

Unclaimed property compliance resolution services

Resolve historical unclaimed property obligations while managing audit risks



All U.S. states and territories have statutory unclaimed property compliance obligations with which businesses must comply. These unclaimed property laws are not new and have existed for decades. However, with the states' increased focus on enforcing compliance with these laws by conducting unclaimed property audits, it has become a business imperative for companies to proactively address their obligations now. Is your company aware that it is not in compliance but is unsure how to approach compliance without triggering state audits? Are you aware of the benefits of participating in the states' voluntary compliance programs rather than playing the audit lottery?

Audit risk is real

Many organizations face the risk of being selected for an unclaimed property audit by the states, unless a compliance resolution agreement has been reached with the applicable states. Even if a company has been filing unclaimed property reports for many years, some states do not have a statute of limitation for conducting compliance audits. In fact, many states have the statutory authority to audit companies over a look-back period in excess of 20 years. Generally, unless your organization negotiates a voluntary disclosure agreement (VDA) or is audited, the audit risk remains. Many companies do not have actual accounting books and records (e.g., bank statements, outstanding and voided checklists, accounts receivable aging reports, and general ledger transaction details) to refute assessments of unclaimed property liabilities over the states' extensive audit look-back periods due, for example, to document destruction policies and system conversions. Generally, under an audit, the state of incorporation/formation may use the available years of books and records to calculate abandonment error ratios and apply these error ratios against the company's financial figures for all years where books and records are not available or are deemed incomplete.

Some states will then assess penalties and interest on the audit assessments, which can double the amount of the assessment and the impact to the company's bottom line.

The time is now

Many organizations have historically relied on the "wait and see" approach, hoping to avoid being selected for unclaimed property audits by the states or erroneously believing their compliance statutes were "good enough" and material exposure would not result from such audits. However, with each passing year, another year of accounting records may become unavailable as a result of document retention policies and/or system conversions, leaving organizations with limited options to refute assessments under audits. Conversely, each year of inaction by a company may mean an additional year of estimated exposure that can be assessed by its state of incorporation. Additionally, once selected for an unclaimed property audit, holders generally become ineligible to participate in the states' VDA programs and lose the opportunities and benefits afforded by such programs.

Knowing that no company is exempt from the states' unclaimed property reporting requirements, the time is now to take advantage of these programs.

VDA benefits

Most states offer either a formal or informal VDA program that provides companies with the opportunity to proactively achieve compliance at a reduced cost. Depending on the state's program and the company's facts, the benefits of the VDA may include a limited look-back period (number of years included in the settlement), waiver of penalties and interest, and waiver of the state's right to audit the company for the periods covered by the VDA once the VDA requirements are met. Many states, such as Delaware and New York, are proactively identifying companies perceived as noncompliant with the states' unclaimed property filing requirements and inviting these companies to join the states' VDA programs. Companies that do not timely respond to request participation in the VDA programs may be subject to audit examinations, which highlight the urgency for companies, irrespective of their unclaimed property footprints or industries, to review their unclaimed property reporting posture and the potential benefits of taking proactive measures to come into compliance and manage their organizations' risks. In addition, many states engage third-party audit firms that then actively solicit their other client states to participate in the audits, which means the first state audit notice received may just be the first of many. These audits can be highly intrusive and last for multiple years, exhausting company resources.



KPMG can assist with obtaining unclaimed property compliance resolution with the states

Even if your organization has filed unclaimed property reports in recent years, it may need assistance with resolving historical unclaimed property exposure that predates the company's compliance history. KPMG's Unclaimed Property practice regularly assists companies to come into compliance using our well-established approach and methodologies:

1. Review of organizational structure, merger, acquisition, and divestiture history: This review identifies current and historical states of incorporation to identify entities that may have historical unclaimed property exposure.

2. Review of filing history and accounting processes: This review confirms the completeness of prior filings and property types that may have been missed in filings.

3. Data mining and technology resources: Key to resolving historical unclaimed property exposure is being able to obtain all available books and records. Our Tax Ignition Forensic Accounting professionals, along with professionals from KPMG's Transaction Tax Systems practice, can work with your system personnel to obtain available historical data from your current and predecessor accounting systems. Having access to available records (including those that may be difficult to obtain due to system purges and conversions) can limit the periods for which estimation may be required.

4. Statistical sampling: KPMG professionals include PhD-level statisticians available to perform statistically sound sampling procedures that can be utilized in the quantification analysis to help reduce the amount of research required of your company's personnel.

5. Quantification analysis: This includes developing error ratios and extrapolation methodologies, as needed, that can help present a fair and reasonable quantification of historical exposure for your company that may be acceptable to states of incorporation for compliance resolution.

6. Methodology report: This report documents the quantification analysis process to help facilitate more expedient settlements with the states.

7. Communication with state administrators to obtain compliance resolution: Includes communications with the states from the initial VDA request through obtaining the executed settlement agreements with the states.

The KPMG difference

- Multidisciplinary firm: Unlike firms that only provide unclaimed property services, KPMG's Unclaimed Property practice offers your company access to professionals in the specialty areas of tax technology, forensic accounting, and statistical sampling. Our professionals can assist you with streamlining the compliance resolution process and mitigating your potential cash payout to the states. You will also have access to tax, audit, and advisory professionals to assist with other matters of concern that may arise during the compliance resolution process.
- Technology tools: Using our technology, your company can exchange large volumes of data through a secure environment so work can be performed remotely in real-time. Other KPMG proprietary technology applications allow for the effective management of the compliance resolution process within the agreed-upon deadlines.

- Experience: The KPMG Unclaimed Property team has many years of experience with unclaimed property compliance resolution. Hiring a team with relevant knowledge across a broad spectrum of industries helps facilitate efficiencies in the process since our professionals likely possess a deep understanding of the unique aspects of your industry. Additionally, our experience in providing compliance resolution and audit defense services may assist your company in mitigating its ultimate cash payout to the states.
- Experience with state administrators: One important element to obtaining settlement agreements with the states is hiring professionals with strong working relationships with the state administrators. KPMG's team has worked with the unclaimed property administrators in all states to facilitate compliance resolution for our clients and has a well-established track record of success with these matters.

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