



Managing Unclaimed Property Risks in the Music Industry

Crowe™ Unclaimed Property Solution

The complex economics of the music industry are undergoing considerable change. Royalties for digital distribution are evolving quickly and even traditional types of royalty arrangements – from print rights, mechanical, performance, sync, and foreign use – are transforming in response to new streaming media, technological innovation, and changing artist requirements.

Performing rights organizations (PROs) and music labels are challenged to keep up with royalty requirements, account for payments owed, and safeguard funds until payments are made. However, artists, songwriters, composers, and producers can be difficult to locate, and royalty distributions may lag, despite good faith efforts made by PROs and music companies.

These unclaimed funds have drawn the interest of state treasurers, placing at risk the PROs, music companies, and related intermediaries that hold music royalties. As states increasingly enforce unclaimed property laws, many are conducting unclaimed property audits, imposing stiff penalties for delays in reporting and moving quickly to seize funds.

Unclaimed Property Risks for Royalty Payments

Millions of songs are played each day on commercial radio stations, streaming services, cable and satellite radio, and TV music channels. Thousands of artists, songwriters, composers, producers, and music labels are earning royalties – yet many royalty checks remain unclaimed.



PROs were established to track music use and then collect and distribute royalties to the thousands who are owed them. PROs hold those funds until royalty payments can be made.

Finding registered artists and producers can be challenging, as artists move, and labels and producers merge or go out of business. One PRO estimates that about one-third of the money collected from online music services isn't distributed because the artists, producers, or labels can't be located.

States Increase Their Activity Related to Unclaimed Property

Unclaimed royalty checks fall under the definition of unclaimed property, and 54 jurisdictions – including all 50 states and the District of Columbia – have stepped up efforts to recoup unclaimed property. Driven by the desire to offset budget shortfalls and their success in recouping unclaimed property in other industries, state treasurers now are turning their sights to unclaimed royalties in the music industry.

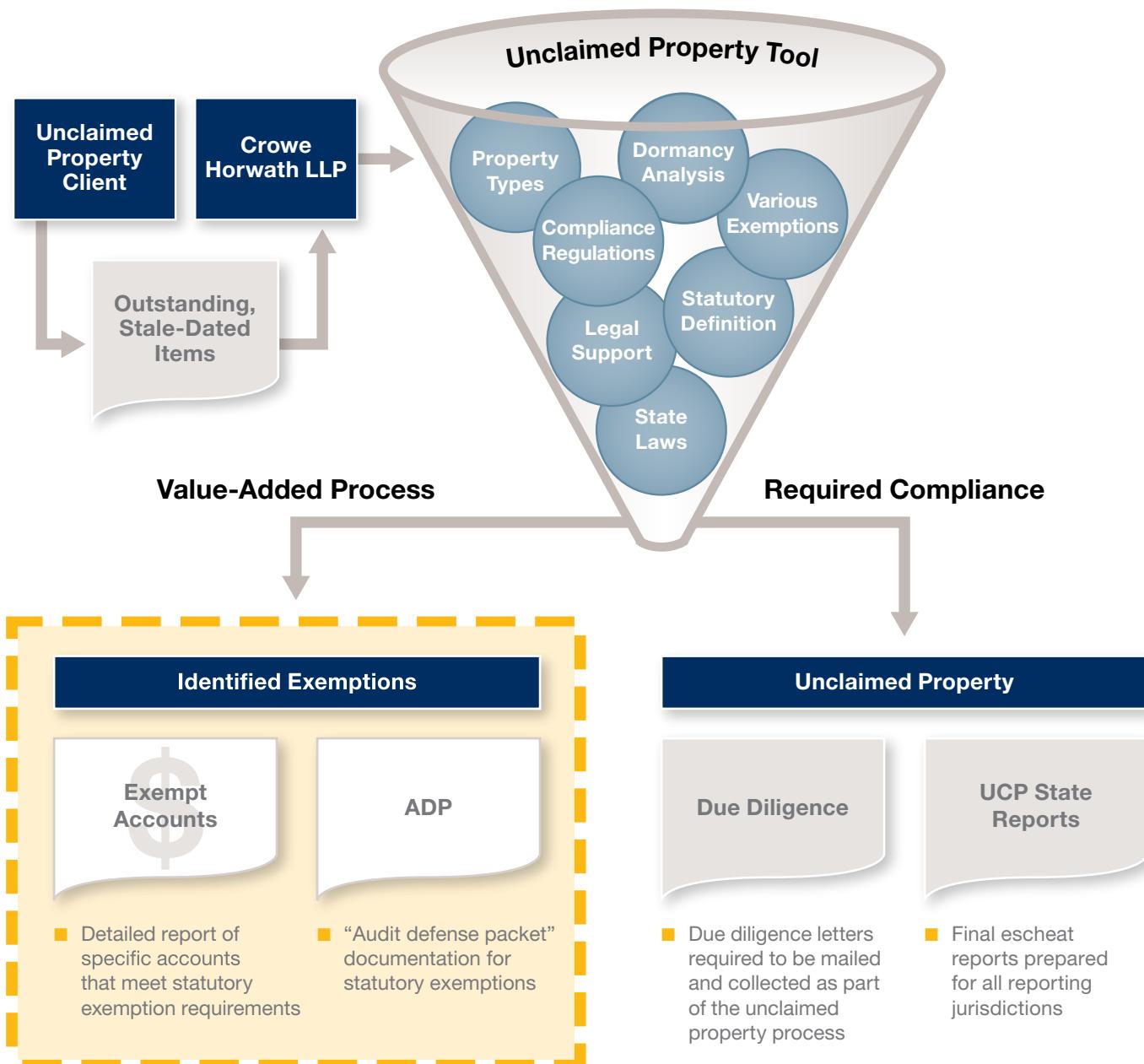
The money derived from it is not a tax, but unclaimed property generates considerable funds for states to hold in custody until the proper owners claim it. Billions are safeguarded by state treasurers, earning interest for state coffers until the funds must be turned over to the true owners. However, most of these funds remain with the states and become sources of revenue; historically, less than 2 percent of unclaimed funds are returned to owners.

Although unclaimed property laws have been part of states' statutes for decades, enforcement has stepped up substantially in recent years. All companies, regardless of size, are subject to escheat laws.

Many states engage contingent fee audit firms to estimate liability for periods for which records are not available. States are imposing severe penalties and have won large, widely publicized audit settlements, leading many companies to voluntarily disclose outstanding liabilities through the states' voluntary disclosure agreement programs, if available.

Value-Added Process

Crowe unclaimed property professionals provide comprehensive services to assist our clients in complying with their reporting requirements. Our approach focuses on maintaining required compliance, **but also offers detailed data analysis to identify outstanding balances not owed to the payee or the state as unclaimed property.**



Crowe Can Help Simplify Compliance

Protecting your organization's interests in complying with states' unclaimed property laws and regulations requires knowledge of the kinds of challenges your industry faces and the experience to guide you with care and vigilance. Crowe can help assess and mitigate organizational risk, as well as assisting with effective compliance and preparation for unclaimed property audits.

Crowe unclaimed property services include a suite of value-added solutions designed to meet the needs of music industry companies that may hold unclaimed royalty payments. Our advanced technology tools can help quantify your potential exposure and help perform risk assessments.

Our suite of unclaimed property services includes:

- **Policies and procedures** – Our team can help you develop and implement effective policies and procedures aimed at reducing liabilities and administrative costs. We can advise you on how to structure a royalty payment outreach program and maintain records for reporting and audit defense.
- **Voluntary disclosure agreements** – Filing a voluntary disclosure agreement allows your business to negotiate a settlement with the state, limiting exposure for past-due unclaimed property. Our experienced team can help you reduce the look-back period and minimize penalties and interest.
- **Compliance outsourcing** – Companies can benefit significantly from consolidating analysis, compliance, and reporting with an experienced unclaimed property advocate. We provide full turnkey services for your unclaimed property filing with and payment to states.
- **Exemption analysis** – Because many states allow exemptions for certain types of unclaimed property, significant financial savings may be possible. Using our custom exemption analytic tool, we can help maximize benefits and mitigate over-reporting to the states.
- **Audit defense** – Crowe unclaimed property professionals have years of experience dealing with and developing working relationships with state administrators and contract audit firms. Our objectives with audit defense are to complete an unclaimed property examination as quickly as possible with the least amount of organizational disruption and to minimize the amount of liability assessed.

Rely on Crowe Expertise and Experience

Identifying unclaimed property and managing royalty payment exposure require significant attention and industry experience. Crowe can advise you on unclaimed property best practices and help you initiate steps to gain greater efficiencies and improve your processes.

Our unclaimed property team includes professionals from a variety of backgrounds with experience gained at entities ranging from state and federal government agencies to international accounting firms. As a result, your company can benefit from advice delivered by professionals with an understanding of your industry's financial reporting processes as well as knowledge of the music industry's royalty payment system.

As one of the largest providers of consulting and public accounting services in the United States, Crowe brings together deep industry knowledge, functional process expertise, and technology applications to address critical issues facing companies.

Thousands of organizations rely on Crowe to help them realize greater efficiency, recognize new opportunities, and maximize revenue.

We'll Help You Mitigate Risk

Many companies have found it beneficial to be proactive in their attempts to locate musicians, songwriters, producers, and music labels for royalty payments. Crowe can help you coordinate efforts among your royalty, accounting, and legal departments for periodic reviews of the status of royalty accounts. We can advise on ways to improve policies and procedures for outreach and payment.

Our unclaimed property professionals have found the following actions can aid in locating and compensating musical artists for royalties owed:

- Conducting a full assessment of music use records for all legal entities
- Attempting and recording direct contact with the artist, agent, or manager via phone, mail, email, fax, or social media
- Using industry partner outreach to match recording artist names with those on the member rosters of music organizations
- Initiating online and print marketing campaigns in relevant industry news outlets
- Establishing a searchable database that artists can use to search for royalties due them and advertising the existence of the database
- Understanding the specific voluntary compliance program rules of the applicable states to which liabilities may be owed
- Initiating a formal due diligence notification process in which a letter is mailed to the owner's last known address. This step is required by many states as the last-ditch effort of notification that the royalties will be escheated to the state as unclaimed property.





Contact Information

For more information on Crowe unclaimed property services, please contact:

Eric Boggs, Partner

+1 615 360 5522

eric.boggs@crowe.com

Bob Maryan

+1 469 801 4330

bob.maryan@crowe.com

About Crowe

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