes, with more states slowly considering or adopting similar reforms.

Why can't non-lawyers own law firms in most states?

In 1983, the American Bar Association (ABA) released Attorney Rule of Professional Conduct 5.4, entitled "Professional Independence of a Lawyer." Rule 5.4 places several restrictions on lawyers working with non-lawyers, including the following:

- Except under some narrow circumstances, a lawyer or law firm cannot share fees with a non-lawyer
- A lawyer cannot form a partnership with a non-lawyer involving the practice of law
- A lawyer cannot practice with a firm if a non-lawyer (1) holds any ownership interest in that firm, (2) is a director or officer of the firm, or (3) has the right to direct or control a lawyer's professional judgment

This rule means that non-lawyers are barred from holding any ownership interest in law firms. Once Rule 5.4 was adopted by state bars, it effectively slammed the door on non-lawyer ownership of legal practices nationwide.

The reasoning behind this rule is to prevent non-lawyer owners, who are typically not bound by professional conduct rules, from prioritizing profits over meeting ethical duties and providing good legal services. Another aim is to protect attorney-client confidentiality by preventing non-lawyers from having access to client information.

Can a non-lawyer own a law firm in the US?

Not in most states, but a non-lawyer can hold an ownership interest in a law firm under limited circumstances in the District of Columbia, Arizona, and Utah.

Trend in U.S. toward allowing non-lawyer ownership of firms

There has been a growing recognition that non-lawyer ownership of firms may not be as harmful as previously imagined. Not only have non-attorney-owned legal practices worked well in other countries, but it may actually serve the public well to break down this blanket prohibition. This has led to a trend in recent years of several states relaxing their Rule 5.4 requirements.

The following jurisdictions are presented in order of non-lawyer ownership leniency, beginning with the most lenient.

District of Columbia

In the U.S. capitol, non-attorney ownership has been allowed under limited circumstances since 1991. Per the District of Columbia bar rules, a non-lawyer can hold a financial interest in a firm if they provide professional services that assist the firm in providing legal services to clients. (As would be expected in Washington, D.C., the most common non-attorney role is government lobbyist.) The firm must have the sole purpose of providing legal services.

The non-lawyer owner must also abide by the DC rules of professional conduct. In addition, lawyers with a financial interest or managerial authority within the firm are responsible for non-lawyer owners, just as if they were actually lawyers.

Arizona

In 2020, the Arizona Supreme Court adopted changes to the state legal ethics rules which eliminated Rule 5.4. Since the beginning of 2021, a non-lawyer can hold an ownership interest in an entity known as an Alternative Business Structure (ABS) that is licensed by the state to provide legal services. The ABS must have at least one Arizona-licensed attorney to act as its compliance lawyer. In contrast to the District of Columbia rule on non-lawyer-owned firms providing legal services only, ABSs in Arizona can act as "one-stop shops" providing both legal and non-legal services.

Utah

Also in 2020, Utah instituted a regulatory "sandbox" to oversee non-traditional firms with non-lawyer ownership. Instituted as a two-year pilot program, which has since been extended to seven years, it created the Utah Office of Legal Services Innovation to license and regulate ABSs and alternative legal providers (ALPs) within the state. The Utah model allows for licensing of traditional law firms with non-lawyer ownership, as well as non-lawyer-owned entities employing lawyers to practice law.

States moving toward reforms

Other states have taken more modest steps toward allowing non-lawyer-owned firms. A 2021 amendment to California's version of Rule 5.4 permits greater fee sharing with non-attorney-owned organizations that qualify as nonprofits under IRS rules. A Massachusetts firm may share fees with a "qualified legal assistance organization" as long as the fee-sharing is disclosed to and approved by the client. Georgia firms may work and share fees with non-lawyer-owned firms and legal organizations based in other jurisdictions that allow them.

Can you own a law firm without being a lawyer in California?

No. While California allows fee-sharing with non-attorney-owned non-profit organizations, the state still follows ABA Rule 5.4 prohibiting non-lawyer ownership of law firms.

How do other countries handle non-lawyer ownership of law firms?

Outside the U.S., other countries have permitted non-lawyer ownership of law firms with some success and a low amount of public complaints.

- **Australia.** The land down under became the first common-law jurisdiction to allow non-lawyer-owned firms when the state of New South Wales passed authorizing legislation in 2001.
- **United Kingdom.** The UK followed suit in 2011, establishing a regulatory framework for non-lawyers to take a fitness test to become firm owners, and also requiring the appointment of in-firm personnel to ensure compliance with lawyers' professional obligations.
- **Canada.** Since 2020, both British Columbia and Ontario have instituted regulatory sandboxes similar to the Utah model, allowing non-lawyer-owned organizations to apply for the right to provide legal services to the public.

These countries have seen increased innovation and competition within their legal industries. There have also been improvements in their access to capital and varied business plans that have served the non-lawyer-owned firms well.

The rise of alternative business structures (ABSs)

When legal services providers are owned or managed by non-lawyers, one of the most common business forms is an alternative business structure (ABS). While Utah and Arizona have only recently begun licensing ABSs, the first ABSs in the UK were launched back in 2012. Thus the UK may provide a roadmap of where American ABSs are heading.

ABSs have grown substantially in the UK, amounting to about 1 in 10 law firms in 2021. These business entities come in many business forms and provide a variety of services. They include private-equity-backed businesses, online platforms such as Legal Zoom, and businesses mixing law with other professions (such as accounting). Much of the success of ABSs derives from their ability to provide multiple types of services to each client.

Some of these UK ABSs are even making inroads into the U.S. legal industry. In 2022, the Arizona Supreme Court granted an ABS license to the company Elevate, making it the first entity to hold ABS licenses in both the UK and the U.S. However, there have also been limits placed on these inroads—the New York State Bar Association declared in 2021 that a New York lawyer cannot work for a firm allowing ownership by non-lawyers.

Although most U.S. attorneys will not open their own ABSs or work for them, they will still need to know how to interact with these entities. The ABA holds an attorney may share fees with an attorney or law firm even if part of that fee might go to a non-lawyer, which effectively allows fee sharing with ABSs under these circumstances. Moreover, although the ABA still maintains lawyers should not work for ABSs, it does allow attorneys to passively invest in them.

Benefits of non-lawyer-owned law firms

One advantage of non-lawyer ownership for law firms is the increased access to capital. Law firms that can only accept lawyers as owners may have less funding, making them more susceptible to economic downturns than traditional businesses. This also could leave a firm unable to adequately represent a client against a larger, better-funded opponent.

A non-lawyer can also bring outside expertise to the legal industry in such areas as finance, marketing, and recruiting. This is especially helpful in the legal profession, which tends to be relatively insular compared to other industries.

Non-lawyer ownership also opens the door for alternative business structures that could benefit the public. A business may be able to provide ancillary services in addition to legal services, such as accounting. Moreover, it allows for non-attorney legal professionals, such as paralegals, to put their knowledge of the legal industry to use to start firms offering more cost-effective services.

Drawbacks of non-lawyer-owned law firms

When examining the potential drawbacks of non-lawyer-owned firms, it is important to examine the initial reasons for Rule 5.4. Specifically, what will the impact be on the integrity of the legal profession? Will lawyers lose their professional autonomy when non-lawyers can call the shots at their firms?

Despite these concerns, the new models being introduced in the U.S. have safeguards. For example, non-lawyers are generally required to comply with legal ethical requirements. Arizona's requirement of a compliance counsel at each non-lawyer-owned firm is another illustration.

Another solution is to look to legal professionals to act as firm owners, since they will share the attorneys' standards for professional conduct. Paralegals and other non-attorney legal professionals could be the right stakeholders to run the modern legal practice.

What are the arguments for and against non-lawyer ownership of law firms?

The arguments for non-lawyer ownership are increased access to capital and innovation, as well as greater public access to legal services. The arguments against include the potential for non-lawyers valuing profits over high-quality legal services and failing to follow ethical duties imposed on attorneys.

What is the future of non-lawyer ownership in the U.S.?

While the idea of non-lawyer ownership is gaining traction in the U.S., there is still a long way to go before full adoption. The Florida Bar and Florida Supreme Court have flatly rejected non-attorney ownership. The ABA has also maintained its version of Rule 5.4.

Much will depend on the progress of the new regulatory frameworks in Arizona and Utah. If those programs prove successful, more states may adopt similar approaches.

Regardless of these outcomes, it is clear there is enormous demand for efficient and cost-effective legal services that traditional law firms may not be able to meet. In addition, a broad need for access to justice may force more states to allow for non-traditional business structures for organizations providing legal services.

Running a firm is a challenge for both attorneys and non-attorneys

The bottom line here is that establishing and running a legal practice will be a challenge for anybody, lawyer or non-lawyer. While non-attorney expertise could be pivotal for some firms, everybody will still face this challenge.

If you are a non-attorney legal professional looking to own a firm, you would do well to use the right practice management software to streamline the practice. Schedule a Clio demo to see how Clio can help a new firm owner be successful.

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