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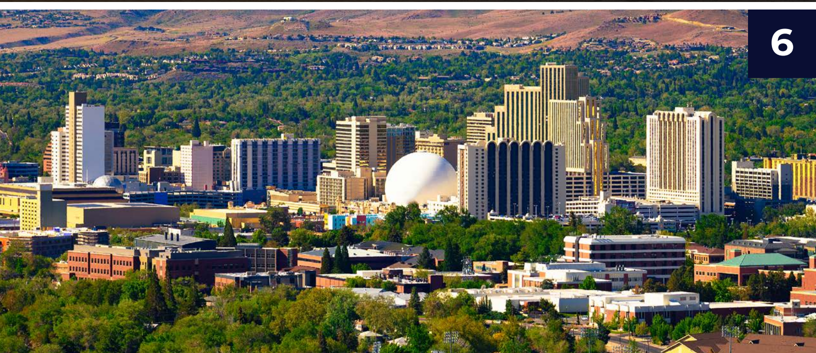

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UPDATE

Unclaimed Property
Tax Information Reporting
Statutory Reporting
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Ann Fulmer
Director, Consulting Services

Changes Impacting Delaware's Compliance Landscape

Unclaimed property compliance continues to create challenges for all companies no matter their size, location or industry. This holds especially true for companies that are incorporated in Delaware, including those that do not typically conduct business directly in the state.

If your parent organization or operating entities are incorporated in Delaware, there is a strong likelihood that your company is on Delaware's radar for unclaimed property compliance. You may wonder why this is true. Transactions and accounts maintained without a last known address including the city, state and/or zip are considered unknown and due to your state of incorporation, along with property due to foreign countries.

Historically, Delaware would conduct surprise audits, without giving companies an opportunity to comply beforehand. Today, companies are more likely to receive a Request for Verified Report for the most recent report year or an invitation to participate in the Secretary of State's Voluntary Disclosure program. Both programs are geared towards increasing compliance with Delaware's unclaimed property requirements but vary widely regarding the work involved to satisfy program requirements.

November 2023 saw a sharp increase in the number of Notices Requesting Verified Reports for Report Year 2022 issued by Delaware. This increase corresponds with Delaware's engagement of four third-party audit firms (Kelmar, Specialty Audit Services, Discovery Audit Services and Escheatment Experts Consulting Services) to perform the review functions related to the Verified Report process. This is a notable change since such reviews were historically handled directly by the state. The introduction of third-party audit firms raises concerns surrounding the underlying motive of the Verified Report process and should put companies on high alert if they receive one.

Sovos also noted that having a strong compliance record with Delaware does not protect companies from receiving the Verified Report request. Companies with a long-standing history of compliance with Delaware received the Verified Report request, along with those currently participating in the DE VDA program. In general, if a company reported property to Delaware in the past, they could receive the Verified Report request.

Pursuant to the guidelines provided by the state, companies must confirm receipt of the Verified Report request within 30 days of the date of the letter. Failure to do so will result in follow-up communication from the third-party audit firm assigned to the case. Failure to respond to the second notice will likely result in a Compliance Review or an invitation to participate in the Delaware VDA program.

To satisfy the requirements of the Verified Report process, companies must provide the following:

1. The 'Verified Report for Report Year 2022' form attached to the request, which requires corporate officer signature and notarization (the 2022 report was due to Delaware by March 1, 2023, for properties meeting dormancy as of December 31, 2022).
2. The completed 'Attachment A – List of Legal Entities included in the Verified Report for Report Year 2022' (including all subsidiaries and related entities considered within the scope of Verified Report).
3. A response regarding the existence of written unclaimed property policies and procedures. If policies and procedures exist, inclusion of the policies and procedures is requested.

Completion of the Verified Report form requires the corporate officer attest to reviewing the financial statements and all related records of the company and legal entities listed in attachment A and to one of the following:

a. The company did not have any property to report to Delaware.

b. The company had property to report and date the report was submitted (including a copy of Holder Summary Demonstrating Report Successfully Submitted for Processing and Proof of Payment). *Please note, Sovos recommends including the Holder Summary and Proof of Payment rather than the detail report to protect property owner information.

c. Reported property to State for 2022 but has additional property to report.

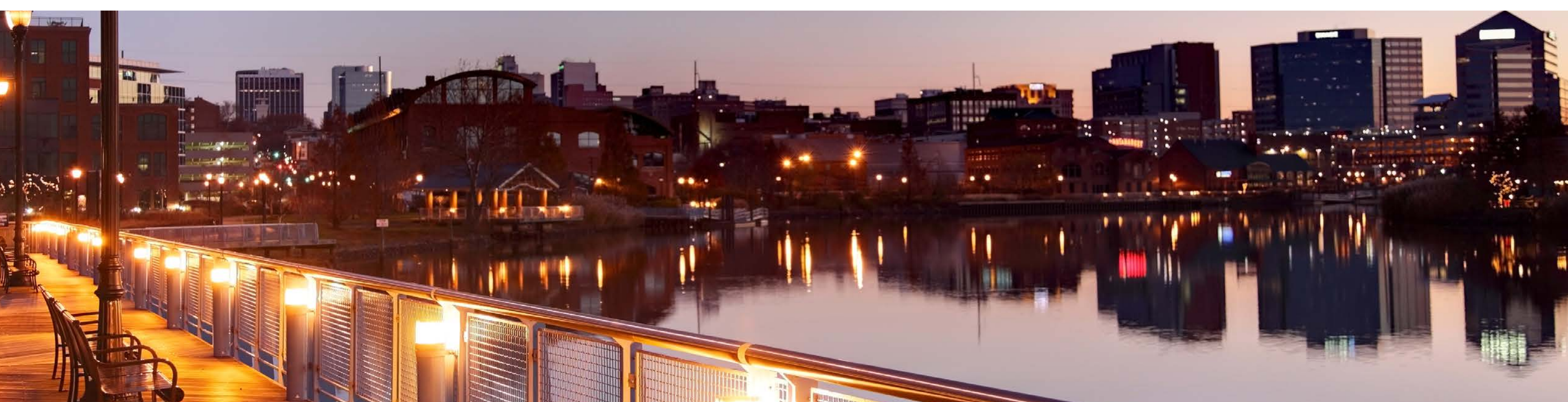
d. Did not report to Delaware for Report year 2022 but does has property to report.

No matter which response applies to your organization, it is important to acknowledge receipt within 30 days of the date of the letter. If you do not have the information needed within the 30 days, the reviewers will grant an extension. If you discover that property should have been reported and was missed, additional time can be provided to conduct a thorough review and send due diligence letters to the property owners. In any event, payment of property due to Delaware must be submitted to the state within one year of the original notice letter.

Going forward, companies that received a notice in 2023 should expect another request in four to five years. In addition, companies who did not receive a notice in the past cycle should be on the lookout for future notices to complete the Verified Report request which are expected to be issued between June and July each year.

As noted above, failure to acknowledge receipt of the Request for Verified Report within 60 days, or failure to comply with its requirements within one year, could result in the issuance of a Compliance Review. The purpose of the Delaware Compliance Review is to confirm compliance with Delaware's unclaimed property provisions for the year in question. Records needed to validate compliance can include tax documents, trial balances, bank account reconciliations, outstanding and voided check registers, accounts receivable aging reports and records specific to certain industries. Failure to complete the Compliance Review could result in an audit. Once an audit notification has been issued, the company can no longer elect to participate in the Secretary of State's VDA program.

It is important to note that at any time during the process, up to the issuance of the audit notice, companies can elect to submit a VDA-1 application to the Secretary of State's office to participate in the VDA program. This option could be beneficial for companies that may not be in full compliance and want to take advantage of the interest and penalty forgiveness afforded to those that complete the VDA program.



Going Forward

All companies should be prepared to address the Request for Verified Report when received and maintain ongoing compliance every year. It is equally important to document policies and procedures related to the identification, tracking and reporting of unclaimed property to help ensure that compliance efforts continue in the event of a change in personnel. Special attention should also be given to verify that all property types are included within unclaimed property considerations and are not limited to those that are most common to a specific industry. For example, oil and gas companies need to confirm that their procedures include accounts payable and accounts receivable credits in addition to mineral interests. Companies should also validate that mail pertaining to unclaimed property makes its way to those that understand its importance as soon as it is received. Notices recently mailed by Delaware were directed to CFO's and CEO's so it is important that mail finds its way to those that can respond within the time limit allowed.

Sovos is ready to help with all Delaware compliance programs including completion of the Verified Report, assistance with the Compliance Review process, VDA advocacy, Audit Support and Policy and Procedure development. Sovos can also conduct a Risk Assessment for companies that are looking to confirm that their current operations are comprehensive and in adherence with state unclaimed property requirements.

Danielle Anthony
Deputy Treasurer for Nevada State Treasurer's Office, Unclaimed Property

Changes to Nevada Unclaimed Property Law

Nevada's Unclaimed Property laws have changed as a result of the passage of Assembly Bill 55. Some of those changes had an immediate impact, and others will have an impact on upcoming reporting cycles.

The changes to the law include, but are not limited to, clarifications as to what information is required to be included in a report, changes to due diligence requirements and changes to periods of abandonment for various property types. Nevada's Unclaimed Property Program's mission is to collect reportable abandoned properties and to act as custodian of those funds until such a time that a claim by the rightful owner of the funds can be substantiated and paid. The changes to Nevada's law were intended to assist with that mission.

What were these changes and how do they meet the mission of the Program? The changes are summarized below, but to see a more detailed listing of the impacts of the bill, see the bill, related publication and the Holder Reporting Manual on Nevada's Holder Page.

Changes Already in Effect

Reportable Information – The bill clarifies that all information known and readily ascertainable by the holder should be included in a report, and for information that is not known, to be documented as such. This works in tandem with the existing prohibition of both consolidated reporting (meaning that each entity with a unique FEIN report funds in their custody separately from their affiliates, subsidiaries or parent companies) and aggregated reporting (meaning that each property must be individually identified in a report). These prohibitions ensure that Nevada has the best possible data to reunite property with its apparent owner with no further information required from the holder.

Due Diligence Requirements

The bill also amended due diligence requirements delineated in NRS 120A.560 in certain circumstances. When property is in the form of stocks, equity, retirement accounts or virtual currency and the property is valued at $1,000 or more, the holder is required to send certified mail rather than first-class mail. This amendment was made for the protection of the holder and the owner. When the holder receives back the certified mail receipt, they will have documentation to demonstrate the due diligence was attempted should the owner dispute its performance. This also provides a higher level of care for delivery to the owner, to ensure that the owner receives the notification and can act to avoid the reporting of the property.

Note that email notifications are still required in addition to the certified mail when the owner has consented to electronic notifications and the email address is not documented to be invalid. This provides another method of notification should the owner have failed to keep their account information current and accurate.

Changes Going into Effect for Upcoming Reporting Cycles

Periods of Abandonment – The bill amended the periods of abandonment for various property types. The areas where Nevada has received the most interest in these changes will be discussed here, but there may be other changes.

- Stocks and other equity interests in a business or financial organization were amended to an activity-based standard.
- Automatically renewable time deposits were amended to begin subsequent to the first renewal, requiring written consent for each renewal thereafter to reset the period of abandonment.
- Tax-deferred or tax-exempt retirement accounts were amended to follow the standards of the IRS without considerations for returned mailings or State-established age requirements. All other retirement accounts are based on when the property becomes distributable, which previously fell into the "other" properties category in the statute but are now specifically addressed.
- Gift certificates now require that the date the holder no longer honors a gift certificate to be considered an expiration date on the instrument. Additionally, how the holder reports these instruments when the holder does not have the owner's information on file was amended to meet the requirements of all other properties under these circumstances.
- The date a holder obtains knowledge of an owner's death now qualifies to expedite the reporting of stocks or other equity interests, debt of a business association or financial association, demand deposits, savings deposits, time deposits (automatically renewable or not), retirement accounts and "all other property" not otherwise addressed in the statute.

Indications of Owner Interest

The bill also clarifies and revises what qualifies as an indication of owner interest that resets the dormancy period.

- To accommodate the changes for certified mailings, a returned signed receipt may qualify as owner interest.
- To accommodate foreign owners, the execution of a Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding and Reporting, Form W-9Ben of the IRS, may be utilized as a form of owner interest.
- Automatic deposits and withdrawals by the holder do not qualify as indications of owner interest. This ensures that the activity is owner driven while protecting the holder from being held accountable when they are not a party to automated transactions. Activity driven by the holder or the holder's agent do not qualify as indications of owner interest in the same manner.

Nevada's Holder Reporting and Compliance team are available to provide requested clarifications on any of the changes outlined above and in the bill. Email NVHolder@NevadaTreasurer.gov with specific scenarios for the best guidance. Additionally, while Nevada assesses penalties and interest on past due properties and reports, several waiver options are available. If a holder qualifies for the Voluntary Disclosure Agreement Program (VDA), they will earn the benefit of a waiver after they complete the VDA. Holders who have never filed, have filed for the first time but had past due properties reported, or holders under special circumstances (as determined by Nevada) qualify for this program. If a holder qualifies for the VDA program, that is their only means of obtaining a waiver. However, within the past two years, Nevada has revised the program to include 3 versions of the program. These versions of the program vary in how much effort based on the Holder's circumstances. Alternatively, if a holder does not qualify for the VDA, other waiver options are provided at the time of the assessment.

For more information, visit our website at https://www.nevadatreasurer.gov/unclaimed_property/up_home/.

Freda Pepper
General Counsel, Unclaimed Property

Understanding the Pre-Presumption Outreach Requirements

Navigating unclaimed property compliance has never been easy given the ever-changing legislative landscape. A newer requirement that states are increasingly adopting and which companies need to be aware of is the obligation to perform owner-outreach prior to property being presumed abandoned.

The so-called "pre-presumption outreach" is born out of the passage of the Revised Uniform Unclaimed Property Act of 2016 (RUUPA). Under RUUPA, holders must contact certain owners of property prior to their property being presumed abandoned if there has been no owner-generated activity for two years. Generally, RUUPA language reads as follows:

> If the holder does not send communications to the apparent owner of an account by first-class United States mail, the holder shall attempt to confirm the apparent owner's interest in the property by sending the apparent owner an electronic-mail communication not later than two years after the apparent owner's last indication of interest in the property. However, the holder promptly shall attempt to contact the apparent owner by first-class United States mail if:
>
> 1. the holder does not have information needed to send the apparent owner an electronic mail communication or the holder believes that the apparent owner's electronic mail address in the holder's records is not valid;
>
> 2. the holder receives notification that the electronic-mail communication was not received; or
>
> 3. the apparent owner does not respond to the electronic-mail communication not later than 30 days after the communication was sent.

As a result, states that have adopted this language generally require pre-escheat notice by email in addition to due diligence. The requirement applies solely to owners of property who receive communications from the holder via email only. Such pre-escheat notice must be sent after two years of inactivity regardless of the dormancy period that applies to the specific property type. Thus, a period of inactivity must be tracked separately from the dormancy period. A follow up letter by U.S. mail must be sent if one of the three conditions above applies.

Per RUUPA, the pre-presumption outreach requirement applies to tax-deferred retirement accounts, custodial accounts for minors, and securities-related accounts. However, as seen since the finalization of RUUPA, states are only adopting portions of RUUPA and often changing provisions to meet the states' desires. The same is true with the pre-presumption outreach provision. Indeed, the states have rarely adopted the exact RUUPA provision choosing to alter it to their needs. From a review of all enacted pre-presumption outreach provision, we can categorize the variations as follows: (1) the property types to which the pre-presumption outreach obligation applies, (2) the requirements leading to the obligation to perform the pre-presumption outreach and (3) the obligation to follow up with outreach via U.S. Mail. We explain the variations below.

1. Property Types Requiring Pre-Presumption Outreach by All Holders

When enacting a RUUPA-inspired law, the states have not necessarily applied the pre-presumption requirement to the same property types outlined in RUUPA. Many states have broadened the requirement to apply other property types. Indeed, states have added the requirement to some combination of bank accounts, securities accounts, tax-deferred retirement accounts, fiduciary accounts, and custodial accounts.

2. Requirements Leading to Pre-presumption Outreach Obligation

According to RUUPA, if an owner's account is coded for electronic mail such that the owner does not receive communications from the holder by first class mail, the holder must attempt to confirm the owner's interest in the property by sending the owner an email no later than two years after the owner's last indication of interest. States have altered this part of the provision as well. We have seen some states requiring the outreach to owners that do not receive communications from the holder by first class mail at least annually. Others have increased the period after the last indication of interest to perform outreach from two to three years.

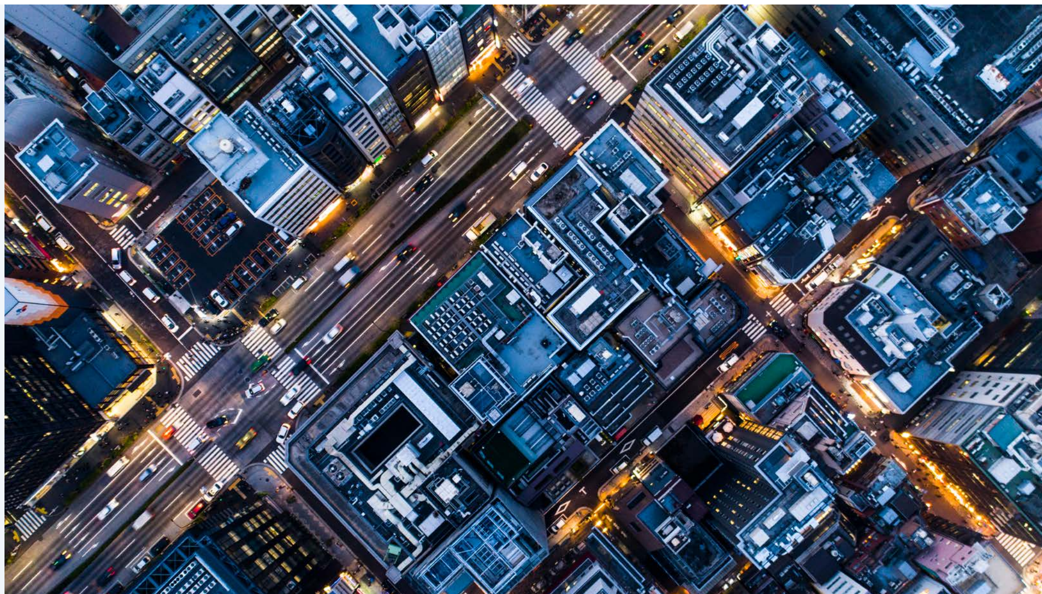
3. Requirements to Follow Up with U.S. Mail

The requirements as to when holders must follow up the pre-presumption emails with first class mail have also been altered by several states. The requirements for follow up with a U.S. mailing include any combination of the following:

- The holder receives notification that the email was not received.
- The owner does not respond within 30 days after the email was sent.
- The holder does not have enough information to send an email.
- The holder believes the email address to be invalid.

Conclusion

Like all unclaimed property requirements, keeping track of the differing pre-presumption outreach requirements and the changes thereto is daunting. However, the importance of understanding the state requirements cannot be underestimated as the outcome of the pre-presumption outreach is a factor in determining the start of the dormancy clock. If the holder receives a response to the outreach, the holder should document and update the date of last contact and the account is preserved from escheatment.



Tony McDowell
Consulting Manager

What was Old is New Again – Insurance Unclaimed Property Audits 2.0

Unclaimed property topics and trends rarely go away and are often cyclical in nature.

For example, in the 2000's, insurance industry unclaimed property audits performed by Verus, now known as Kroll Government Solutions (KGS) were a hot topic. Verus issued audit notices to many of the top insurance companies at the time, with buy-in from the states, because insurance companies were using the death master file (DMF) to determine when they could stop making annuity payments to reduce potential fraud and limit losses. This process emulated the Social Security Administration's use of the file to end social security payments and prevent potential fraud. However, Verus and the states took issue that while insurance companies used the DMF to determine an annuitant's life status to discontinue annuity payouts, they typically did not use it to search for potentially deceased insureds and therefore seek out potential beneficiaries on their life insurance blocks. Verus presented the idea that this asymmetrical use of the DMF was an attempt by the industry to avoid paying valid claims. They argued that the insurance industry was intentionally trying to avoid paying valid claims to their policy holders to boost profits. While the insurance industry argued that there was no legal requirement nor contractual obligation to search for potentially deceased insureds, the states agreed with Verus' argument and initiated audits through Verus to identify deceased insureds and distributions determined to be potentially due to beneficiaries. Unfortunately, there are few ways to appeal unclaimed property state decisions outside of litigation. When presented with the audit and corresponding Global Resolution Agreement ("GRA") which detailed the procedures to be employed, many insurance companies complied with running the DMF rather than bear the expense of litigation and potential reputational risk.

The original Verus audits eventually lead to significant legislative changes in forming what meets the definition of unclaimed property. New laws enacted by the states require insurance companies to perform a search using the DMF, which led to insurance companies changing internal procedures to accommodate for the new requirements. After the closure of unclaimed property audits and many state law changes, the insurance industry adopted the "new normal".

It has been nearly 20 years since the Verus audits began and it appears that KGS has decided the time is right to again test compliance with unclaimed property laws in the insurance industry.

Global Resolution Agreement

Based on information available to Sovos, KGS appears to be increasing their targeting of mid-size and fraternal insurers. We also noted that the proposed GRAs presented to auditees look to be almost identical to those presented to insurance companies in the 2000s. One issue of concern is the inclusion of a lookback period to 1992.

During the initial audit period in the early 2000's, Verus and the states thought insurance companies were trying to avoid duties to their potential policy beneficiaries. The insurance industry did not agree with this position because it is heavily regulated by the states themselves, and there were no laws at the time requiring a DMF search to be performed. It was the insured's responsibility to ensure their beneficiaries were aware they were named on a policy so they could make a claim.

As the audits made headlines, the states eventually made statutory changes which have reshaped the landscape. Many states have passed some form of the National Conference of Insurance Legislatures (NCOIL) Model Act and now require insurers to attempt to locate potential beneficiaries. While not required in all states, many insurers chose to include all states in these searches for ease of implementation.

If insurers are presented with the GRA today, remember the landscape in the insurance industry has changed. In most cases, some department in your company is running (or should be running) these searches and has integrated them into your claims process. Take the time to review and test your process before entering into a GRA. Remember that this document comes from a time when the laws were different and so were the processes required of insurers. The GRA is not a requirement but an option to consider and one which may not suit your company if you have an effective process in place.

Death Master File

Coming hand in hand with a GRA comes a resurgence in inquiries on the use of the DMF.

Larger insurers generally seem to have this potential requirement embedded in their processes. However, smaller insurers may not have a process in place. This is often due to a perception that their size, footprint, or some other factor means this requirement does not apply to them.

Sovos has seen instances where the requirement to use the DMF has been missed by the insurer's compliance department or legal teams. The use and requirement of the DMF was central to the Verus audits of the early 2000s and remains a core component to insurance audits today. If your company is not currently using the DMF, consider a review of the asserted exemptions to see if they still apply or if changes to the law or the company require an implementation of DMF searches.

Post-mortem interest

When handling unclaimed property, try to remember that the state stands in the shoes of the owner. In general, this usually means that everything due to the owner should be reported when a property is escheated.

For issued checks, this is relatively straightforward, and most policy administration systems can generate the required interest and taxes associated with a check to a policy holder. Unfortunately, escheated death claims can often be overlooked as there is usually a question of how to systematically handle them.

For example, does the company simply make a journal entry for the death benefit? What are the capabilities of the systems? When should a policy be terminated on the system? Are there different policy administration systems in use? All these topics can factor into how escheating post-mortem interest is handled.

While unclaimed property law does not usually speak to post-mortem interest, it is something many states require be paid on claims under insurance law. In addition, a GRA often discusses interest being paid on claims, so it is not a stretch to infer that the states feel post-mortem interest should be included with the escheated death benefit.

Please take time to discuss these topics with your legal team. If your legal team agrees that post-mortem interest should be included with escheated property, have conversations with all your company stakeholders and update the policy and procedures accordingly. However, if your legal team does not believe post-mortem interest should be paid on escheated death claims, their position and rational should be documented.

Joe Pollock,
Director, Compliance Services

A Look Back at Fall Unclaimed Property Reporting

Another October unclaimed property filing season is now over for both clients and Sovos. Overall, 70% of reports filed by Sovos on behalf of our clients occur for states with deadlines on October 31 and November 1. The last 60 days of the filing period require significant coordination between our clients and Sovos. Many tasks, including due diligence letter processing, reconciliation, report generation and delivery to the state, are performed within a condensed time period.

One of the final things to watch for in filing season is a last-minute change to the filing requirements. While most dormancy changes enacted by states have long since passed and became effective, the end of September through the beginning of October typically has administrative changes by numerous states. The changes range from new brokerage accounts for share delivery to a new state website for NAUPA file delivery or NAUPA file encryption. Sovos' regulatory team monitors any changes and updates our state profiles accordingly. Typically, the final 60 days do not go by without a couple of adjustments, and this filing period followed suit.

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What were some unclaimed property reporting challenges?

One of the more challenging October detours focused on holder numbers required to file electronic NAUPA II reports on Maryland's state website. There were delays in obtaining the holder number from the state. Specifically, first-time filers encountered issues obtaining the number necessary for submission. As a result, Maryland granted a reprieve from interest to first-time holders, if reports were received by December 31, 2023. This gave Maryland time to address the delays in providing the required holder IDs; facilitate engagement between the state, holders and Sovos; and then allocate time to generate NAUPA II reports and deliver them to the state. This provided sufficient time for all parties to make corrections and file by the revised deadline.

Tennessee underwent a transition to a new website for NAUPA file delivery and an updated payment system in October, which had a significant impact on the unclaimed property reporting process. Tennessee encouraged holders to submit reports before October 1, preceding the implementation of the new system. Despite the concerted efforts of many holders to comply with the pre-October 1 deadline, the new website officially went live in October. This update facilitated holders by enabling them to make payments conveniently through ACH or Fed wire. Apart from the aforementioned adjustments, there were also modifications in the NAUPA format, necessitating a shift from TXT format to HDE encryption.

Specific to Sovos, earlier in the filing season, Georgia requested that our clients begin filing NAUPA reports directly on the Georgia state website instead of filing directly via Sovos software. This is a straightforward process for our applications, and they do not necessitate a hotfix.

Due to variations in requirements across states, our applications must be adaptable to changes efficiently and without requiring programming adjustments. Navigating a filing period with changes like these is commonplace. Fortunately, the team adjusted as events unfolded.

How Sovos can help

The collaborative efforts of our dedicated team members ensured a seamless transition for our clients, reinforcing Sovos' commitment to providing exceptional service amid an extremely intense filing period. We look forward to continually adapting to regulatory and operational changes. As we navigate the transition away from the October and December filings, let's shift our attention towards spring filings. Although spring filings may not have the same volume as those in October, they present the challenge of staggered compliance dates. We recognize that everyone is juggling numerous unclaimed property responsibilities due to the staggered dates, and fostering clear communication is key to ensuring a seamless process. We eagerly await another successful reporting cycle.

Freda Pepper
General Counsel, Unclaimed Property

Disney/Dine Litigation Update:

Michigan's Court of Appeals Answers Supreme Court Questions and Reverses Previous Ruling Regarding the Statute of Limitations

The Michigan Court of Appeals appears to have reversed its ruling from earlier this year where it held that an unclaimed property audit is not an action or proceeding that tolls Michigan's statute of limitations. Dine Brands Glob., Inc. v. Eubanks, No. 360293, 2023 WL 324426 (Mich. Ct. App. Jan. 19, 2023); Walt Disney Co. v. Eubanks, No. 360291, 2023 WL 324594 (Mich. Ct. App. Jan. 19, 2023). The November 9, 2023 decision comes after the State's appeal to the Michigan Supreme Court.

The State appealed to the Michigan Supreme Court arguing that the trial court erred in determining that the "examination" conducted by the defendant was not an "action or proceeding" under MCL 567.250(2), and therefore the statute of limitations barred defendant's claims. In lieu of granting the State's appeal of this decision, on September 15, 2023, the Michigan Supreme Court remanded the consolidated Disney and Dine cases to the Court of Appeals with the instruction that the Court assume that an examination is a "proceeding" and then to answer the following questions:

> (1) whether the commencement of the examination tolled the statute of limitations in MCL 567.250(2); and (2) whether the Treasurer must still file a lawsuit within the applicable time frame to avoid the lawsuit being time barred.

Whether the commencement of the examination tolled the statute of limitations in MCL 567.250(2)

Due solely to the required assumption that an examination is a proceeding, the Court of Appeals found the tolling issue irrelevant.

Michigan's statute of limitations is found at MCL §567.250(2) and provides:

> . . . an action or proceeding shall not be commenced by the administrator with respect to any duty of a holder under this act more than 10 years, or, for the holder of records of transactions between 2 or more associations as defined under section 37(a)(2), more than 5 years, after the duty arose.

Accordingly, an "action or a proceeding" must commence within the applicable time periods. The examination of both Disney and Dine Brands began when the limitations period had not expired. Since it is assumed that an examination is a proceeding and the proceeding was commenced in a timely fashion, the question of tolling becomes irrelevant. In other words, the State complied with the statute of limitations when it started the examinations within the applicable time period. As a result, the Court found there is no need to consider the issue of tolling if the statute has been satisfied by defendant's commencement of a "proceeding" under the statute.

Whether the Treasurer must still file a lawsuit within the applicable time frame to avoid the lawsuit being time-barred

The Court concluded the State was not required to file a lawsuit. According to the court, under MCL 567.251a, the state does not need to take any additional action aside from issuing its final decision. Instead, it is incumbent on the Holder to challenge the state's final decision. Section 567.222(a) of Michigan's law simply allows the state to bring an action to enforce the unclaimed property law. It does not require that the state bring such an action within the statute of limitations. It is for these reasons that the Appellate Court answers the second question by holding that the State is not required to file a lawsuit to enforce unclaimed property liability within the statute of limitations.

Conclusion

Based on the Court's answers to the Supreme Court's questions, the Court then ruled that the lower court erred when it ruled in favor of Disney and Dine. This is a significant change from the Court of Appeals prior decision in Dine Brands, which held the state must file a lawsuit to enforce liability within the statute of limitations, even if the state had started an examination of the holder within the statute of limitations. The different outcome, however, appears to be solely related to the Supreme Court directive to the Appellate Court to assume that an examination is a proceeding as contemplated by Michigan's statute of limitations. Indeed, before the appeal to the Supreme Court, the Appellate Court had ruled that an examination was not considered a proceeding as related to the statute of limitations.

In an interesting procedural twist, the Court of Appeals ordered that the matter be remanded to the trial court for further proceedings. However, the Supreme Court's September 15, 2023 Order remanding the matter to the Court of Appeals for review specifically states that the Supreme Court would retain jurisdiction of the matters. These conflicting jurisdictional directives leave the status of the ruling in the Disney and Dine matters unclear. Companies currently under audit by the State of Michigan will need to consider these developments.

How Compliance is Trending in 2024

Heading into 2024 there are a new set of realities for businesses to deal with when it comes to compliance. The approximate 12,500 tax jurisdictions in the U.S. are all undergoing some level of digital transformation with the potential to have a direct impact on how your business collects, monitors and reports compliance data.

Every level of government is further harnessing the power of technology and creating greater demand for data — in terms of both volume and speed — as they continue to realize the benefits and added value of getting raw data in near real time. We are also seeing the impact of governments using technology to lower thresholds for e-Reporting as they look to automate processes and drive efficiencies.

Over the past decade, we've witnessed how tax authorities are better using technology to increase transparency and eliminate fraud with a goal of closing tax gaps. This is not taking place in a vacuum; businesses and consumers have also been demanding greater transparency and trust due to the amount of personal and financial data they are required to share. These changes ultimately create unnecessary burdens which lead to inefficiency and higher costs.

How are businesses adapting?

We are beginning to see businesses adapt and begin to leave their point solution purgatory once and for all. They are pivoting and starting to embrace a more holistic strategy that enables them to manage all of their compliance obligations through a singular platform approach that provides a singular source of truth of high-integrity, high-value data. This is a trend we see gaining steam throughout the year and becoming the new norm for businesses of all sizes and industries.

Why are we so confident? We've seen it before. The compliance industry is closely mirroring what has taken place in several other core technology categories, including customer relationship management and enterprise resource planning. History tells us from both examples that volume and complexity overwhelm organizations' abilities to track and manage information and processes with any sense of reliability or data integrity. The result? The market demanded a larger, more robust and capable solution.

In the early days of compliance, the stick was the primary motivator wielded by government entities — be compliant or face the consequences of costly audits, fines and possibly even loss of a business license. Today, we find that the data and insights uncovered through a centralized compliance platform, along with the efficiencies of scale created, are the ultimate carrot.

If you are ready to consolidate your tax and compliance solutions from multiple vendors to one, then it's time to talk to Sovos. True confidence for a regulated world.

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