

# **TOP 10** Unclaimed Property Compliance Pitfalls



**All 50 states, as well as the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands, have laws governing the identification, tracking, reporting, and remittance of unclaimed property (also referred to as "abandoned property" or "escheatment").**

A company that holds unclaimed property (the holder) generally must file an annual report and remit the property to the appropriate jurisdiction once it has remained unclaimed by the rightful owner for the applicable period (the dormancy period).

The purpose of those laws is to ensure property is returned to its rightful owner, not retained by the holder, and allow states to safeguard and use the funds for public benefit until the owner is located.

Unclaimed property requirements vary by state, but they generally apply to both tangible and intangible property. Common forms of intangible unclaimed property include uncashed checks, unredeemed gift certificates and gift cards (where reportable), layaway balances, customer deposits, refunds, rebates, and accounts receivable credits. Importantly, those obligations might be reportable regardless of whether they remain on a company's books or have been written off to income or expense (including amounts written off as bad debt).





## UNCLAIMED PROPERTY COMPLIANCE RISK

States are enforcing unclaimed property compliance more strictly than ever. As part of those compliance enforcement efforts, companies are increasingly being targeted for audits and are seeing more frequent outreach and information requests from states and their third-party auditors. Companies that fail to report or to report timely might be subject to interest and late-filing penalties and face expanded audit exposure (including multistate audits and estimation if records are incomplete).

# TOP 10 Unclaimed Property Compliance Pitfalls

## 1

**Lack of Annual Filings:** Missing, inconsistent, or inaccurate reporting/remittance is a primary notice trigger.

## 2

**No Documented Escheat Policy and Procedures:** Without a formal framework, compliance becomes ad hoc, indefensible, and difficult to sustain.

## 3

**Exclusion of Property Types:** Omitting key property streams (voided check transactions, accounts receivable credits, unapplied cash, etc.) is a common – and costly – compliance failure.

## 4

**No Formal Due Diligence Process:** Owner outreach is mandatory; missed or late due diligence (including required mailed letters) drives penalties and audit issues.

## 5

**Incorrect Property Type Codes:** Coding errors distort dormancy, exemptions, and reporting, often resulting in systematic misreporting.

## 6

**Misapplication of Dormancy Periods:** Dormancy periods vary across property types and jurisdictions. Incorrect dormancy application leads to over-/underreporting and creates easy audit findings.

## 7

**Improper Netting of Liabilities:** Inappropriate netting of fixed, legally due and owing obligations is frequently challenged in audits.

## 8

**Inadequate Record Retention:** Missing support during lookback periods invites estimation and significantly increases exposure.

## 9

**Report to Incorrect Jurisdiction:** First report to the state of the rightful owner's last-known address then to the state of the holder's incorporation. International and unknown owner records are in scope and sourced to state of incorporation. Priority rules are strict: Incorrect sourcing (including unknown/international owners) creates multistate exposure.

## 10

**Merger and Acquisition Gaps:** Unreviewed acquired liabilities and weak post-close integration into current unclaimed property internal processes routinely become inherited audit problems.



## How BDO Can Help

Unclaimed property affects virtually every organization, and states are aggressively pursuing audits as a meaningful source of revenue. Companies should take proactive, disciplined steps to identify and manage [unclaimed property risk](#), both to maintain compliance and help minimize unnecessary penalties, interest, and audit exposure. Our [Unclaimed Property team](#) can help you address the potential pitfalls discussed here.

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