Unclaimed property compliance relief and challenges ahead

June 16, 2020

In brief

Unclaimed property holders have been facing significant challenges in meeting state reporting and due diligence deadlines, with COVID-19 restrictions beginning during the spring reporting season. Further, the National Association of Unclaimed Property Administrators (NAUPA) has produced a new electronic filing format that has not been uniformly adopted by the states.

In detail

Limited deadline relief

While some states require electronic filing of unclaimed property reports, the filing requirements and methods are not uniform across the states. Further, holders of unclaimed property must engage in due diligence to contact property owners, including in certain circumstances mailing notice letters. Some states have provided relief for holders in light of the challenges of COVID-19 in complying with these requirements.

California, for example, has postponed the deadline for unclaimed property holders to submit their Remit Reports and remittances until August 15. Further, the final filing date for life insurance corporations to submit their 2020 Notice Reports is postponed until June 30, with Remit Reports and remittances due February 1-15, 2021.

Texas has announced it is providing additional time to holders unable to meet the due diligence requirements for providing notice to property owners. Further, Texas is providing holders with alternative methods for contacting owners in light of the business disruption caused by COVID-19.

Observation: Unclaimed property reporting relief from the states has been limited and may require a written request and substantiation from the holder. Further, with respect to due diligence relief, holders should consider the impact of delayed owner notification on their ability to file complete unclaimed property reports with the state. In most cases, holders that receive relief from due diligence requirements should consider seeking penalty and interest relief for any resulting failure to include such property in the holder’s unclaimed property report.
New electronic filing format

The disruption caused by COVID-19 also has impacted the operations of state governments. Beyond the operational challenges of administering unclaimed property programs, states are in the midst of a major implementation of a new electronic filing format.

'NAUPA II' is the current electronic filing format that all states have been using since 2004. Development is underway on the NAUPA Standard File Format Reengineering Project (NAUPA III). According to the NAUPA website, “The NAUPA III release is expected in the coming year and will co-exist with NAUPA II during transition to the new format.”

**Observation:** The change to NAUPA III was expected to happen this year. However, COVID-19 has delayed adoption, and this delay will have a corresponding impact on implementing the new electronic filing system. The current plan is to have both formats in place for a transition period, with the understanding that some states no longer may accept the NAUPA II format.

The takeaway

States continue to pursue businesses for the failure to report or for underreporting unclaimed property. This includes utilizing both in-house auditors and third-party audit firms. The number of third-party audit firms is growing, and they are expanding the scope of their audit review.

A comprehensive review of compliance processes and, if necessary, addressing areas of noncompliance are essential to preserving cash flow and mitigating potential unclaimed property exposure. Now is a good time to examine unclaimed property compliance, with the fall reporting season generally beginning at the end of June.

Let’s talk

For more information on how these developments might impact your business, please contact:

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