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**Finance Committee**

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**HB 3036**

**Brief Description:** Modifying unclaimed property laws for gift certificates.

**Sponsors:** Representatives Hunter, Cairnes, Roach and Nixon.

**Brief Summary of Bill**

- Prohibits issuers of gift certificates and stored value cards, with a few exceptions, from including inactivity charges or expiration dates on the certificates.
- Exempts gift certificates and stored value cards from the Uniform Unclaimed Property Act.

**Hearing Date:** 2/3/04

**Staff:** Mark Matteson (786-7145).

**Background:**

The Uniform Unclaimed Property Act governs the disposition of intangible property that is unclaimed by its owner. A business that holds unclaimed intangible property must transfer it to the Department of Revenue (DOR) after a holding period set by statute. The holding period varies by type of property, but for most unclaimed property the holding period is three years. After the holding period has passed, the business in possession of the property transfers the property to the DOR.

Under the program, the DOR's duty is to find the rightful owner of the property, if possible. The DOR sends notices to the last known addresses of owners, places advertisements with names of owners in newspapers, sends press releases to television and radio stations, and undertakes other efforts to find owners. The DOR is not required to publish or mail notices when the property value is less than \$75. Abandoned property turned over to the DOR is deposited to the state general fund. However, the owner of unclaimed property may still come forward and obtain reimbursement from the state general fund at any time.

Abandoned property is turned over from many sources, including retailers. The types of abandoned property that are subject to the DOR program include gift certificates. In recent years, the DOR has received about \$2.7 million annually in abandoned gift certificate property.

Under the Uniform Unclaimed Property Act, the value of the gift certificate that must be reported if abandoned is the value paid by the purchaser, without any consideration of fees or charges that

may have been deducted. This requirement is different than that for some other forms of unclaimed property, such as bank accounts, in which dormancy fees are allowed if there is a contract between the holder of the property and the owner, and if the holder regularly imposes such charges. Gift certificates and other abandoned property are not subject to expiration; a person may claim the property at any time.

Gift cards or stored value cards are instruments that contain value that may be redeemed for goods or services sold by the retailer. Some gift cards are issued with dormancy fees, inactivity charges, or other service charges. Such fees are typically activated if no activity has occurred on the card for an established amount of time, or following an established amount of time after the purchase or first use of the card. The fees are deducted from the remaining balance on the card, typically on a monthly basis. Gift cards may also be issued with expiration dates, which reduce the stored value on the card to zero on a specific date.

Gift cards are not explicitly addressed under the unclaimed property requirements. The position of the Department of Revenue is that, for unclaimed property purposes, such cards are a form of gift certificate, and the amount that would be presumed abandoned is the balance on the card at the time that value was added most recently to the card.

In recent years, the use of gift cards has become widespread, relative to the use of traditional gift certificates. The Consumers Union reports that about \$45 billion in gift cards was purchased nationwide in 2003. Some states, including California and Massachusetts, have recently enacted laws to address issues relating to inactivity charges and expiration dates.

### **Summary of Bill:**

Abandoned property on gift certificates is exempt from the Uniform Unclaimed Property Act under certain conditions. A gift certificate is defined to mean a record evidencing a promise by a seller to provide goods or services for the value of the record, and includes gift cards.

It is illegal for any person to issue a gift certificate that contains an expiration date or fee, with certain exceptions. One exception is allowed if the certificate is issued for promotional purposes and without any value attached; the expiration date appears in all capital letters in at least 10 point font on the front of the certificate; the expiration date is at least three years from date of issuance; and there is a statement printed on the certificate that indicates that the purpose is promotional only and not for sale or purchase. An exception with similar conditions is made for gift certificates sold by a charitable organization, having been donated to the organization for fund-raising activities. A third exception is provided if the certificate is sold by an artistic or cultural organization and the expiration date is at least three years from date of issuance.

If there is a balance on a gift certificate, then that balance must be made available as cash or gift certificate. If the balance is less than \$5, the balance must be made available as cash.

Gift certificates may contain inactivity fees under certain circumstances. A fee is allowed if several conditions are met: a statement is printed in at least 10 point font with the amount of fee, frequency, and an explanation that the fee is triggered by inactivity; the statement is visible prior to purchase; the remaining value on the card is \$5 or less; the fee does not exceed \$1 per month; there has been no activity for 24 consecutive months; and the holder is allowed to reload the card.

Gift certificates must be honored prior to bankruptcy proceedings. Gift certificates may not be redeemed for cash. Issuers are not required to replace certificates if stolen, pay interest on unredeemed balances, or maintain separate accounts to cover the value of gift certificates. Gift certificates do not create an interest in any property of the issuer or create a fiduciary relationship with the issuer.

The new requirements do not apply to gift certificates issued by federally chartered banks and that are usable with multiple unaffiliated sellers. In a dissolution of a business association, an issuer is not required to honor a gift certificate if the certificate has been presumed abandoned and delivered to the DOR.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains multiple effective dates.