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This Week in State Tax (TWIST)

January 20, 2026

California: New law enacted governing escheatment of digital financial assets

New provisions governing the treatment of digital financial assets (DFA) (*e.g.*, virtual currencies) under California unclaimed property law became effective January 1, 2026. The statute sets a three-year dormancy period for DFAs, with dormancy being triggered by either (1) the date a written or electronic communication to the owner is returned as undeliverable by the U.S. Postal Service or by email, or (2) the date of the last exercise of ownership by the owner, if the owner does not receive written or electronic communications from the business holding the property or the holder lacks a systematic means to track or monitor the non-delivery of such communications. Importantly, the new law uses a different standard for determining which state law applies to DFAs than that used for other property in California. Specifically, the "last known address" definition for DFAs is either: (1) the address used for first-class mail delivery, or (2) any description, code, or other indication of the owner's location that identifies the state of the owner's last known address, even if that address is insufficient to direct first-class mail delivery.

If the holder of a DFA possesses only a portion of the keys or other information needed to transfer a dormant DFA, the law requires the holder to attempt to obtain the minimum number of keys necessary to transfer the asset within 60 days of determining that the DFA is eligible for escheatment. If the holder still possesses only a partial key to the DFA or is otherwise unable to move the digital financial asset to the Controller, the holder must maintain the DFA until the additional keys required to transfer it become available or the holder is otherwise able to transfer the DFA.

Unlike some state laws governing unclaimed DFAs, California requires holders to remit eligible DFAs to the state in their native, *unliquidated* form. Further, the law mandates that holders send a pre-report owner notice via certified mail, return receipt requested. If the holder does not have a mailing address for the owner and the owner has consented to receiving email communications, the notice may be sent by email. Finally, the Controller is authorized to select one or more custodians for the management and safekeeping of escheated DFAs. For additional information or assistance on the California law, please contact a member of the KPMG Unclaimed Property practice: Will King, Marion Acord, Jamie Aquino, Ryan Hagerty, Quin Moore, Keela Ross, or Karen Anderson

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