

Why Companies Should Not Ignore Unclaimed Property Regulations

April 3, 2024



Tax practitioners and corporations across the United States find themselves confronting a surge in **state audit notices concerning unclaimed property (“UP”) and heightened scrutiny on record retention**. This issue has swiftly vaulted to the forefront of corporate compliance as states intensify their efforts to uncover unclaimed assets in a bid to bolster revenues amidst fiscal constraints.

Many times, businesses are not actually aware that they have unclaimed property or are not sure what qualifies. **Listed below are important concepts to understand:**

- UP includes property or accounts within financial institutions in which no activity has been generated or no contact has been made with the owner regarding the property for a specified period of time.
- UP is not a tax, nor is it managed by taxing authorities; thus, rules such as the IRS’s seven-year document retention mandate are not applicable.
- When the no contact or dormancy period is reached, the UP must be remitted as the first priority to the state of the owner’s last known address or, if unknown, to the state of the business’s incorporation.
- Annual compliance filings and due diligence requirements vary by state, with most states necessitating a report even if no property is required to be remitted.

- Failing to comply with UP mandates can result in penalty assessments and examinations covering many years.

The most prevalent forms of UP include uncashed payroll checks, accounts payable checks, and accounts receivable credits. However, the spectrum of unclaimed properties varies depending on the industry and ranges from store gift cards to valuables in safety deposit boxes.

Historically, UP laws faced lax enforcement. The landscape shifted as third-party audit firms began conducting audits on states' behalf for contingency fees, leading to the current environment in which multiple auditors target companies of all sizes for non-compliance. Consequently, companies are compelled to address their unclaimed property obligations to avoid an audit notice. Missing filings or ignoring UP requirements will further escalate the likelihood of an audit, which may scrutinize not just the entity named but also any related entities within its corporate structure. These audits can have devastating consequences for the unprepared. Some states require companies to provide historical UP records going back up to 15 years, a requirement that catches many businesses off-guard. Companies are delving deep into their financial archives to unearth any traces of unclaimed property, often with unexpected outcomes.

To mitigate risk, businesses must engage experienced unclaimed property experts to develop policies and procedures regarding compliance and extended document retention to comply with UP rules. Additionally, internal teams should actively reach out to vendors, customers, and employees to resolve outstanding credits promptly and accurately.

Though UP audits can be daunting, proactive adherence to robust processes can shield companies from significant exposures. To learn more about the risks of an unclaimed property examination and how to formulate a comprehensive compliance policy, please contact [Alan Goldenberg](#), Principal and Leader of the State and Local Tax and Tax Controversy groups, or your Anchin Relationship Partner.