🃏 Play Your Cards Right 🃏
Escheatment Case Studies for Credit Professionals

NACM'S 128TH CREDIT CONGRESS & EXPO
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Presented by: Jennifer Waryjas & Troy Wangen

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AGENDA

- About Unclaimed Property
- Case Studies

About Unclaimed Property

About Unclaimed Property

Unclaimed property is property held, issued, or owed in the course of a holder's business that has gone unresolved with the owner for a specific period of time

All industries and companies generate items that can become unclaimed property (UP)

A corporation's duties include:

- Identify and track sources of UP
- Protect and implement internal controls over UP until reported and remitted
- Perform due diligence
- File and remit funds
- Maintain supporting documents and records

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About Unclaimed Property

UP is NOT a tax, so nexus standards do not apply

First Priority Rule (**Texas v. New Jersey, 379 U.S. 674 (1965)**)

- UP is reportable to the state of owner's last known address as indicated on holder's books and records

Second Priority Rule

- No owner address, property is reportable to the state of corporate domicile (e.g., state of incorporation/formation)

Reporting requirements vary by state

Dormancy periods (3/5 years for most property)
Exemptions (very state specific)
Due diligence (near universal requirement, not uniform)
Annual reporting requirement (3 reporting cycles)

- *Fall States – Oct 31st / Nov 1st*
- *Spring States – March / April / May Due Dates*
- *Summer States – June 15th / July 1st*

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Case Study #1 – Holding All the Cards

When records are your best friend

Background

Company #1

- Adult beverage distributor
- Only can sell to stores in states they are registered in
- Under audit by state of incorporation, where they are not registered in, along with other jurisdictions
- Auditors were requesting AR credit detail for all states with expectation of estimating for years without records – should we give them those records?

Company #2

- Multiple operating entity manufacturer
- Has both domestic and foreign customers
- Maintained historical master customer lists for as long as their ERP has been in place, which is 15+ years
- Enrolled in Delaware Voluntary Disclosure program – how should we perform our AR analysis?

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Let's discuss – what would you do?

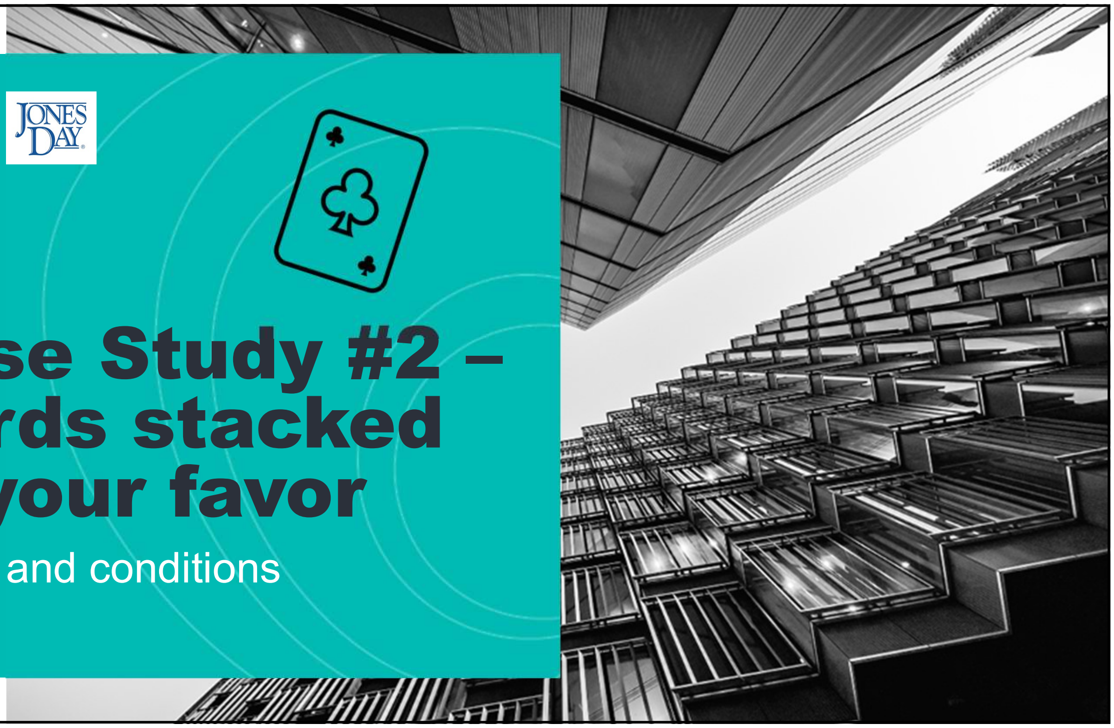
Details of Result

Company #1

- *Presented in session*

Company #2

- *Presented in session*



Case Study #2 – Cards stacked in your favor

Terms and conditions

Background

Company #1

- Centralized manufacturing company
- Rebate program, where credit memo issued expires after 90 days – is that unclaimed property?
- Enrolled in Delaware Voluntary Disclosure program – do these credits need to be included in the analysis?

Company #2

- Manufacturing company
- To encourage prompt payment, will provide a discount of 2% off invoice if paid within 5 days
- Not all companies take the discount, even when paying promptly – instead pay the invoice amount.
- When reviewing the AR balances, the discounts remain on the customer's account – are these discounts escheatable?

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Let's discuss – what would you do?

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Details of Result

Company #1

- *Presented in session*

Company #2

- *Presented in session*

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Case Study #3 – To show one's cards

Write offs and its consequences

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Background

Company #1

- Public IT solutions provider
- 10,000+ customers
- Unaware of unclaimed property reporting obligations
- Internal review to determine a go-forward strategy for unclaimed property revealed credits of all types were regularly written off – what do you think happened next?

Company #2

- Private manufacturing company
- Sells to both big box retailers and online to individuals
- Long time filer of unclaimed property reports
- Maintains a tolerance level write-off policy, but assigns a write-off code to each transaction that can be pulled into a separate report – are you now asking yourself, why can't I have that?

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Let’s discuss – what would you do?

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Details of Result

Company #1

- *Presented in session*

Company #2

- *Presented in session*

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Case Study #4 – A house of cards

Auditor methodologies

Background

Company #1

- Public medical device manufacturer
- Under a multi-state unclaimed property audit by AI Category
- Cash application of payments went through three (3) different accounts before being applied: 1) Unapplied 2) Unidentified 3) ON Account
- Auditor selected all three accounts and scheduled every credit that ever hit the accounts – is this approach acceptable?

Company #2

- Public food and personal-care company
- Under a multi-state unclaimed property audit by Ramlek Partners
- Had been offsetting debits and credits of unrelated accounts
- Auditor selected sample AR transactions to identify if any amounts had been written off and identified two write-off accounts and requested all the detail for those two accounts – is this approach acceptable?

Let's discuss – what would you do?

Details of Result

Company #1

- *Presented in session*

Company #2

- *Presented in session*

Stay in touch

Troy Wangen
PRINCIPAL
BAKER TILLY

P: +1 (312) 588-3430
E: troy.wangen@bakertilly.com

Jennifer Waryjas
COUNSEL, STATE TAX
JONES DAY

P: +1 (312) 269-4057
E: jwaryjas@jonesday.com