



Unclaimed Property

Does it Get Enough Credit?

Agenda

- UP 101
 - Terminology
 - Reporting Basics
- UP in Accounts Receivable
 - Open AR
 - Write Offs
 - Unapplied Cash
- Specialty Topics
 - Loyalty & Incentive Programs
 - Settlement Agreements
- Disbursements & Other Property Types
- MN Self-Audit

UP 101



What is Unclaimed Property?

- Property not claimed by an “owner” for a specified period of time is considered “abandoned” or “unclaimed”
- The underlying obligation must be fixed and certain
- After statutorily defined holding periods, the “holder” of the property has an obligation to perform due diligence and if no response is received, remit the property to the appropriate state
- Unclaimed property is NOT a tax, so nexus does not apply
- There is an annual filing requirement, and some jurisdictions require negative reporting (i.e., no property to report that year)
- 100+ property types are considered sources of unclaimed property

What is Unclaimed Property?

- The potential for unclaimed property exists in EVERY company and industry:
 - **EMPLOYEES** result in uncashed/voided payroll checks, unused paycards, rejected direct deposits, etc.
 - **VENDORS** result in uncashed/voided checks, returned ACH/wires, etc.
 - **CUSTOMERS** result in aged or written off credit balances, unapplied cash, etc.
- A Holder's industry may also generate specific property types, such as:
 - Manufacturing
 - Retail
 - Banking / Insurance
 - Transportation

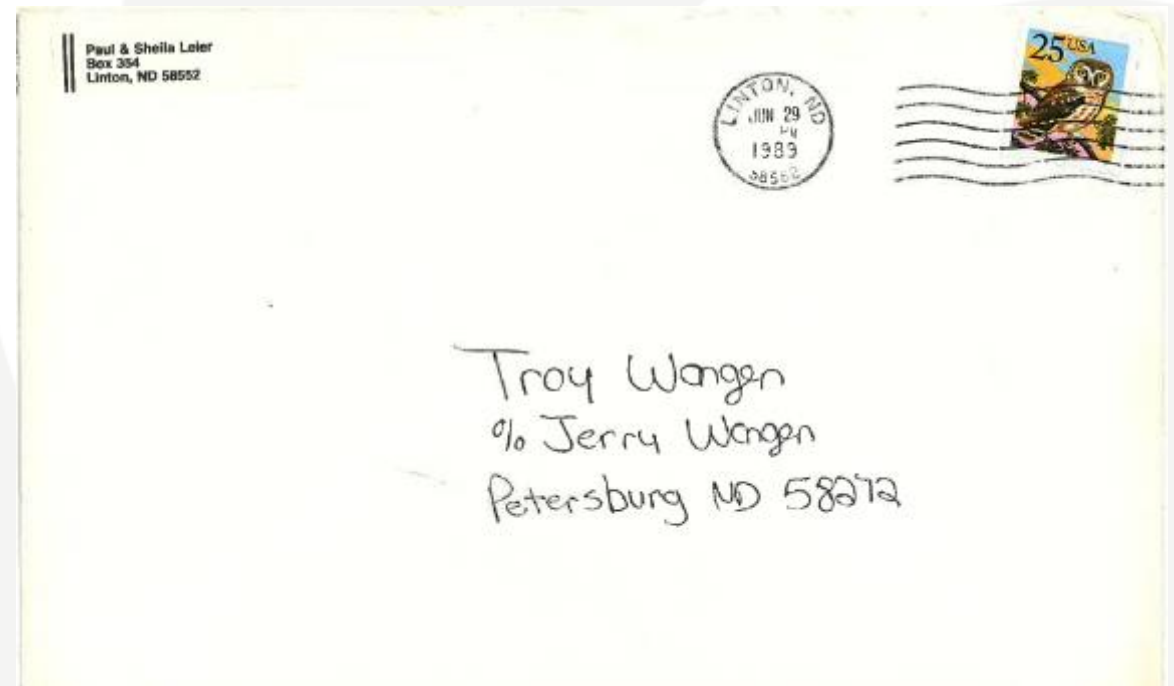
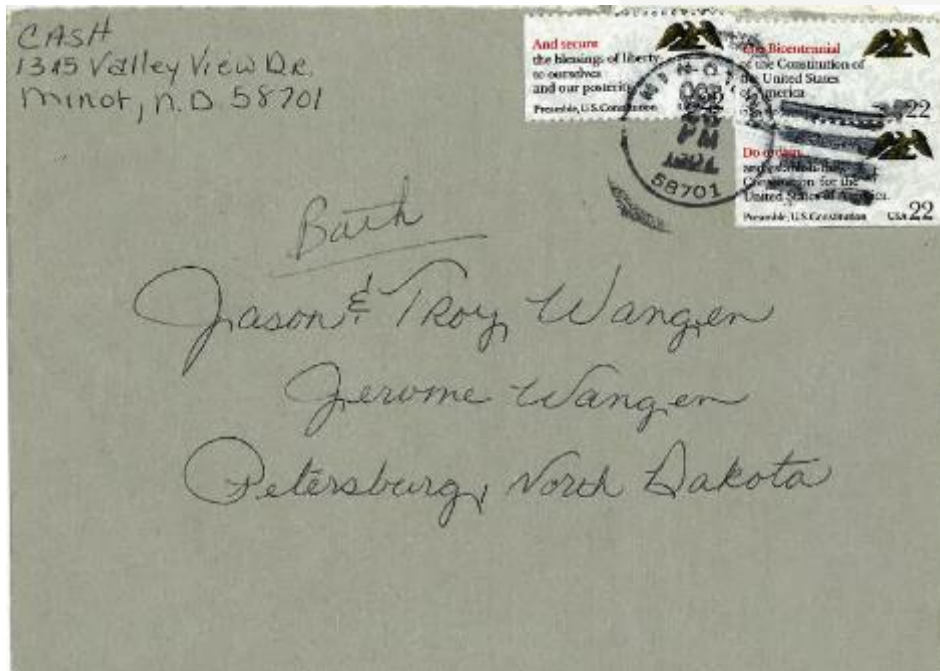
Reporting Basics

- Jurisdictional Priority Rules – Texas v. New Jersey (1965)
 - **First Priority:** State of Owner's last known address as shown on the Holder's books and records
 - **Second Priority:** If no Owner address on the Holder's books and records, or if the state of the Owner's last known address does not have an applicable unclaimed property statute, then the Holder's state of incorporation may claim the property
 - Also applies to foreign owners of US domiciled companies



Reporting Basics

- Things to consider:
 - Most states are adopting rules that as long as the Holder has some record of the state in which the owner resides, even if the address is not complete for mailing, the property should be escheated to the state on record



Reporting Basics

- All 50 states + DC, Guam, Puerto Rico and US Virgin Islands require the annual filing of an unclaimed property report
- Dormancy periods vary by state and property type, but general guidelines are:
 - Payroll: 1 year
 - AP and AR: 3 to 5 years

	Fall	Spring
First Report Due	October 2025	March 2026
Dormancy Cut-off	June 30, 2025	December 31, 2025
Dormancy Periods		
1 Year	7/1/2023 - 6/30/2024	1/1/2024 - 12/31/2024
2 Years	7/1/2022 - 6/30/2023	1/1/2023 - 12/31/2023
3 Years	7/1/2021 - 6/30/2022	1/1/2022 - 12/31/2022
4 Years	7/1/2020 - 6/30/2021	1/1/2021 - 12/31/2021
5 Years	7/1/2019 - 6/30/2020	1/1/2020 - 12/31/2020

Reporting Basics

If a customer has a credit balance and their phone is disconnected, mail is returned and emails are no longer valid, what additional attempts are required from the creditor to try to locate the customer?

- Due Diligence:
 - All jurisdictions require some form of due diligence outreach prior to submitting your annual report
 - Letters typically need to be mailed no less than 60 days before the report due date
 - Most jurisdictions have a \$25 or \$50 threshold for the property on which letters need to be mailed.
 - Some are as low as \$0.01 and as high as \$250
 - Jurisdictions such as CA and NC have specific language that needs to be on the letter, and even requirements down to the type of font used, so it is best to compile on letter that meets all states requirements and use that for all the mailings.
 - Certain jurisdictions are also now allowing, and even requiring, use of electronic due diligence



Reporting Basics

- The majority of states have either a fall (October 31) or spring (March – May) filing deadline. MI and TX have June/July reporting dates and CA has bifurcated reporting process with 10/31 and 6/15 dates.
 - These dates are for CORPORATIONS. Other industries may have different reporting deadlines.
- All states require reporting in the NAUPA format and almost all now accept reports through electronic portals and electronic payments.
- Copies of all returned due diligence letters and reports filed should be retained by the Holder for at least 10 years.





UP in Accounts Receivable

UP in Accounts Receivable

- A customer's account is a moving target with fluid balances, making unclaimed property tracking a challenge and open to interpretation
- Credits often appear as an obligation to the customer, but there may be more to a customer's account balance than meets the eye
- Potential AR exposure may be sitting in various general ledger accounts:
 - Trade AR
 - Cash Application/Tolerance Write-Offs
 - Bad Debt Offsets
 - Unapplied Cash/Suspense Accounts

Open AR

- Current Customers with credit balances
 - Much like a bank account, Holder's can use the **most recent customer generated activity date** to determine the dormancy date for that customer.
 - For example, if the customer has an open credit dated from 2020 but they are an active customer and has made a purchase and payment in 2025, you can use 2025 as the last activity date to determine dormancy.
 - However, a Holder can use the original date of the credit and track it as unclaimed property if they want, but in most cases, we do not see Holder's submitting UP from their current customers
- Holders should also review their customers for related accounts, such as parent/child relationships.

Open AR

- Inactive Customers with credit balances
 - This is the most typical type of credit that Holders should be tracking as there will be no more customer activity to offset the credits
 - Similar to active customers, if the credits are older, Holders may use the most recent customer generated activity date to determine dormancy, or can use the date of the credit; whichever provides the credit to be least past due
 - Credits can be offset with any open debits or already cleared bad debt for the same customer, leaving the remaining balance as the potential unclaimed property

Open AR

- Make sure to review credits for these possible scenarios that DO NOT represent UP:
 - Accounting errors – credit should never have been issued, payment applied to wrong or related account, etc.
 - Prompt pay discounts automatically applied but not taken by the customer
 - Customer pays by purchase order vs. invoice amount
 - What agreements are in place with customer?
 - Pre-payments for extended contracts, meaning credits to be use over a longer period of time
 - Did the customer fulfill all of their obligations to earn credit?

Write Offs

- Generally, no de minimus exemptions; even \$0.01 can be unclaimed property and reportable
- Automatic process at cash application to remove small balances doesn't allow for credits to be tracked and resolved
- Thresholds can be established for internal administration and review
- Amounts cannot be used to offset bad debt from other customers

Write Offs – Past Transactions

- To properly quantify the potential amount of unclaimed property already written off, we recommend the following:
 - Identify any tolerance threshold already in place
 - Identify the general ledger account that both debit and credit balances are being written off too
 - Pull general ledger transaction reports for the years you have records (up to 15 years) for those accounts and make sure to include the customer number for each transaction, if applicable
 - Net the debit and credit write offs by customer and identify those customers that had a NET CREDIT write off. This is your potential starting unclaimed property population.

Write Offs – Go Forward Strategy

- As these balances cannot all be worked, Holders can still have an automatic write-off policy, but would suggest updating the policy to include:
 - Rather than writing off the transactions to a misc. expense account, create a suspense account that all tolerance transactions are move to
 - On a semi-annual basis, net the transactions by customer and move any NET CREDIT balances to your unclaimed property liability account for future reporting. Any net debit transactions can be held in the account and used to offset future credits that are written off.



Unapplied Cash

- Payment is received without reference to account number, customer number, purchase order, invoice number, etc.
- We have seen these posted to:
 - Unknown Customer account in Trade AR
 - Though showing as one balance on Trade AR, these balances should be tracked individually and use the receipt date as the dormancy date
 - Separate general ledger account for unapplied cash
 - Similar to above, each line item should be tracked individually and use the receipt date as the dormancy date
 - As a credit on customer's account if customer is known, but not where to apply
 - These credits can be tracked within the Trade AR and refer to earlier slides for tracking of credits on customer accounts



Specialty Topics



Loyalty and Incentive Programs

- Some questions to consider about any incentive program Holders may have:
 - Are there set terms and requirements?
 - Is there a signed agreement?
 - Has 'consideration' been given?
 - Do these become credit memos or refunds?
 - Can the credits be redeemed for cash?
 - Are you consistent in your approach with all customers?

Settlement Agreements

- Written contract between two parties resolving any outstanding balances (credits and debits) between them for a specific period of time
- Must be agreed to by both parties
- Language often includes:
 - Summary of facts, including disputed amounts
 - Agreement as to resolving amount owed, if any, and acknowledgement of payment or discharge
 - Mutual release, waivers, discharges, and covenants not sue
 - Specific periods covered by the release agreement

Disbursements & Other Property Types



Disbursement and Other Property Types

- Payroll and Accounts Payable
 - Includes checks remaining as outstanding, transferred to liability account, and voided improperly (taken into income/expense)
 - States typically review checks voided more than 90 days from issuance, but can be as short as 30 days when under audit
 - “Void after 90 days” does not negate the responsibility to report the check as unclaimed property
- Benefit payments (non-ERISA qualified plans)
 - If the contract assigns responsibility to company
- Dividends/stock/other securities property
 - Includes unexchanged shares, uncashed dividends, accounts with no activity, etc.

Questions?

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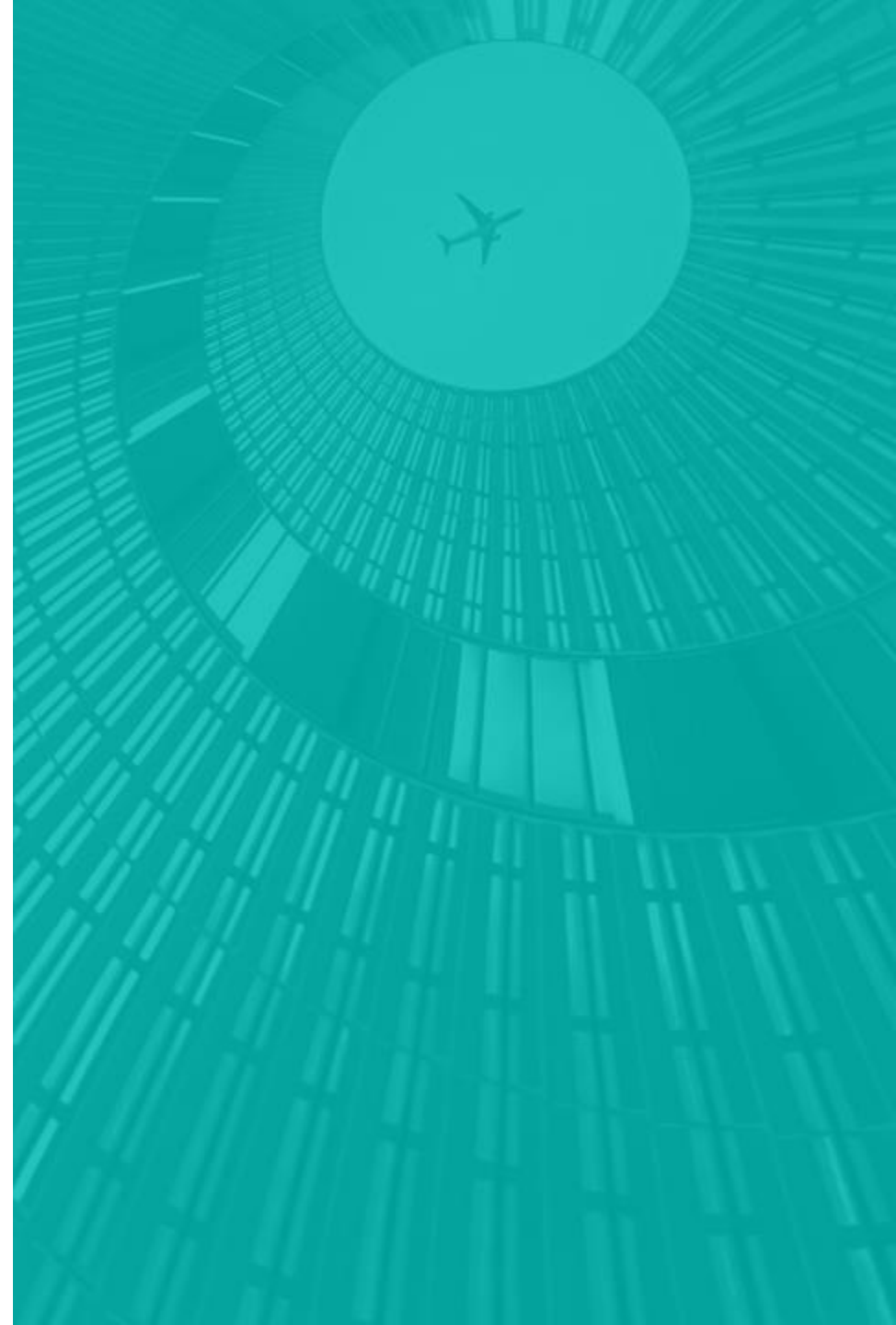
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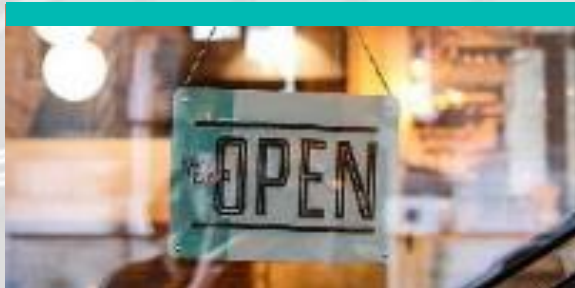
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