

Change to California Tax Returns May Be Costly for the Noncompliant

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New for the 2021 tax filing season, California is now requiring taxpayers filing a corporate, partnership or LLC tax return to verify their compliance with the state's unclaimed property reporting laws. Due to low reporting of unclaimed property in California, the state estimates that businesses could be holding on to close to \$18 billion in escheatable funds. In fact, as little as 2% of businesses are estimated to be compliant with the state's unclaimed property reporting laws.

What is Unclaimed Property?

Unclaimed, or escheatable, property is tangible or intangible property that has been abandoned or lost by its rightful owner for a specified period of time. Common forms of unclaimed property include uncashed payroll and dividend checks, unredeemed money orders, insurance payments or refunds, unredeemed credit balances, uncashed vendor checks, savings or checking accounts, and gift cards. Each state has enacted its own laws under which items of unclaimed property are required to be remitted following the expiration of a defined time period.

California's Focus

California tax returns will now require responses to the following questions pertaining to unclaimed property compliance:

- Has this business entity previously filed an unclaimed property Holder Remit Report with the State Controller's Office?
- If "Yes," when was the last report filed?
- What is the amount last remitted?

Responses to these questions will be shared with the State Controller's Office, which may contact the taxpayer and could proceed with an unclaimed property audit. For out-of-state businesses, unclaimed property audits are often referred to third party collection companies that provide enforcement for multiple states, thereby further opening the possibility of a multi-state unclaimed property examination.

What Should Businesses Do?

Businesses that have not historically reported unclaimed property or that may have compliance gaps should undertake an internal review of their unclaimed property exposure. Many states have ongoing voluntary disclosure opportunities that waive interest and penalties on delinquent filings to proactively assist companies to get into compliance.

With the new questions listed on the California tax returns, unclaimed property compliance has been thrust into the spotlight. Noncompliance with the California laws can prove costly for businesses, as the state levies a 12% interest rate on back filings and typically conducts audits going back 10 years.

If you have questions about your unclaimed property compliance or would like to conduct an internal review to evaluate potential exposure, please contact [Alan Goldenberg](#), Principal and Leader of the State and Local Taxation and Tax Controversy groups, or your Anchin Relationship Partner.