

Title 18. Public Revenues
Division 3. Franchise Tax Board
Chapter 2.6. Administration of Franchise and Income Tax
Subchapter 2. Returns
Article 5. Withholding

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Note: Authority cited: Section 19503, Revenue and Taxation Code. Reference: Section 18662, Revenue and Taxation Code.

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➡ **§ 19002. Credit for Tax Withheld.**

(a) The tax withheld under Article 5 (commencing with Section 18661) of the Revenue and Taxation Code or Section 13020 of the Unemployment Insurance Code is allowable as a credit against the tax of the income on a return for the taxable year with respect to the amount withheld, as set forth in FTB Form 592-B, Resident and Nonresident Withholding Tax Statement, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 592-B") and FTB Form 593, Real Estate Withholding Tax Statement, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 593"). The required information specified in FTB Form 592-B and FTB Form 593 is set forth in subsection (f) and subsection (g), respectively, herein. If the tax has actually been withheld at the source, a credit or refund shall be made to the recipient of the income even though the tax has not been paid over to the Franchise Tax Board. For purposes of the credit, the recipient of the income is the taxpayer who received amounts that were subject to withholding, as reported on FTB Form 592-B and FTB Form 593, and included those income amounts on a return. Under Revenue and Taxation Code section 19307, no refund or credit of tax withheld and reported on FTB Form 592-B and FTB Form 593 or estimated tax paid can be allowed unless and until a taxpayer has filed a valid return for the year.

(b) Payments to Pass-Through Entities. Tax withheld from payments to pass-through entities must be passed through to the entity's owners and reported on FTB Form 592-B according to their ownership interest in the pass-through entity, except that owners of pass-through entities may authorize the pass-through entity to use some or all of the withholding credit to satisfy the entity-level tax of the pass-through entity due for the taxable year. No refund of tax withheld from payments to pass-through entities is allowed. Any credit passed through and reported on FTB Form 592-B must be claimed by the entity's owners on their respective tax returns.

(c) Special Rule for Pass-Through Entity Year-End Distributions. Subject to the authorization of the owners of the pass-through entity, taxes withheld on FTB Form 592, Resident and Nonresident Withholding Statement, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 592") and FTB Form 592-V, Payment Voucher for Resident and Nonresident Withholding, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 592-V"), from payments made after the close of the taxable year can be applied as payments either to the previous taxable year or to the following taxable year to the extent those payments represent income required to be included in the return for that respective taxable year. The required information specified in FTB Form 592 and FTB Form 592-V is set forth in subsection (h) and subsection (i), respectively, herein.

(d) Date of Credit.

(1) For purposes of computing the statute of limitations on refund claims, the date of all withholding payments is deemed to be the original due date for filing the income tax return.

(2) For purposes of computing the estimated tax penalty, the date the withholding is credited to the account is deemed to be the date withheld on FTB Form 592 and FTB Form 592-V. For individuals, withholding is treated as paid on each applicable estimated tax payment due date, unless an individual taxpayer elects to treat all withholding of tax at source for the year as paid on the date withheld. (For further discussion of the date for the crediting of the estimated tax payments, see Internal Revenue Code section 6654, subsection (g).)

(3) For purposes of computing interest and penalties imposed under Revenue and Taxation Code section 18668, withholding payments are credited on the date such payments are remitted to the Franchise Tax Board on FTB Form 592, FTB Form 592-V, FTB Form 593, and FTB 593-V, Payment Voucher for Real Estate Withholding, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 593-V"). The required information specified in FTB Form 593-V is set forth in subsection (j), herein.

(e) Federal Regulations Applicable. Regulations issued under the California Revenue and Taxation Code shall apply to the crediting of tax withheld, and, to the extent applicable, Internal Revenue Code sections 31 and 6513 and accompanying regulations.

(f) FTB Form 592-B, Resident and Nonresident Withholding Tax Statement. See Regulation section 18662-8, subsection (m).


(g) FTB Form 593, Real Estate Withholding Tax Statement. See Regulation section 18662-3, subsection (j).

(h) FTB Form 592, Resident and Nonresident Withholding Statement. See Regulation section 18662-4, subsection (i).

(i) FTB Form 592-V, Payment Voucher for Resident and Nonresident Withholding. See Regulation section 18662-8, subsection (j).

(j) FTB Form 593-V, Payment Voucher for Real Estate Withholding. See Regulation section 18662-3, subsection (k).

Note: Authority cited: Section 19503, Revenue and Taxation Code. Reference: Section 19002, Revenue and Taxation Code.

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◆ **§ 18662-1. Withholding - Generally.**

(a) Types of Withholding - Application of Regulation sections 18662-0 through 18662-8.

(1) Overview. California law requires withholding of tax by persons having the control, receipt, custody, disposal, or payment of items of income, commonly termed "withhold at source." Regulation sections 18662-0 through 18662-8 apply to withholding of tax at source and do not apply to wage withholding, withholding orders for delinquent taxes, withholding on foreign (non-U.S.) partners and members, backup withholding, or tax collection through the interagency intercept program.

(A) Withholding Tax on Wages. Withholding tax on wages is required by Division 6 of the California Unemployment Insurance Code (section 13000 et seq.) and is administered by the Employment Development Department. (See Revenue and Taxation Code section 18632.) Regulation sections 18662-0 through 18662-8 do not cover withholding tax on wages.

(B) Withholding Orders for Delinquent Taxes. Withholding orders for delinquent taxes may be issued pursuant to Revenue and Taxation Code section 18670 and other statutes relating to involuntary collection, levies, and wage garnishments. Regulation sections 18662-0 through 18662-8 do not cover withholding orders for delinquent taxes.

(C) Foreign (Non-U.S.) Partners and Members. Revenue and Taxation Code section 18666 and federal provisions incorporated by reference apply to withholding on foreign (non-U.S.) partners and members who have allocable amounts of effectively connected income to a California trade or business. Regulation sections 18662-0 through 18662-8 do not cover withholding on foreign (non-U.S.) partners and members. (See Treasury Regulation section 1.1446-0 et seq. and Internal Revenue Service (IRS) publications.)

(D) Backup Withholding. With certain limited exceptions (which include payment of interest and dividends, and any release of loan funds made by a financial institution in the normal course of business as stated in Revenue and Taxation Code section 18664, subdivision (a)(3)), backup withholding is required by Revenue and Taxation Code section 18664 on payments where federal backup withholding is required. Regulation sections 18662-0 through 18662-8 do not cover withholding taxes on backup withholding.

(E) Interagency Intercept Program. Government Code section 12419.5 authorizes the State Controller's Office to collect money owed to one state agency by a person or entity by deducting the amount owed from any money to be paid to such person or entity by another state agency. This procedure is called an interagency intercept. Payments to a person or entity by the State include but are not limited to a refund of a tax, license, or fee, or a payment for services rendered. Regulation sections 18662-0 through 18662-8 do not cover interagency intercepts.

(b) Withholding of Tax at Source.

(1) General. Non-wage withholding is administered by the Franchise Tax Board under Article 5 of Chapter 2 of Part 10.2 of Division 2 of the Revenue and Taxation Code, section 18661, et. seq., and federal provisions incorporated by reference. Subject to certain exceptions specified in Revenue and Taxation Code section 18662, subdivision (e)(3), withholding of tax at source is required from

payments derived from California sources and from the sale of any California real property. Withholding is also required when the Franchise Tax Board has notified the payer to withhold.

(2) Real Estate Withholding. Withholding of tax at source is required from the sale or exchange of California real estate by California resident and nonresident individuals and non-California business entities, unless certain exceptions specified in Revenue and Taxation Code section 18662, subdivision (e)(3), are met. (See Revenue and Taxation Code section 18662, subdivision (e), and Regulation section 18662-3.)

(3) Withholding by Withholding Agent.



(A) Withholding of tax at source is required by persons having the control, receipt, custody, disposal, or payment of items of income made to nonresident individuals and non-California business entities. Withholding is also required where the payee is unknown or unidentified, or fails or refuses to provide the payer with the information to be provided by Regulation sections 18662-0 through 18662-8 to determine if withholding is required.

(B) Cross-References. Withholding on Payments. See Regulation section 18662-2 for definitions. See Regulation section 18662-3 for rules relating to real estate withholding. See Regulation section 18662-4 for rules applicable to withholding on payments to nonresidents. See Regulation section 18662-5 for rules relating to other types of payments and withholding obligations. See Regulation section 18662-6 for nonresident withholding relating to entertainers, athletes, and speakers. See Regulation section 18662-7 as to withholding rules for domestic (U.S.) pass-through entities [Reserved]. See Regulation section 18662-8 as to rules relating to reporting and remitting amounts withheld, penalties, and interest. See Chapter 11 of Part 10 of Division 2 of the Revenue and Taxation Code (sections 17951-17955) and applicable regulations for rules relating to determination of gross income from sources within California.

(c) Withholding Required After Notification. Withholding of tax at source is required when a withholding agent is notified in writing by the Franchise Tax Board to withhold tax from California source income.

Example: A promoter of an entertainer is renting a venue in California for a performance to be held next June. The Franchise Tax Board contacts the promoter in writing and informs the promoter that withholding is required for amounts received for the June performance. The promoter has not complied with the Franchise Tax Board's notices to withhold on previous performances. The Franchise Tax Board also notifies the venue owner/operator in writing that withholding is required for amounts paid for the June performance. The venue owner/operator must withhold 7 percent on all payments, including ticket sales and commissions, for this performance. In this situation, both the promoter and the venue owner/operator are withholding agents.

Note: Authority cited: Section 19503, Revenue and Taxation Code. Reference: Section 18662, Revenue and Taxation Code.

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 **§ 18662-2. Definitions.**

(a) Buyer. The term "buyer" includes the buyer or any other transferee of property.

(b) California Business Entity. For purposes of withholding, the term "California business entity" is a business entity as defined in Regulation section 23038(b)-2, subsection (a), that is incorporated,

organized, or formed, and existing under the laws of California, or is qualified through the Office of the Secretary of State to transact intrastate business. A business entity that has not qualified to transact intrastate business (such as a corporation engaged exclusively in interstate commerce) will be considered as having a permanent place of business in California only if it maintains an office in California that is permanently staffed by its employees.

(c) California Real Estate. The term "California real estate" has the same meaning as the term "California real property interest" as defined in Revenue and Taxation Code section 18662, subdivision (e)(5). For purposes of Regulation sections 18662-0 through 18662-8, an ownership interest does not include an option to acquire real estate, unless the option is exercised by the transferor and the real property is transferred.

(d) California Resident. The term "California resident" includes every individual who is in California for other than a temporary or transitory purpose, and any individual domiciled in California who is absent for a temporary or transitory purpose. (See Revenue and Taxation Code section 17014 and Regulation section 17014.)

(e) California Trust or Estate. For purposes of withholding, a trust is considered a California trust if at least one fiduciary is a California resident or a California business entity, or if the decedent was a California resident on the date of death. An estate is considered a California estate for withholding purposes when the decedent was a California resident on the date of death.

(f) Exempt Organization. The term "exempt organization" means an organization that meets the requirements of Chapter 4 of Part 11 of the Revenue and Taxation Code (commencing with section 23701) or Subchapter F of the Internal Revenue Code (commencing with section 501), that is exempt from withholding under this regulation.

(g) Individual. The term "individual" means a natural person. (See Revenue and Taxation Code section 17005.)

(h) Items of Income. For purposes of withholding, the term "income" includes items of income that are included in the information return reporting requirements of Article 5 of Chapter 2 of Part 10.2, Division 2 of the Revenue and Taxation Code (section 18631 et seq.) and federal provisions incorporated by reference. The items of income include, but are not limited to, interest, dividends, rents, royalties, prizes and winnings, premiums, annuities, emoluments, compensation for personal services including bonuses, partnership income, or gains, and other fixed or determinable annual or periodical gains, profits, and income.

(i) Non-California Business Entity. For purposes of withholding, a non-California business entity means any business entity that does not meet the requirements of a California business entity as set forth in subsection (b), herein.

(j) Nonresident. A "nonresident" or "nonresident individual" is an individual who does not meet the requirements of a California resident as set forth in subsection (d), herein.

(k) Nonresident alien. "Nonresident alien" has the same meaning as defined in Internal Revenue Code section 7701(b)(1)(B).

(l) Nonresident Estate or Trust. For purposes of withholding, the term "nonresident estate or trust" means an estate or trust that does not meet the requirements to be a California estate or trust as set forth in subsection (e), herein.

(m) [Reserved]

(n) Partner. The term "partner" has the same meaning as defined in Revenue and Taxation Code section 17008. For purposes of withholding, members of limited liability companies classified as partnerships and owners of multiple-owner entities are included in the term "partner" under Regulation sections 18662-0 through 18662-8.

(o) Partnership. The term "partnership" has the same meaning as defined in Revenue and Taxation Code section 17008. This includes a syndicate, group, pool, joint venture, or other unincorporated organization, through or by means of which any business, financial operation, or venture is carried on, and which is not a trust, estate, or corporation. For purposes of withholding, limited liability companies classified as partnerships, limited partnerships, and limited liability partnerships are treated as partnerships under Regulation sections 18662-0 through 18662-8.

(p) [Reserved]

(q) Payee. The term "payee" includes, but is not limited to, any person, partner, member, corporation, limited liability company, partnership, fiduciary, business entity, association, joint venture (whether or not classified as a disregarded entity for tax purposes), estate, trust, foreign entity, agency, or political subdivision that receives payments from a payer. The term "payee" also includes any person who receives payments or distributions from a pass-through entity, estate, or trust.

(r) Payer. The term "payer" means the person who makes a payment or a distribution to a payee. The payer includes a withholding agent. The term also includes any person making a payment to an intermediary, pass-through entity, or person to the extent the intermediary, pass-through, or person provides a Form W-9 or other appropriate information relating to a payee so that the payment can be reported under Chapter 61 of the Internal Revenue Code.

(s) Permanent Place of Business. A business entity has a "permanent place of business" in California if it is organized and existing under the laws of California or, if a foreign corporation, it has qualified through the Office of Secretary of State to transact intrastate business. A business entity that has not qualified to transact intrastate business, for example, a corporation engaged exclusively in interstate commerce, will be considered as having a permanent place of business in California only if it maintains a permanent office in California permanently staffed by its employees.

(t) Person. The term "person" has the same meaning as defined in Revenue and Taxation Code section 17007, and includes individuals as well as business entities.

(u) Real Estate Escrow Person. The term "real estate escrow person" has the same meaning as defined in Revenue and Taxation Code section 18662, subdivision (e)(6), plus Regulation sections 18662-0 through 18662-8, and includes any attorney, escrow company, or title company, responsible for closing the transaction, or any other person who receives and disburses the consideration or value for the interest or property conveyed.

(v) Seller. The term "seller" includes the seller or any other transferor of real property.

(w) Transferee. The term "transferee" of real property has the same meaning as in Revenue and Taxation Code section 18662, subdivision (e), and includes the buyer of the real property, and, in a deferred exchange, an intermediary or exchange accommodator as set forth in Revenue and Taxation Code section 18662, subdivision (e).

(x) Transferor. The term "transferor" of real property has the same meaning as in Revenue and Taxation Code section 18662, subdivision (e), and includes the seller of the real property, and, in a deferred exchange, an intermediary or exchange accommodator as set forth in Revenue and Taxation Code section 18662, subdivision (e).

(y) Withholding Agent. The term "withholding agent" means the person that has the control, receipt, custody, disposal, or payment of an item of income of a person subject to withholding. Any person who meets the definition of a withholding agent is required to remit any tax withheld and to make the information returns prescribed under forms and instructions by the Franchise Tax Board. The term "withholding agent" also means the person charged by the law or by the Franchise Tax Board's order or regulation with the duty to withhold any tax, interest or penalties from payments to the taxpayer and to remit such amounts over to the Franchise Tax Board.

Note: Authority cited: Section 19503, Revenue and Taxation Code. Reference: Section 18662, Revenue and Taxation Code.

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§ 18662-3. Real Estate Withholding.

(a) General. Withholding of tax at source is required on any disposition from the sale or exchange of California real estate by California resident and nonresident individuals and non-California business entities. The rate of withholding is 3 1/3 percent of the sales price, but the seller may elect an alternate withholding calculation based on the gain required to be recognized from the sale as set forth in FTB Form 593-E, Real Estate Withholding Computation of Estimated Gain or Loss, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 593-E"). The required information specified in FTB Form 593-E is set forth in subsection (h), below. The requirement to withhold is the responsibility of the buyer, but may be performed by the real estate escrow person on the buyer's behalf. No withholding is required under the provisions set forth in Revenue and Taxation Code section 18662(e)(3), or if an exemption certificate, on FTB Form 593-C, Real Estate Withholding Certificate, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 593-C"), is signed. The required information specified in FTB Form 593-C is set forth in subsection (i), below. For example, the seller may certify on FTB Form 593-C that the property was the seller's principal residence or that no gain is recognized from the sale. The Franchise Tax Board may audit escrow documents to verify compliance.

(b) Statutory Basis and Rates. Revenue and Taxation Code section 18662, subdivision (e), requires withholding of tax at source from any disposition, sale or transfer of California real property at an amount equal to 3 1/3 percent of the sales price, unless an election is made to use an alternative withholding calculation based on gain required to be recognized from the sale on FTB Form 593-E. The alternative withholding calculation shall be based on the maximum applicable tax rate under Revenue and Taxation Code sections 17041, 23151, and 23186.

(c) Who Must Withhold - Required Notification and Responsibility.

(1) Notification. Revenue and Taxation Code section 18668, subdivision (e)(1), requires the real estate escrow person to provide the buyer with written notice of the withholding requirements, unless the buyer is an intermediary or accommodator in a deferred exchange.

(2) Penalties for Failure to Provide Notice. If the real estate escrow person fails to provide the buyer with written notice, a penalty may be assessed of \$500 or 10 percent of the amount required to be withheld, whichever is greater, unless it is shown that the failure to notify the buyer is due to reasonable cause.

(3) Buyer's Responsibility to Withhold May be Delegated. Once the buyer is notified, it is the buyer's responsibility to withhold. However, the real estate escrow person may assist the buyer in complying with the withholding requirements by performing or assisting in the withholding, remitting the required withholding, and completing FTB Form 593, Real Estate Withholding Statement, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 593"), and FTB Form 593-V, Payment Voucher for Real Estate Withholding, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 593-V"). The required information specified in FTB Form 593 and FTB Form 593-V is set forth in subsection (j) and subsection (k), respectively, below. The real estate escrow person may charge a fee for this assistance not to exceed the amount set forth in Revenue and Taxation Code section 18662, subdivision (e).

(d) Exemption and Withholding Requirements. No withholding is required if the seller establishes one of the following under subsection (d)(1) or (d)(2):

(1) Full Exemption Under FTB Form 593-C. The Franchise Tax Board on FTB Form 593-C may establish that no withholding is required in the following instances:

(A) Seller is a Corporation or Partnership. No withholding is required for a corporation or partnership incorporated or qualified to do business in California (or where the entity continues to have a permanent place of business and maintains a permanent staff within California after the sale.) Where the seller is a disregarded entity for tax purposes, no withholding is required if the owner of the disregarded entity is incorporated or qualified to do business in California or continues to have a permanent place of business and maintains a permanent staff within California after the sale.

(B) Total Sales Price of \$100,000 or Less. No withholding is required unless the sales price of the real property conveyed exceeds \$100,000. "Total sales price" is normally the same amount as required for information reporting purposes as shown on the federal form 1099-S. (See Treasury Regulation section 1.6045-4.)

(C) Deferred Exchange. No withholding is required other than by an intermediary or an accommodator in a deferred exchange, unless written notification of the withholding requirements (set forth in Revenue and Taxation Code section 18662, subdivision (e)) has been provided by the real estate escrow person.

(D) Foreclosure. No withholding is required as part of a foreclosure when the transferee acquires California real property under one of the following circumstances:

1. At a sale pursuant to a power of sale under a mortgage or deed of trust.
2. At a sale pursuant to a decree of foreclosure.
3. By a deed in lieu of foreclosure.

(E) Bank Acting as a Trustee. No withholding is required when the transferor is a bank acting as a trustee, other than a trustee of a deed of trust.

(2) Transfers Requiring an Exemption Certificate to Exempt the Sale From Withholding on FTB Form 593-C. No withholding is required if the transferor or seller completes and signs an exemption certificate on FTB Form 593-C stating, under penalty of perjury, that one of the following applies:

(A) Principal Residence. No withholding is required if the seller certifies that the property conveyed was his or her principal residence within the meaning of Internal Revenue Code section 121, as incorporated and modified by the Revenue and Taxation Code, or that the last use of the property was as the transferor's principal residence.

1. Generally, a home will qualify as a principal residence if, during the five-year period ending on the date of sale, the seller owned and used the property as his or her main home for at least two years.

2. There are exceptions to the two-year rule if the primary reason the seller is selling the home is due to a change in the place of employment, health, or other unforeseen circumstance, such as death, divorce, or loss of job. (See Internal Revenue Code section 121 and Treasury Regulation sections 1.121-1 through 1.121-5.)

3. If the property does not qualify for an exclusion under Internal Revenue Code section 121, the seller may claim the exclusion from withholding if the property was last used as the seller's principal residence within the meaning of Internal Revenue Code section 121, without regard to the two-year time period.

4. Where California law differs from federal law, California law applies.

(B) Involuntary Conversions. No withholding is required if the seller certifies on FTB Form 593-C that the transfer is the result of an involuntary conversion that qualifies for deferral of gain under Internal Revenue Code section 1033, and that he or she intends to replace the property with qualified property within the required time period under Internal Revenue Code section 1033.

(C) Loss or Zero Gain. No withholding is required if the seller certifies on FTB Form 593-C that there is either a loss or zero gain for California income tax purposes from the sale on FTB Form 593-E, which results when the seller's adjusted basis in the property is more than or equal to the selling price (less selling expenses). In computing gain, the seller may use previously deferred passive activity losses that directly relate to the property being sold. He or she may not use losses that are not directly related to the property, such as passive activity losses or carry forwards from a different property, capital loss carry forwards, stock losses, or net operating losses.

(D) Contributed Capital - Transfers to a Controlled Corporation or Partnership. No withholding is required where the transferor or seller certifies on FTB Form 593-C that the transfer qualifies for nonrecognition treatment under Internal Revenue Code section 351 (property transferred to a corporation controlled by the transferor) or Internal Revenue Code section 721 (property contributed to a partnership in exchange for a partnership interest).

(E) Seller is a Corporation. No withholding is required if the seller certifies on FTB Form 593-C that it has either qualified with the California Secretary of State or has a permanent place of business in California. This includes a limited liability company (LLC) taxable as a corporation for federal and California income tax purposes.

(F) Real Estate Investment Trusts (REITs). No withholding is required if the seller certifies on FTB Form 593-C that it is a REIT that is treated as a corporation and that the REIT has a permanent place of business in California.

(G) Seller is a Partnership. No withholding is required if the seller certifies on FTB Form 593-C it is a California partnership, or qualified to do business in California (or an LLC that is classified as a partnership for federal and California income tax purposes) that is not disregarded for federal and California income tax purposes.

(H) Tax Exempt Entities. No withholding is required if the seller certifies on FTB Form 593-C that it is a tax-exempt entity under California or federal law (e.g., government agency, Resolution Trust Corporation, or exempt, charitable, religious, or educational organization).

(I) Insurance Companies. No withholding is required if the seller certifies on FTB Form 593-C that it is an insurer within the meaning of Section 28 of Article XIII of the California Constitution that pays the California gross premiums tax.

(J) Other Entities. No withholding is required if the seller certifies on FTB Form 593-C that it is either an individual retirement account (IRA), qualified pension plan, or charitable remainder trust.

(3) Transfers That May Partially or Fully Exempt the Sale From Withholding.

(A) IRC Section 1031 Exchanges. No withholding is required on the initial transfer where the seller certifies on FTB Form 593-C that the transfer will qualify as:

1. A Simultaneous Like-Kind Exchange. However, if the seller receives proceeds (including excess debt relief) or non-like-kind property from the sale (boot) in excess of \$1,500, withholding is required at 3 1/3 percent of that amount, unless an election is made to use the alternative withholding calculation on FTB Form 593-E.

2. A Deferred Like-Kind Exchange. If the seller receives any proceeds (including excess debt relief) or non-like-kind property from the sale (boot) in excess of \$1,500, withholding is required at 3 1/3 percent of that amount, unless an election is made to use the alternative withholding calculation on Form FTB 593-E.

3. Failed Exchange. Notwithstanding a seller's certification on FTB Form 593-C, if the exchange fails, does not occur, or does not meet the Internal Revenue Code section 1031 requirements, the intermediary or accommodator must withhold at 3 1/3 percent of the sales price, unless an election is made to use the alternative withholding calculation on FTB Form 593-E.

(B) Installment Sales. The real estate escrow person must withhold 3 1/3 percent or the alternative withholding calculation certified on FTB Form 593 on the principal portion (e.g., down payment or first installment payment) received in escrow upon closing.

1. The buyer must complete and sign FTB Form 593-I, Real Estate Withholding Installment Sale Acknowledgement, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 593-I"). The required information specified in FTB Form 593-I is set forth in subsection (I), below. The buyer must give FTB Form 593-I, along with a copy of the promissory note, to the real estate escrow person to remit on FTB Form 593 and FTB Form 593-V to the Franchise Tax Board. The buyer must withhold and remit 3 1/3 percent or the alternative withholding calculation certified on FTB Form 593 on the principal portion of all subsequent payments.

2. Installment Sale Payoff. The real estate escrow person must withhold 3 1/3 percent or the alternative withholding calculation certified on FTB Form 593 on the principal portion of a seller-financed installment sale payoff or prepayment in escrow upon closing.

(e) Withholding on Special Entities.

(1) Grantor Trusts. If the trust is a grantor trust, then the seller is the grantor and withholding is required, unless an exemption applies under FTB Form 593-C. A grantor trust is a trust where the grantor retains substantial control and remains the owner (e.g., the right to cancel or revoke the trust). A grantor trust is disregarded for federal and California income tax purposes. Where the seller is the grantor trust and unless an exemption applies under FTB Form 593-C, withholding is remitted on FTB Form 593 and FTB Form 593-V and credited to the grantor. Where applicable, FTB Form 593, FTB Form 593-V, FTB Form 593-C, FTB Form 593-E, and FTB Form 593-I should be completed using the individual's (grantor's) information.

(2) Trusts. If the trust is other than a disregarded grantor trust, then the seller is the trust and withholding is required, unless an exemption applies under FTB Form 593-C. Where applicable, FTB Form 593, FTB Form 593-V, FTB Form 593-C, FTB Form 593-E, and FTB Form 593-I should be completed using the name of the trust and the trust's federal employer identification number (FEIN).

(3) Bankruptcy Trusts and Estates. Withholding is required when a bankruptcy trust or estate sells the property.

(4) Estates. Withholding is required when an estate sells real property, unless the property being sold qualifies as the decedent's principal residence or otherwise qualifies under FTB Form 593-C.

(5) Conservatorships and Receiverships. Withholding is required unless the conservatee or debtor (in receivership) qualifies under the requirements of FTB Form 593-C. The conservator or receiver should complete FTB Form 593-C using the conservatee's or debtor's information.

(6) Relocation Companies. Sales to relocation companies are subject to the same rules as other sales, and withholding is required. There is no withholding on the sale if the relocating seller certifies on FTB Form 593-C that the property was the seller's principal residence or if the seller otherwise qualifies under the requirements contained in FTB Form 593-C. Relocation companies themselves are subject to the same rules as other non-individuals.

Example 1. A relocation company resells California real property to a third party. There is no withholding on the sale if the relocation company certifies it is a California corporation, has qualified to do business in California, or otherwise qualifies under the requirements of FTB Form 593-C. If the relocation company is not a California corporation, has not qualified to do business in California, or does not meet the requirements of FTB Form 593-C, withholding is required.

Example 2. An employer that holds title to California real property gives a relocation company power of attorney to act on its behalf in the sale of the property to a third party. No withholding is required on the sale if the employer certifies on FTB Form 593-C that it is a California corporation, has qualified to do business in California, or has a permanent place of business in California, or otherwise qualifies under the requirements of FTB Form 593-C. If the employer has not met any of the above

requirements set forth in this Example 2, withholding is required. Because the relocation company does not hold title, the employer must meet the withholding obligations.

(f) Procedures.

(1) Exemption Certificate and Estimated Gain or Loss Certificate. If a seller seeks to qualify for no withholding under the requirements set forth in the real estate withholding exemption certificate on FTB Form 593-C, the seller must complete the withholding exemption certificate on FTB Form 593-C prior to the close of the real estate transaction to claim an exemption from withholding. Failure to provide a completed and signed real estate withholding exemption certificate on FTB Form 593-C by the close of the real estate transaction will result in withholding. If the seller seeks to establish a loss or zero gain, the seller must also complete and sign a withholding exemption certificate on FTB Form 593-C and a real estate withholding--computation of estimated gain or loss certificate on FTB Form 593-E.

(2) Retention of Withholding Exemption Certificate on FTB Form 593-C. The Franchise Tax Board may specify in FTB Form 593-C whether the exemption certificate, FTB Form 593-C, must be filed with the Franchise Tax Board, or retained by the real estate escrow person for submission, upon request, at a later date to the Franchise Tax Board. If required to be filed immediately, the Franchise Tax Board may specify the conditions for filing and the due date of such filing. The real estate escrow person must retain a copy of the withholding exemption certificate, FTB Form 593-C, for five years following the closing date of the transaction.

(3) Verification. Real estate escrow persons are only required to verify certifications on FTB Form 593-C to the extent that they have actual knowledge of the facts. If they have no actual knowledge of the facts, then they must only verify that the certificate, FTB Form 593-C, is complete and signed. The real estate escrow persons will be relieved of the withholding requirements if they rely in good faith on a completed and signed real estate withholding certificate, FTB Form 593-C. Real estate escrow persons should not rely upon an incomplete or unsigned certificate, FTB Form 593-C.

Example 1: A seller completes a worksheet calculating the estimated gain or loss and certifies on FTB Form 593-E a loss on the transaction. The real estate escrow person is not required to verify the amounts shown on the worksheet.

Example 2: A seller completes a real estate withholding exemption certificate on FTB Form 593-C and certifies that the sale is an installment sale. However, the buyer has not provided a completed and signed installment sale acknowledgement on FTB Form 593-I and promissory note to the real estate escrow person. The real estate escrow person may not rely on the real estate withholding exemption certificate, FTB Form 593-C, and is required to withhold on this transaction.

Example 3: A seller completes a real estate withholding exemption certificate on FTB Form 593-C and certifies therein that a California partnership is selling the property, but the real estate escrow person has actual knowledge that the recorded title of the property is not in the name of the California partnership. The real estate escrow person may not rely on the real estate withholding exemption certificate, FTB Form 593-C, and is required to withhold on this transaction.

(4) Electing the Alternate Withholding Calculation. The seller making the election must complete and sign the FTB Form 593-E, and sign a completed Form 593. The signature on FTB Form 593-E, and Form 593 certifies the gain required to be recognized and the alternate withholding calculation. The Franchise Tax Board may specify in FTB Form 593-C and FTB Form 593-E whether FTB Form 593-C and FTB Form 593-E must be filed with the Franchise Tax Board, or retained by the real estate escrow person for submission, upon request, at a later date to the Franchise Tax Board. If FTB Form 593-C and FTB Form 593-E are required to be filed immediately, the Franchise Tax Board may specify on FTB Form 593-C and FTB Form 593-E the conditions for filing and the due date of such filing. The seller must retain FTB Form 593-C and FTB Form 593-E for five years following the closing date of the transaction.

(g) Special Rules.

(1) Multiple Family Units. If the property sold is a multiple family unit (duplex, triplex, apartment building, etc.) and the seller lived in one of the units as his or her principal residence, withholding is required for the portion of the sales price that is not certified on FTB Form 593-C as a principal residence. The sales price should be allocated between the principal residence and the remainder of the units using the same method that the seller used to determine depreciation deductions. Withholding is required when the total sales price of the property (all units) exceeds \$100,000, even if the portion of the sales price allocable to the non-principal residence portion of the property does not exceed \$100,000.

(2) Multiple Sellers. When there are multiple sellers, the withholding amount is calculated by applying the withholding rate to each seller's proportionate share of the total sales price.

Example 1: Withholding at 3 1/3 percent of total sales price:

Total sales price \$200,000

Sellers' ownership percentages:

A = 20%, B = 30%, C = 50%

Withholding per seller:

A $\$200,000 \times 20\% \times .0333 = \$1,332$

B $200,000 \times 30\% \times .0333 = \$1,998$

C $200,000 \times 50\% \times .0333 = \$3,330$

Example 2: Alternative withholding calculation, assuming a maximum tax rate of 9.3 percent in the year of sale:*

Gain on sale \$200,000

Sellers' ownership percentages:

A = 20%, B = 30%, C = 50%

Withholding for individual seller:

A $\$200,000 \times 20\% \times .093 = \$3,720$

B $200,000 \times 30\% \times .093 = 5,580$

C $200,000 \times 50\% \times .093 = 9,300$

Note: The applicable tax rate is subject to change.

(3) Sellers on Title for Incidental Purposes. If the incidental sellers have no financial ownership, then their ownership percentage is zero and there is no withholding required for them.

Examples of sellers who are on title for incidental purposes are:

Example 1: A father is on title only because he cosigned to help his daughter qualify for a loan. The first name on the loan is that of the daughter who pays the loan payments. If father completes FTB Form 593-C showing zero percentage of ownership, no withholding is required on the proceeds due to the father's ownership interest. The daughter is the beneficial owner of all of the property and is subject to the withholding requirements.

Example 2: A son is on title only to receive the real property as a beneficiary upon his mother's death. The real property is sold while the mother is alive. If the son completes FTB Form 593-C showing zero percentage of current ownership, no withholding is required on the proceeds due to the son's ownership interest. The mother is the owner of all of the property and is subject to the withholding requirements.

(4) Sale of Multiple Parcels. Sales of multiple parcels within the same escrow agreement constitute one transaction for purposes of determining the withholding requirements under this regulation. Withholding is required where the total sale price of all properties exceeds \$100,000 even though the sale price of each separate parcel in the transaction is under \$100,000.

Example: Parcel A is sold for \$50,000. Parcel B and Parcel C are sold for \$10,000 and \$60,000, respectively. All three parcels are sold within the same escrow agreement. Because the total sales price equals \$120,000, withholding is required.

(5) Leaseholds/Options. The sale of a leasehold is considered a sale of a real property interest and withholding is required. Withholding is required on an option to buy real property that has been exercised where the property has been transferred by the owner.

(6) Personal Property Included in Real Estate Transaction. If personal property is included in the sales price of the real property, withholding is computed on the full amount. If the price of the personal property is stated separately in the sales contract, withholding on the personal property amount is not required.

(7) Short Sale Transactions. Real property sold for less than the amount owed on the mortgage is not excluded from withholding, unless the seller qualifies under the requirements of FTB Form 593-C. The parties must arrange to cover payment of the withholding.

(h) FTB Form 593-E, Real Estate Withholding - Computation of Estimated Gain or Loss. FTB Form 593-E shall contain the following information:

(1) Seller or Transferor Information, which includes the person's name and identification number (SSN or ITIN), the spouse's/registered domestic partner's (RDP's) name and identification number (SSN or ITIN), business identification number (FEIN, California corporation number, or Secretary of State file number) (if applicable), address, and property address.

(2) Selling price.

(3) Selling expenses.

(4) Net amount realized (selling price less selling expenses).

(5) Basis in property.

(6) Seller or transferor points paid.

(7) Depreciation.

(8) Other decreases in basis.

(9) Total decreases to basis (total of points paid, depreciation, and other decreases in basis).

(10) Total decreases to basis, less basis in property.

(11) Cost of additions and improvements.

(12) Other increases to basis.

(13) Total increases to basis (total of additions/improvements and other increases to basis).

(14) Adjusted basis (total increases to basis plus total decreases to basis).

(15) Suspended passive activity losses from the property.

(16) Total of adjusted basis and suspended passive activity losses from the property.

(17) Estimated gain or loss on sale (total of adjusted basis and suspended passive activity losses from the property, less the net amount realized (selling price less selling expenses)).

(18) A check box to indicate one of the following withholding calculations for the optional gain on sale election: an individual, non-California partnership, corporation, bank and financial corporation, S corporation, or financial S corporation.

(19) Total amount based on the gain on sale election.

(20) Total sales price withholding amount.

(21) The name, signature, and date of the seller/transferor.

(22) The name, signature, and date of seller's/transferor's spouse/RDP.

(i) FTB Form 593-C, Real Estate Withholding Certificate. FTB Form 593-C shall contain the following information:

(1) Seller or Transferor Information, which includes the person's name (business or individual, as applicable) and identification number (SSN or ITIN), the spouse's/registered domestic partner's (RDP's) name and identification number (SSN or ITIN), business name (if applicable), business identification number (FEIN, California corporation number, or Secretary of State file number), business address, ownership percentage, and property address.

(2) A check box indicating one of the following reasons the seller/transferor or real estate sale transaction is exempt from California withholding requirements:

(A) The property qualifies as the seller's/transferor's (or decedent's, if sold by the decedent's estate or trust) principal residence within the meaning of Internal Revenue Code section 121.

(B) The seller/transferor (or decedent, if sold by the decedent's estate or trust) last used the property as the seller's/transferor's (decedent's) principal residence within the meaning of IRC section 121 without regard to the two-year time period.

(C) The seller/transferor has a loss or zero gain for California income tax purposes on this sale.

(D) The property is being compulsorily or involuntarily converted, and the seller or transferor intends to acquire property that is similar or related in service or use to qualify for nonrecognition of gain for California income tax purposes under IRC section 1033.

(E) The transfer qualifies for nonrecognition treatment under IRC section 351 (transfer to a corporation controlled by the transferor) or IRC section 721 (contribution to a partnership in exchange for a partnership interest).

(F) The seller/transferor is a corporation or LLC (classified as a corporation for federal and California income tax purposes) that is either qualified through the Secretary of State or has a permanent place of business in California.

(G) The seller/transferor is a California partnership or a partnership qualified to do business in California (or an LLC that is classified as a partnership for federal and California income tax purposes and is not a single member LLC that is disregarded for federal and California income tax purposes).

(H) The seller/transferor is a tax-exempt entity under California or federal law.

(I) The seller/transferor is an insurance company, individual retirement account, qualified pension/profit sharing plan, or charitable remainder trust.

(3) A check box indicating one of the following reasons the seller/transferor or real estate sale transaction may partially or fully exempt the sale from California withholding requirements:

(A) The transfer qualifies as a simultaneous like-kind exchange within the meaning of IRC section 1031.

(B) The transfer qualifies as a deferred like-kind exchange within the meaning of IRC section 1031.

(C) The transfer of this property is an installment sale where the buyer is required to withhold on the principal portion of each installment payment.

(4) The name, signature, and date of the seller/transferor.

(j) FTB Form 593, Real Estate Withholding Statement. FTB Form 593 shall contain the following information:

(1) A check box indicating whether the form is filed as an amended FTB Form 593.

(2) Withholding Agent Information, which includes the business name, business identification number (SSN, FEIN, California corporation number, or Secretary of State file number), contact name at the business, and business address.

(3) Seller or Transferor Information, which includes the person's name and identification number (SSN or ITIN), the spouse's/registered domestic partner's (RDP's) name and identification number (SSN or ITIN), business name (if applicable), business identification number (FEIN, California corporation number, or Secretary of State file number), business address, and property address.

(4) Escrow or Exchange Information, consisting of the following:

(A) Escrow or exchange number.

(B) Month, day, and year of the transfer, exchange completion, failed exchange, or installment payment.

(C) A check box to indicate one of the following transaction types: conventional sale or transfer; installment sale payment; boot; or failed exchange.

(D) A check box to indicate one of the following withholding calculations: total sales price method; or optional gain on sale election (with special check boxes) for an individual, non-California partnership, corporation, bank and financial corporation, S corporation, or financial S corporation.

(5) Amount withheld from the seller or transferor.

(6) The signature and date of seller or transferor.

(7) The signature and date of spouse/RDP.

(8) The name and telephone number of the preparer and title/escrow business.

(k) FTB Form 593-V, Payment Voucher for Real Estate Withholding. FTB Form 593-V shall contain the following information:

(1) A check box to indicate how FTB Form 593 was submitted, by one of two methods (electronic or paper).

(2) Total number of FTB Forms 593 submitted.

(3) Withholding Agent Information, which includes the business name, business identification number (SSN, FEIN, California corporation number, or Secretary of State file number), contact name at the business, telephone number, and business address.

(4) Amount of payment submitted with FTB Form 593-V.

(I) FTB Form 593-I, Real Estate Withholding Installment Sale Acknowledgement. FTB Form 593-I shall contain the following information:

(1) Buyer Information, which includes the person's name and identification number (SSN or ITIN), the spouse's/registered domestic partner's (RDP's) name and identification number (SSN or ITIN), business name (if applicable), business identification number (FEIN, California corporation number, or Secretary of State file number), business address, and telephone number.

(2) Seller or Transferor Information, which includes the person's name and identification number (SSN or ITIN), the spouse's/registered domestic partner's (RDP's) name and identification number (SSN or ITIN), business name (if applicable), business identification number (FEIN, California corporation number, or Secretary of State file number), business address, installment withholding percent (applied to all installment payments), and property address.


(3) Installment Agreement Terms, which includes the principal amount of the promissory note, the installment payment amount, the interest rate percentage, and the repayment period (stated in number of months).

(4) The name, signature, and date of buyer.

(5) The name, signature, and date of buyer's spouse/RDP.

Note: Authority cited: Section 19503, Revenue and Taxation Code. Reference: Section 18662, Revenue and Taxation Code.

Title 18. Public Revenues
Division 3. Franchise Tax Board
Chapter 2.6. Administration of Franchise and Income Tax
Subchapter 2. Returns

 [Article 5](#). Withholding

➡ § 18662-4. Withholding on Payments (Nonresident Individuals and Non-California Business Entities) - General.

(a) Nonresident Individuals and Non-California Business Entities; De Minimis Amounts; and Rate.

(1) Nonresident Individuals and Non-California Business Entities. Except as otherwise provided in Revenue and Taxation Code section 18662 and Regulation sections 18662-0 through 18662-8, withholding of tax at source is required for payments of California source income made to nonresident individuals and non-California business entities, including, but not limited to, such other entities as nonresident estates or trusts, suspended or forfeited corporations, and foreign (non-U.S.) entities. Withholding on payments of income to resident individuals and California business entities is optional; however, if withholding and remitting of tax at source is performed, it must be performed according to the rules applicable to mandatory withholding of tax as set forth in Revenue and Taxation Code section 18662 and Regulation sections 18662-0 through 18662-8.

(2) De Minimis Amounts. Withholding of tax at source is optional and at the discretion of the withholding agent on the first \$1,500 of income paid for the calendar year to each payee.

(3) Rate. The withholding rate is 7percent of the gross payment or distribution amount.

(4) Cross-References. See Regulation sections 18662-5 (Other Types of Payments and Withholding), 18662-6 (Nonresident Withholding, Entertainers, Athletes and Speakers), 18662-7 (Withholding Rules for Domestic (U.S.) Pass-through Entities) [reserved], and Regulation section 18662-8 (Reporting and Remitting Amounts Withheld, Penalties and Interest; Other Procedures) for specific requirements.

(b) Optional Withholding or No Withholding Required. Unless otherwise stated in this subsection (b) or any of the forms referenced herein, withholding of tax at source is optional and not required on payments of California source income to the following:

(1) California Residents. If a California resident receives California source income, withholding is not required. Withholding agents may use reasonable methods to determine the California residency of payees.

Example 1: Withholding agents may send their payees an exemption certificate, on FTB Form 590, Withholding Exemption Certificate, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 590"). The required information specified in FTB Form 590 is set forth in subsection (h), below. Payees may use this form to certify their residency status, provided that the withholding agent may only rely upon an exemption certificate, on FTB Form 590, if payees include their taxpayer identification number.

Example 2: Withholding agents may rely on a California street address as an indication of a payee's residency status. If the payee has a California street address, no withholding is required. An exemption certificate, on FTB Form 590, may be used to verify residency status. A valid California street address does not include a California post office box, or an "in care of" address. If a change of address occurs, the withholding agent must reevaluate the payee's residency status.

(2) California Business Entities.

If a non-California business entity payee is doing business in California within the meaning of Revenue and Taxation Code section 23101 and is receiving California source income, withholding is required unless the payee qualifies under the requirements of the exemption certificate, on FTB Form 590, or the amount is excluded from amounts subject to withholding.

If a corporate payee has not qualified with the Office of the Secretary of State and does not have a permanent place of business in this State, but is a member of a combined report filed under Regulation section 25106.5 and included in a group return filed pursuant to that regulation, then the key corporation is treated as a guarantor and surety for the other members, so that the corporate payee is deemed to be a California Business Entity.

The following are examples of methods the Franchise Tax Board will consider reasonable for withholding agents to rely upon in determining if a corporation has a permanent place of business in California or is qualified to do business in this State for purposes of the withholding regulations (Regulation sections 18662-0 through 18662-8):

Example 1: Withholding agents may rely on a completed exemption certificate, on FTB Form 590. A completed exemption certificate, on FTB Form 590, showing the payee's taxpayer identification number and stating that the corporation has a permanent place of business in California (or is included in a combined return with a California key corporation) protects the withholding agent from penalties for failure to withhold, unless the withholding agent has actual knowledge that the statement in the exemption certificate, on FTB Form 590, is false.

Example 2: If a corporation is incorporated in California or qualified to do business in California with the Office of the Secretary of State, it is a California business entity for withholding purposes.

Withholding agents can determine if a corporate payee is a California corporation or qualified to do business in this State by contacting the Office of the Secretary of State.

(3) Tax Exempt Organizations. Withholding of tax at source is not required on payments of California source income to tax exempt organizations that are exempt either under California or federal law.

(4) California Estates and Trusts. Withholding of tax at source is not required on payments of California source income to California estates and trusts.

(5) Banks and Banking Associations. Withholding of tax at source is not required on payments of California source income where the payee is a bank or banking association.

(6) Sale of Goods. Withholding of tax at source is not required on payments for the sale of goods.

(7) Services of a Nonresident Outside of California. Withholding of tax at source is not required on payments for services provided by a nonresident that were performed outside of California.

(8) Intangible Personal Property. Withholding of tax at source is not required on payments of California source income from intangible personal property, such as interest and dividends, unless the property has acquired a business situs in California. (See Regulation section 18662-5.)

(9) Motor Carrier Compensation. Withholding of tax at source is not required on payments of California source income to a motor carrier providing transportation in two or more states, subject to section 11504(b) of Title 49 of the United States Code.

(10) Wages Paid to Employees. Withholding of tax at source is not required on payments of California source wages to employees. However, wages are subject to wage withholding. Employee wage withholding is covered by the Unemployment Insurance Code and administered by the Employment Development Department.

(11) Nonresident Corporate Directors. Withholding of tax at source is not required on payments of California source income to a nonresident corporate director for director's services. However, information returns for nonresident corporate directors for director's services must be filed in accordance with Revenue and Taxation Code section 18662, subdivision (g). Nonresident directors must file California tax returns if they otherwise meet return filing requirements or may elect to be included in a group return pursuant to Revenue and Taxation Code section 18536.

(12) Insurance Companies, Individual Retirement Plans, Pension or Profit Sharing Plans. Withholding of tax at source is not required on gross premiums paid to insurance companies. Withholding of tax at source is not required on payments of income made to individual retirement accounts or federally qualified pension or profit sharing plans.

(13) Income from Qualified Investment Securities. Withholding of tax at source is not required on payments of income from qualified investment securities excluded from taxable income of a nonresident or part-year resident under Revenue and Taxation Code sections 17955 and 23040.1.

(c) Withholding Exemption Certificates.

(1) General. Where the payee otherwise properly certifies that it qualifies under the requirements of an exemption certificate, as set forth in FTB Form 590, no withholding is required. The certification on FTB Form 590 does not need to be renewed annually. The certification on FTB Form 590 remains valid until the payee's status changes. The withholding agent should evaluate the need for securing a new certificate, on FTB Form 590, when any indication of a change in residency status occurs, such as a change of address.

(2) Incomplete or Invalid Exemption Certificates. An incomplete exemption certificate, on FTB Form 590, is invalid and the withholding agent should not accept it. If the withholding agent receives an incomplete exemption certificate, on FTB Form 590, the withholding agent is required to withhold tax on payments made to the payee until a valid certificate, on FTB Form 590, is received. In lieu of a

completed exemption certificate, on FTB Form 590, on the preprinted form, the withholding agent may accept as a substitute a letter from the payee explaining why the payee is not subject to withholding. The letter must contain all the information required on the certificate, on FTB Form 590, in substantially similar language, including the penalty of perjury statement and the payee's taxpayer identification number. The withholding agent may accept facsimiles or photocopies of the withholding forms.

(3) California Address. Withholding agents may accept a completed exemption certificate, on FTB Form 590, when an individual certifies residency but does not show a California address, unless the withholding agent reasonably believes the exemption certification, on FTB Form 590, is fraudulent. Regardless of whether a copy of the exemption certificate, on FTB Form 590, is required to be filed, the withholding agent must retain a copy of the exemption certificate, on FTB Form 590, or substitute for at least five years after the last payment to which the certificate, on FTB Form 590, applies, and provide it upon request to the Franchise Tax Board.

(4) False Certificate. A withholding agent who knowingly accepts a false exemption certificate, on FTB Form 590, is subject to the liabilities and penalties relating to failure to withhold set forth in Revenue and Taxation Code section 18668 and Regulation section 18662-8.

(d) Information Returns Also Required. A withholding agent who withholds tax at source may also be required to file an information return, on FTB Form 592, Resident and Nonresident Withholding Statement, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 592") or FTB Form 592-F, Foreign Partner or Member Annual Return, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 592-F"). The required information specified in FTB Form 592 and FTB Form 592-F is set forth in subsection (i) and subsection (j), respectively, below. The Franchise Tax Board may provide the form and manner of filing information returns, on FTB Form 592, or FTB Form 592-F, and withholding statements by forms and instructions on its website at www.ftb.ca.gov, including circumstances where they may be filed together on a single document or filed electronically.

(e) Waivers and Reduced Amounts. In certain circumstances set forth more specifically in the forms referenced in this subsection (e), the Franchise Tax Board may authorize a waiver with respect to withholding requirements or a reduced withholding amount.

(1) Waivers. Requests shall be made in the form and manner that the Franchise Tax Board shall provide on FTB Form 588, Nonresident Withholding Waiver Request, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 588"). The required information specified in FTB Form 588 is set forth in subsection (k), below. As set forth in FTB Form 588, the payee must show that the payee has a history of timely filing and payment. Waivers may also be requested as provided in FTB Form 588, where the payee is a newly-admitted partner, member, or S corporation shareholder, a member of a combined report electing to be included in a California combined return with a key corporation within the meaning of Regulation section 25106.5(b)(13) and (14), or in certain circumstances where withholding would not be administratively practical. Requests for waivers, on FTB Form 588, must be submitted before the payment is made so the Franchise Tax Board can issue a determination letter authorizing a waiver before the withholding is required. Withholding is required unless the Franchise Tax Board issues a determination letter authorizing a waiver.

(2) Request for Reduced Withholding Amount. Payees in some circumstances, as set forth in FTB Form 589, Nonresident Reduced Withholding Request, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 589"), can request a reduced withholding amount to reflect expenses and costs or other special circumstances that would justify a reduced amount. The required information specified in FTB Form 589 is set forth in subsection (l), below. Requests shall be made in the form and manner that the Franchise Tax Board shall set forth in FTB Form 589.

(3) Other Conditions As May Be Required. After considering requests for waiver, on FTB Form 588, or reduced withholding amount, on FTB Form 589, the Franchise Tax Board may, as a further condition, require the payee to assure the Franchise Tax Board by bond, deposit, or other reasonable

requirements as necessary, that the payee will comply with the withholding requirements applicable to the payee.

(f) Requirement to File a California Return. Withholding does not relieve the payee of the obligation to file a California income tax return. For individuals, a California return is required if the nonresident individual has any income from California sources and has a California tax liability. (See Revenue and Taxation Code section 18501.) Business entities must file returns if they are subject to franchise or income tax, are doing business in California, or have any California source income for the taxable year. No refund or credit of withholding may be made to an individual or entity that fails to file a tax return for the year. (See Revenue and Taxation Code section 19307.)

(g) Suspended and Forfeited Corporations. Withholding of tax at source is required from any payment to a suspended or forfeited corporation if the payer has knowledge of, or has reason to know of, the suspension or forfeiture.

(h) FTB Form 590, Withholding Exemption Certificate. FTB Form 590 shall contain the following information:

(1) Withholding Agent's name.

(2) Payee Information, which includes the payee's name, identification number (SSN, FEIN, California corporation number, or Secretary of State file number), and address.

(3) A check box indicating one of the following reasons the payee is exempt from the California withholding requirements on payments made to the entity or individual:

(A) The payee is a resident of California at the payee address shown on FTB Form 590.

(B) The payee is a corporation having a permanent place of business in California at the payee address shown on FTB Form 590, or is qualified through the California Secretary of State to do business in California.

(C) The payee is a partnership or LLC having a permanent place of business in California at the payee address shown on FTB Form 588.

(D) The payee entity is exempt from tax under Revenue and Taxation Code section 23701 or Internal Revenue Code section 501(c).

(E) The payee entity is an insurance company, IRA, or a federally qualified pension or profit-sharing plan.

(F) At least one trustee and one noncontingent beneficiary of the payee trust is a California resident.

(G) The person signing FTB Form 590 is the executor of the payee's estate, where the payee-decedent was a California resident at the time of death.

(H) The payee is a nonmilitary spouse of a military service member and meets the Military Spouse Residency Relief Act requirements.

(4) The name, signature, date, and telephone number of the payee.

(i) FTB Form 592, Resident and Nonresident Withholding Statement. FTB Form 592 shall contain the following information:

(1) A check box indicating whether the form is filed as an amended FTB Form 592.

(2) A check box indicating whether the form is filed for a prior year's distribution.

(3) A check box indicating one of four due dates for April, June, September, or January of the following year, for the tax withheld.

(4) Withholding Agent Information, which includes the business name, business identification number (SSN, FEIN, California corporation number, or Secretary of State file number), contact name at the business, and business address.

(5) Total number of payees reported on the FTB Form 592.

(6) A check box to indicate the types of income being reported: Payment to Independent Contractor; Trust Distributions; Rents or Royalties; Distributions to Domestic Nonresident Partners, Members, Beneficiaries, or S Corporation Shareholders; Estate Distributions; Elective Withholding; Elective Withholding/Indian Tribe; or Other. For "Other," an explanation must be provided.

(7) Total tax amount withheld from all payees listed by withholding agent, excluding backup withholding.

(8) Total backup withholding from all payees listed by withholding agent.

(9) Total amount of tax withholding and backup withholding (combined).

(10) Total of prior payments made to the Franchise Tax Board but not previously distributed to the payees on a prior FTB Form 592.

(11) Amounts withheld by another entity and being distributed to payees under this FTB Form 592.

(12) Total of prior payments not previously distributed on a prior FTB Form 592, plus amounts withheld by another entity and being distributed under this FTB Form 592 (combined).

(13) Total amount being submitted on FTB Form 592.

(14) Payee Information, which includes the business name, business identification number (SSN, FEIN, California corporation number, or Secretary of State file number), contact name at the business, a check box indicating whether the amount submitted constitutes backup withholding, business address, total amount of income, and amount of tax withheld. Multiple payees may be submitted on one form.

(15) The name, signature, date, and telephone number of the withholding agent.

(16) The name, signature, PTIN number, date, address, and telephone number of the preparer.

(j) FTB Form 592-F, Foreign Partner or Member Annual Return. FTB Form 592-F shall contain the following information:

(1) A check box indicating whether the form is filed as an amended FTB Form 592-F.

(2) A check box indicating whether the form is filed based on the filing of a federal extension.

(3) A space to indicate the month, day, and year of the start of the partnership's or LLC's calendar or fiscal year.

(4) A space to indicate the month, day, and year of the end of the partnership's or LLC's calendar or fiscal year.

(5) Withholding Agent Information, which includes the business name, business identification number (SSN, FEIN, CA corporation number, or Secretary of State file number), contact name at the business, and business address.

(6) Total number of foreign partners or members reported on the FTB Form 592-F.

(7) Total tax amount withheld from all payees listed by withholding agent, excluding backup withholding.

(8) Total backup withholding from all payees listed by withholding agent.

(9) Total amount of tax withholding and backup withholding (combined).

(10) Amount withheld by another entity and being allocated to partners or members under this FTB Form 592-F.

(11) Total of prior payments of foreign partners' or member's withholding for the taxable year.

(12) Total amount of foreign partner or member credit carried over from the prior withholding year.

(13) Total of the following: (1) amount withheld by another entity and being allocated to partners or members under this FTB Form 592-F; (2) total of prior payments of foreign partners' or member's withholding for the taxable year; and (3) total amount of foreign partner or member credit carried over from the prior withholding year.

(14) Total amount being submitted on FTB Form 592-F; submit withholding amount along with Form 592-A.

(15) Overpayment amount (if applicable).

(16) Credit to be applied to next year's FTB Form 592-F (if applicable).

(17) Refund amount (if applicable).

(18) Payee Information, which includes the business name, business identification number (SSN, FEIN, CA corporation number, or Secretary of State file number), contact name at the business, a check box indicating whether the amount submitted constitutes backup withholding, business address, total amount of income, and amount of tax withheld. Multiple payees may be submitted on one form.

(19) The name, signature, date, and telephone number of the withholding agent.

(20) The name, signature, PTIN number, date, address, and telephone number of the preparer.

(k) FTB Form 588, Nonresident Withholding Waiver Request. FTB Form 588 shall contain the following information:

(1) Withholding Agent Information, which includes the business name, business identification number (SSN, FEIN, California corporation number, or Secretary of State file number), contact name at the business, daytime telephone number, fax number, and business address.

(2) Requester Information, which includes the business name, business identification number (SSN, FEIN, CA corporation number, or Secretary of State file number), contact name at the business, daytime telephone number, fax number, and business address. A requester can be the withholding agent, payee, or an authorized third party of either the withholding agent or payee.

(3) A check box indicating one of the following types of income subject to withholding: Payment to Independent Contractor; Trust Distributions; Rents or Royalties; Distributions to Domestic Nonresident Partners, Members, Beneficiaries, or S Corporation Shareholders; Estate Distributions; or Other. For "Other," an explanation must be provided.

(4) Payee Information, which includes the business name, business identification number (SSN, FEIN, CA corporation number, or Secretary of State file number), contact name at the business, and business address. If the payee is a newly admitted business entity, the date of admittance must be provided. If the payee is a grantor trust, the grantor's individual name and SSN/ITIN must be

provided. Multiple payees may be submitted on one form along with a check box for each indicating the reason for the waiver request.

(5) A check box indicating one of the following reasons for the waiver request:

(A) Payee has California state tax returns on file for the two most current taxable years in which the payee has a filing requirement. Payee is considered current on any tax obligations with the Franchise Tax Board.

(B) Payee is making timely estimated tax payments for the current taxable year. Payee is considered current on any tax obligations with the Franchise Tax Board.

(C) Payee is a corporation that is not qualified to do business and does not have a permanent place of business in California, but is filing a tax return based on a combined report with a corporation that has a permanent place of business in California.

(D) Payee is a newly admitted S corporation shareholder, partner of a partnership, or member of a limited liability company. In the "Newly Admitted Date" box, the date this shareholder, partner, or member was admitted during the current year must be provided. This waiver will expire at the end of the calendar year granted.

(E) Other - For "Other," the specific reason for the waiver request must be explained and substantiated.

(6) The name, signature, date, and telephone number of the requester.

(I) FTB Form 589, Nonresident Reduced Withholding Request. FTB Form 589 shall contain the following information:

(1) Withholding Agent Information, which includes the business name, business identification number (SSN, FEIN, California corporation number, or Secretary of State file number), contact name at the business, daytime telephone number, fax number, address, and name of venue.

(2) Payee Information, which includes the business name, business identification number (SSN, FEIN, California corporation number, or Secretary of State file number), contact name at the business, fictitious business statement name (if applicable), fax number, and address.

(3) A check box indicating one of the following types of income subject to withholding: Payment to Independent Contractor; Trust Distributions; Rents or Royalties; Distributions to Domestic Nonresident Partners, Members, Beneficiaries, or S Corporation Shareholders; Estate Distributions; or Other. For "Other," an explanation must be provided.

(4) Date(s) of service.

(5) Gross California source payment.

(6) Withholding Agent expenses, consisting of the following:

(A) Advertising;

(B) Commissions and fees;

(C) Cost of labor (contract labor);


(D) Insurance;

(E) Legal, professional, and/or management fee;

(F) Rent or lease payments;

- (G) Supplies;
- (H) Travel, meals, and entertainment; and
- (I) Other. For "Other," the type of expense and amount must be explained and substantiated.
- (7) Total amount of expenses.
- (8) Net California source payment (gross California source payment, less total amount of expenses).
- (9) Withholding amount (multiply the net source payment by 7 percent).
- (10) The name, signature, date, and telephone number of the payee.
- (11) The name, signature, PTIN number, date, and telephone number of the preparer.

Note: Authority cited: Section 19503, Revenue and Taxation Code. Reference: Sections 18662 and 18817, Revenue and Taxation Code.

Title 18. Public Revenues
 Division 3. Franchise Tax Board
 Chapter 2.6. Administration of Franchise and Income Tax
 Subchapter 2. Returns
 [Article 5.](#) Withholding

◆ **§ 18662-5. Other Types of Payments and Withholding Obligations.**

(a) Payments to Nonresidents Subject to Withholding.

(1) General. As explained in Regulation section 18662-4, withholding agents are required to withhold from payments or distributions of California source income made to a nonresident when the payments or distributions are greater than \$1,500 for the calendar year, unless the withholding agent receives authorization for a waiver, pursuant to FTB Form 588, Nonresident Withholding Waiver Request, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 588"), or a reduced withholding amount, pursuant to FTB Form 589, Nonresident Reduced Withholding Request, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 589"). The required information specified in FTB Form 588 and FTB Form 589 is set forth in subsection (i) and (j), respectively, below. Payments of income that must be reported on a federal information return, such as form 1099-MISC, may be subject to California withholding at source if the recipient is a nonresident individual or a non-California business entity.

(2) California Source Income Subject to Withholding. The following types of California source income are examples of income subject to withholding on payments made to nonresidents:

(A) Payments made for services performed in California. The source of income from services is the location where the services are performed, and not where the nonresident lives, the location where the contract for services is entered into, or the place of payment.

(B) Payments received for a covenant not to compete in California.

(C) Payments releasing a contractual obligation to perform services in California.

(D) Income from options received as a result of performing personal services in California.

(E) Bonuses paid for services performed in California.

(F) Income from intangible personal property where the property has acquired a business situs in California.

(G) Rent or lease payments where the property is located in California.

(H) Royalty payments where the property is located in or has acquired a business situs in California.

(I) Prizes, awards, competitions, contests, game shows, or races performed in California.

(J) Distributions of California source income to nonresidents, including both cash and non-cash distributions.

(K) Gambling or gaming winnings won in California.

(L) Premiums, annuities, emoluments, compensation for services, partnership income or gains, and other fixed or determinable annual or periodical gains, profits, endorsement income, other types of income, and any other compensation representing California source income.

(M) Any other amount of California source income for which a state or federal information return is required to be filed.

(3) Business Situs. Income from intangible personal property such as stocks, bonds, notes, etc., is not income from California sources unless the property has acquired a business situs in California. A California business situs is acquired when the property is employed as capital in California. A California business situs is also acquired when the possession and control of the property has been localized in connection with a business, trade, or profession in California so that its substantial use and value attach to and become an asset of that business. The entire income, including the gain from the sale of such an asset, is income from California sources. Examples include an intangible asset pledged as security for a loan connected to a California business or a bank account maintained to pay expenses related to business activities in California. (For rules governing the determination of business situs, see Regulation section 17952.)

(4) Payments to Nonresident Aliens or Foreign Entities. Payments of California source income made to nonresident aliens or foreign entities are subject to withholding.

(5) Payments Made to Reimburse Expenses. If the reimbursement is separately accounted for and is not subject to federal information return (Form 1099 or Form 1042) reporting, withholding is not required on payments to reimburse nonresidents for expenses relating to services performed in California. When the reimbursed expenses do not meet these requirements, withholding agents should withhold on the total payment.

(6) Services in Connection With the Sale of Goods. Withholding is required on the portion of the sale that relates to services provided in California. FTB Form 587, Nonresident Withholding Allocation Worksheet, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 587") may be used to distinguish the portion of payments made for goods from the portion for services. The required information specified in FTB Form 587 is set forth in subsection (k), below.

(b) Payments to Independent Contractors. See California Unemployment Insurance Code sections 13000 et. seq., for the definition of "employee" subject to wage withholding. Individuals other than employees who perform personal services in California are independent contractors subject to withholding for purposes of this regulation. If the independent contractor is a resident and provides FTB Form 590, Withholding Exemption Certificate, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 590"), no withholding is required. The required information specified in FTB Form 590 is set forth in subsection (l), below.

(c) Payments to Nonresident Subcontractors.

(1) Withholding Requirements. The withholding agent is required to withhold when making payments directly to nonresident subcontractors for services performed in California.

(2) Payments to California Residents. Withholding is not required on payments to general contractors who are California residents.

(3) General Contractor Obligations. General contractors must withhold on payments made to nonresident subcontractors for services performed in California.

(4) Multiple Contractors/Contractor-of-Record. When the withholding agent makes payments to more than one contractor, the withholding agent should provide each contractor with FTB Form 587 and FTB Form 590 to determine if withholding is required. If the withholding agent knows of only one contractor, then the withholding agent should use the information provided by the contractor-of-record. If the contractor is a resident and provides an FTB Form 590, no withholding is required. If the contractor-of-record is a nonresident, withholding is required on the total payment.

(d) Rent or Lease Payments to Nonresidents.

(1) Rent or Lease Payments Made to Nonresidents. Withholding on rent or lease payments to nonresidents is required when all of the following criteria are met:

(A) The rented or leased property, either personal or real property, or a combination thereof, is located in California for all or part of the year.

(B) The payments are made in the course of a trade or a business. Except as provided in subsections (B)1., (B)2., or (B)3., a person or business entity making rent or lease payments to a nonresident, as well as a property manager who collects rent or lease payments on behalf of a nonresident owner, is considered to be making payments in the course of a trade or business and is considered a withholding agent.

1. A tenant of residential property who directly makes rent payments to a nonresident property owner is not making a payment in the course of a trade or business and, thus, is not required to withhold on payments.

2. An employee of a nonresident property owner who collects rent payments on behalf of the nonresident property owner is not a withholding agent and, thus, is not required to withhold on payments.

3. An individual, whether or not a family member of the nonresident owner, who collects rent payments on behalf of the nonresident property owner, and who receives no compensation from the nonresident owner, is not considered to be acting "in the course of a trade or business." Thus, the individual is not required to withhold on payments to the nonresident property owner.

4. A property manager providing services to a nonresident property owner, including but not limited to renting, leasing, or collecting rent or lease payments on behalf of the nonresident owner, is considered the withholding agent for withholding purposes. Rent or lease payments derived from real property as well as personal property located in California are California source income payments and subject to California withholding requirements as set forth in Revenue and Taxation Code section 18662 and Regulation sections 18662-0 through 18662-8.

(C) The total payments of California source income to the nonresident owner, excluding property management fees, exceed \$1,500 for the calendar year.

(2) Types of Rental or Leased Property Subject to Withholding. Withholding is required on income derived from renting or leasing real or personal property such as machinery equipment, vehicles, aircraft, land, and buildings.

Example: A property management company collects rents from tenants for a nonresident California property owner. The property management company is required to withhold 7 percent of all payments

associated with rents paid to nonresident owners when the payments are greater than \$1,500 per calendar year. The property management company may deduct its management fees and then calculate the 7 percent withholding based on the amount to be sent to the property owner.

(e) Royalty Payments Made to Nonresidents.

(1) Compensation for the Right to Use Natural Resources. Withholding is required on royalty payments made to nonresidents for the right to use natural resources located in California, including, but not limited to, oil, gas, other minerals, geothermal, and timber.

(2) Compensation for Services Derived from Intangible Property Having a Taxable or Business Situs in California. Withholding is required on royalty payments made to nonresidents for services performed in California and for other compensation derived from a business or activity with a business situs in California. Royalty payments include compensation for such services derived from, but not limited to, patents, copyrights, secret processes and formulas, good will, trademarks, franchises, and other like property having a taxable or business situs in California. (For rules governing income from sources within California, see Regulation section 17951-2.)

(f) Payments to Corporate Directors.

(1) Withholding Not Required. Withholding is not required for wages, salaries, fees or other compensation paid by a corporation for services performed in California for that corporation to a nonresident corporate director for director services, including attendance at a board of directors' meeting. Each nonresident director must file a California income tax return reporting this California source income, unless he or she elects to be included in a group return under Revenue and Taxation Code section 18536.

(2) Filing of Information Return. An entity paying wages, salaries, fees or other compensation to a nonresident director must file an information return with the Franchise Tax Board and provide the payee with a payee statement. To meet this requirement, a payer who is required to file a federal information return (e.g., Form 1099-MISC) with the Internal Revenue Service must provide a copy of that same return to the payee.

(g) Seminar Speakers and Expert Witnesses. Withholding is required on payments that are compensation for services performed in California by a nonresident, including services performed as a seminar speaker or as an expert witness.

(h) Income Allocation.

(1) Nonresident Contractors. When nonresident contractors perform services within California as well as outside of California, reasonable methods may be used by the withholding agent to determine what portion of the services are provided within California. In addition to the two approved methods below, withholding agents may use other reasonable methods of allocation.

Method 1: Allocation By Payer in Accordance with Contract: If by contract an athlete or entertainer is required to perform services in California on behalf of a sponsor, the payments received on the contract are considered to be personal services income subject to tax by where the services are performed, which is California. The payer may make a reasonable allocation of the California source income based on the contract and in accordance with the actual number of California performances, and should withhold California tax on the California payment.

For instance, where a contract requires an athlete to appear at a California tournament wearing the sponsor's clothing bearing its logo or using a sponsor's golf clubs, that athlete has performed a service on behalf of the sponsor in California, and the income is subject to California tax. If the contract requires appearances in California and other states, a portion of the endorsement income is California source income and subject to California income tax. The payer-sponsor should make a reasonable allocation of the payment based on the facts and circumstances of each contract, and withhold California tax on the California payment.

Method 2. Nonresident Income Allocation Worksheet: The withholding agent may request that the payee complete FTB Form 587 to determine the amount of California source income subject to withholding. The withholding agent uses the information provided by the payee in FTB Form 587 to determine what portion of the payment is subject to withholding.

For instance, a withholding agent sends FTB Form 587 to an out-of-state independent contractor before making a payment for services. The total contract amount is \$100,000. The nonresident contractor returns FTB Form 587, certifying that \$60,000 is for services performed in California and \$40,000 is for services performed in another state. The amount of withholding would be:

\$60,000 California source income x 7 percent Withholding rate = \$4,200. Note: If the amount subject to withholding (\$60,000 in the example above) is equal to or less than \$1,500 for the calendar year, withholding is optional.

(2) Reliance on Allocations Provided by Payees. Except as otherwise provided in this subsection (h)(2), withholding agents may generally rely on allocations provided by payees on a properly completed and signed FTB Form 587. The withholding agent will be relieved of the withholding requirements if the withholding agent relies in good faith on a completed and signed FTB Form 587. If the withholding agent has actual knowledge that FTB Form 587 is incorrect, the withholding agent should not rely on it and should withhold at 7 percent on the entire payment. The withholding agent may not rely upon an incomplete, unsigned, or fraudulent FTB Form 587.

(3) Allocation Based on Time. Compensation for personal services performed by nonresident independent contractors will normally be allocated to California based on working days in California to total working days in and out of California ("duty days" for professional athletes - see Regulation section 18662-6). The number of days covered by the contract can be used to determine the total working days in and out of California only when the payee is:

(A) Hired for the exclusive use by the withholding agent for the entire contract period,

(B) Required to be available to work each day at the discretion of the withholding agent during the contract period, and

(C) Being paid whether or not providing services.

Days spent acquiring knowledge, skills, or necessary experience are not considered work days. Professionals and others who bill by the hour should allocate compensation based on the number of billable hours worked in California to the total number of billable hours related to the particular service.

(4) Reasonable Method of Allocation Based on Goods and Services. Withholding agents must use a reasonable method. One reasonable method is to use the same allocation of goods and services that is used for sales and use tax purposes in the sales contract. The portion of the payment not subject to sales or use tax is considered payment for services and subject to withholding. If a payment is not subject to California sales or use tax, but is subject to another state's sales or use tax, withholding agents may also use the allocation for the other state to determine the portion relating to services and subject to withholding.

Except as set forth in California Code of Regulations, Title 18, sections 1506, 1521, 1524, 1523, 1546, 1548, 1549, 1550, 1551 and 1553, under California sales and use tax laws, charges for labor or services for installation are not subject to sales or use tax. Payments for installation are subject to withholding. Charges for designing, consulting, performing feasibility studies, evaluating bids, and providing training services are also considered service activities if they are separately stated and not part of the sale of tangible personal property. Payments for repairs are subject to withholding, except for parts that are separately stated on the invoice. As payments for mandatory maintenance contracts or warranties are subject to sales tax, even if the cost of the maintenance contract or warranty is separately stated, the payments are not subject to withholding. Payments for maintenance contracts or warranties not subject to sales tax are subject to withholding.

(5) Allocation of Distributions. Allocation of distributions between California and non-California source income based on past year's allocations for withholding purposes may be made by the trustee of a trust. If the trustee does not know the amount of California source income included in a distribution, the trustee may use the most recently filed year's ratio of California source income to total income to allocate the distribution.

(i) FTB Form 588, Nonresident Withholding Waiver Request. See Regulation section 18662-4, subsection (k).

(j) FTB Form 589, Nonresident Reduced Withholding Request. See Regulation section 18662-4, subsection (l).

(k) FTB Form 587, Nonresident Withholding Allocation Worksheet. FTB Form 587 shall contain the following information:

(1) Withholding Agent's name and address.

(2) Nonresident Payee information, which includes the payee's name, identification number (SSN, FEIN, CA corporation number, or Secretary of State file number), address, and a check box indicating the payee's entity type (individual, corporation, partnership, LLC, or estate or trust).

(3) A check box indicating one of the following types of payments:

(A) Performs services totally outside California (no withholding required);

(B) Provides goods and services in California (complete Income Allocation);

(C) Provides only goods or materials (no withholding required);

(D) Provides services within and outside California (complete Income Allocation); or

(E) Other-For "Other," an explanation of the service performed must be provided.

(4) Income Allocation, which includes three categories of payments for the calendar year: (1) Within California (2) Outside California; and (3) Total payments.

(5) For each Income Allocation category, the payments expected from the withholding agent in the following areas must be indicated:

(A) Goods/materials (no withholding required);

(B) Services (withholding required);

(C) Rents or lease payments;

(D) Prizes and other winnings;

(E) Other payments;

(F) Total payments subject to withholding; and


(G) Royalty payments.

(6) The name, signature, date, and telephone number of the payee.

(7) The name, signature, date, and telephone number of the payee's authorized representative.

(l) FTB Form 590, Withholding Exemption Certificate. See Regulation section 18662-4, subsection (h).

Note: Authority cited: Section 19503, Revenue and Taxation Code. Reference: Section 18662, Revenue and Taxation Code.

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 [Article 5.](#) Withholding

◆ **§ 18662-6. Nonresident Withholding, Entertainers, Athletes, and Speakers.**

(a) Payments Subject to Withholding.

(1) General. Payments to nonresident independent contractors for services performed in California by entertainers, athletes, and speakers are subject to withholding.

(A) The Phrase "Entertainers, Athletes, and Speakers." The phrase "entertainers, athletes, and speakers" (also referred to as "entertainers") includes, but is not limited to:

1. Actors;
2. Bands;
3. Boxers;
4. Dance teams;
5. Orchestras;
6. Performers;
7. Singers;
8. Speakers;
9. Sports entertainers and athletes;
10. Wrestlers;
11. Stage crews;
12. Lighting crews;
13. Promoters; and
14. Talent agents

(B) Withholding Required Even if Contract States No Withholding. Withholding agents are required to withhold tax on payments even when the nonresident entertainer's contract states that there shall be no withholding from compensation. California law requires the withholding agent to withhold tax on payments, and the withholding agent is legally responsible for the withholding amount.

(C) Payments Made to Reimburse Expenses. If the reimbursement is separately accounted for and is not subject to federal Form 1099 information reporting, withholding agents are not required to withhold on payments to reimburse a nonresident entertainer for expenses relating to services

performed in California. When the reimbursed expenses do not meet these requirements, the withholding agent should withhold on the total payment.

(2) Payments Made to Performer's Agents or Promoters. In general, withholding is required on California source income paid to the nonresident entertainer whether or not the Franchise Tax Board contacts the withholding agent. In addition, if the withholding agent receives written notification from the Franchise Tax Board to withhold tax at source, withholding is required according to that written notice on all payments made directly or indirectly to the nonresident entertainer. Withholding is required even if the performer's agent or promoter meets one of the exceptions listed in Regulation section 18662-4, subsection (c), set forth in FTB Form 590, Withholding Exemption Certificate, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 590"), because the exceptions apply to the entertainer as the person who directly performed the service. Because the entertainer performed the service, the entertainer is required to report his or her compensation for the performance and is entitled to the withholding credit in proportion to the performer's share of the income withheld upon by the entertainment venue. The required information specified in FTB Form 590 is set forth in subsection (g), below.

Example: If compensation is earned by the entertainer but the entertainment venue pays the compensation directly to the performer's agent or promoter, the entertainment venue as the withholding agent must withhold and remit tax on the gross payments and provide the Franchise Tax Board with an information return, on FTB Form 592, Resident and Nonresident Withholding Statement, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 592"), which credits the withholding amount to the performer. The required information specified in FTB Form 592 is set forth in subsection (h), below. The entertainment venue should not file an information return, on Form 592, which credits the withholding amount to the performer's agent or promoter.

(3) Sound and Lights. Withholding is required on payment for sound and light services paid to a nonresident.

(b) Request for Waiver or Reduced Withholding Amount. Withholding is required on the total (gross) payment paid by the withholding agent, unless an exemption on FTB Form 590, waiver on FTB Form 588, Nonresident Withholding Waiver Request, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 588"), or reduced withholding amount on FTB Form 589, Nonresident Reduced Withholding Request, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 589"), is authorized. The required information specified in FTB Form 588 and FTB Form 589 is set forth in subsection (i) and subsection (j), respectively, below. Payees can request a waiver by filing FTB Form 588 at least 21 business days prior to the nonresident's performance or California activity date, or reduced withholding amount by filing FTB Form 589 at least 10 business days prior to the nonresident's performance or California activity date. The Franchise Tax Board will then determine, based on the information and documentation submitted, if withholding at the statutory 7 percent rate on the entire payment from the performance or activity will result in over-withholding. If so, the Franchise Tax Board may grant the waiver pursuant to FTB Form 588 or authorize pursuant to FTB Form 589 deductions from the gross amount to compute a withholding base that more accurately represents the nonresident entertainer's estimated tax liability when the 7 percent withholding rate is applied. If the Franchise Tax Board grants a waiver pursuant to FTB Form 588 or authorizes a reduced withholding amount pursuant to FTB Form 589, the Franchise Tax Board will then notify the withholding agent of the withholding required for the specific performance by sending the withholding agent a waiver determination notice or reduced withholding approval letter. If the withholding agent does not notify the Franchise Tax Board of the performance or the Franchise Tax Board does not notify the withholding agent of an approved waiver or reduced withholding rate, the withholding agent must withhold 7 percent from payments made to nonresident entertainers. (See Regulation section 18662-4.)

(c) Exceptions. Withholding is optional if the entertainer (not the entertainer's agent) meets one of the following exclusions or exceptions:

(1) California Resident. The entertainer is a California resident.

(2) California Business Entity. Payment is made to a business entity that is qualified to do business in California or has a permanent place of business in California for the entertainer's services.

(3) Tax Exempt Organization. Payment is made to a tax exempt organization under either California or federal law for the entertainer's services.

(4) Total Payments Equal to or Less Than \$1,500. The total payments of California source income to the entertainer are equal to or less than \$1,500 for the calendar year.

(5) Services Performed Outside of California. The services provided by the entertainer are performed outside of California.

(6) Withholding Waiver Received. The entertainer or the withholding agent receives a withholding waiver from the Franchise Tax Board.

(d) Entertainment Venues Having Similar Names. An owner or lessor of an entertainment venue that mistakenly receives a reduced withholding approval letter or other correspondence from the Franchise Tax Board for a performance he or she is not engaged in must contact the Franchise Tax Board and provide the necessary information to allow the Franchise Tax Board to notify the correct withholding agent.

(e) Canceled Performances. If a withholding agent receives a reduced withholding approval letter when no payment is made to the nonresident entertainer because the performance was canceled, the withholding agent should write "Canceled" on the reduced withholding approval letter and return it to the Franchise Tax Board with an explanation that withholding was not done because the performance was canceled and no payment was made. The Franchise Tax Board may request additional information to validate the canceled performance.

(f) Additional Rules for Athletes.

(1) Duty Days. A duty day is any day during which services are performed under the contract from the beginning of an official preseason activity until the last game played. The duty days in California are then divided by the total duty days to create a ratio, which is in turn multiplied by the total compensation. The result is California source income.

(2) Performance and Signing Bonuses. Performance bonuses should be included in the income to be allocated within and without California if any of the conditions to receive the bonus were met or partially met while performing services in California. The signing bonus issue is dealt with on a case-by-case basis with an examination of the wording of the contract. If services must be performed to receive or keep the signing bonuses and if any of those services are performed or partially performed in California, then the signing bonus should be included in the compensation to be allocated within and without California.

(g) FTB Form 590, Withholding Exemption Certificate. See Regulation section 18662-4, subsection (h).

(h) FTB Form 592, Resident and Nonresident Withholding Statement. See Regulation section 18662-4, subsection (i).

(i) FTB Form 588, Nonresident Withholding Waiver Request. See Regulation section 18662-4, subsection (k).

(j) FTB Form 589, Nonresident Reduced Withholding Request. See Regulation section 18662-4, subsection (l).

Note: Authority cited: Section 19503, Revenue and Taxation Code. Reference: Sections 18662 and 18815, Revenue and Taxation Code.

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§ 18662-8. Reporting and Remitting Amounts Withheld, Penalties, and Interest; Other Procedures.

(a) General. The Franchise Tax Board shall prescribe necessary forms identified in Regulation sections 18662-0 through 18662-8, or any successor forms designated by the Franchise Tax Board on its website at www.ftb.ca.gov, for the reporting and remitting of withholding of tax amounts.

(b) Real Estate Sales -- Information Returns.

(1) Payment Due Dates and Form. Real estate withholding is due by the 20th day of the calendar month following the month escrow closes. For example, if escrow closes on January 3rd, payment is due on or before February 20th. If February 20th falls on a weekend or holiday, the payment may be remitted pursuant to FTB Form 593, Real Estate Withholding Tax Statement, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 593") and FTB Form 593-V, Payment Voucher for Real Estate Withholding, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 593-V") on the next business day without penalty. The required information specified in FTB Form 593 and FTB Form 593-V is set forth in subsection (g) and subsection (h), respectively, below. Payment of withholding on Section 1031 like-kind exchanges is due on the 20th day of the calendar month following the month in which the exchange was completed or failed. For simultaneous exchanges, the exchange is completed in the month escrow closes. For deferred exchanges, the exchange is completed in the month the last requirement of the exchange is completed. For failed exchanges, the exchange fails in the month when the proceeds were distributed to the seller after a determination that the exchange would not meet the Internal Revenue Code section 1031 exchange requirements. Remittance shall be in the form and manner as the Franchise Tax Board may prescribe in FTB Form 593.

(2) Reporting.

(A) In General. Real estate withholding is reportable to the Franchise Tax Board either by paper on FTB Form 593 for paper payments (where allowable) or electronically here along with the remittance on FTB Form 593-V.

(B) Information Returns. An FTB Form 593 stating the amount of the real estate withholding shall be provided to the payee either at the time of sale or not later than January 31st of the following calendar year, and may be required to be filed with the Franchise Tax Board, in the form and manner that the Franchise Tax Board may prescribe in FTB Form 593 and FTB Form 593-V. The payee may be required to attach a copy of the FTB Form 593 to the appropriate tax return to be filed with the Franchise Tax Board in order to claim a credit for the withheld amount.

(c) Withholding From Payments Other Than Real Estate Sales.

(1) Payment Due Dates. Withholding on payments is due under the same schedule as required for calendar year federal estimated tax. Withholding from payments made January 1st through March 31st is due April 15th, April 1st through May 31st is due June 15th, June 1st through August 31st is due September 15th, and September 1st through December 31st is due January 15th of the following year. Remittance shall be pursuant to FTB Form 592, Resident and Nonresident Withholding Tax Statement, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 592") and Form 592-V Payment Voucher for Nonresident or Resident Withholding, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 592-V"), either electronically or by paper check. The required information specified in FTB Form 592 and FTB Form 592-V is set forth in subsection (i) and subsection (j), respectively, below.

(2) Foreign (Non-U.S.) Partners - Due Dates. California follows federal procedures for foreign partners. Therefore, the due dates for payments are the same as the federal due dates, as prescribed in federal regulations, and pursuant to FTB Form 592-F, Foreign Partner or Member Annual Return, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 592-F"). The required information specified in FTB Form 592-F is set forth in subsection (k), below.

(3) Reporting.

(A) In General. Withholding on payments should be reported to the Franchise Tax Board either by paper on FTB Form 592 or FTB Form 592-F for paper payments (where allowable) or electronically along with the remittance pursuant to FTB Form 592-A, Payment Voucher for Foreign Partner or Member Withholding, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 592-A"). FTB Form 592-A contains five payment vouchers, one for each reporting period plus a supplemental voucher if there is a balance due on FTB Form 592-F. The supplemental voucher is due on the original due date of FTB Form 592-F, regardless of an extension. The required information specified in FTB Form 592-A is set forth in subsection (l), below. The name and Taxpayer Identification Number (TIN) of each payee should be provided so that the payment can be properly posted to the payee's account.

(B) Information Returns. Pursuant to FTB Form 592-B, Resident and Nonresident Withholding Tax Statement, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 592-B"), an information return shall be provided to the payee aggregating all withholding for the tax year by January 31st of the following year, and may be required to be filed with the Franchise Tax Board, in the form and manner that the Franchise Tax Board may prescribe in FTB Form 592-B and instructions. The required information specified in FTB Form 592-B is set forth in subsection (m), below. The payee may be required to attach a copy of FTB Form 592-B to the appropriate tax return to be filed with the Franchise Tax Board in order to claim a credit for the withheld amount.

(4) Electronic and Magnetic Media. Any reference to FTB Form 592 or FTB Form 592-F or payments on FTB Form 592-A or Form 592-V in these regulations shall also refer to corresponding electronic filings and payments.

(5) Withholding Adjustments. If a withholding agent discovers that an amount was withheld in error, the withholding agent may file an amended FTB Form 592 or FTB Form 592-F showing the proper amount of withholding on the payment and either make an additional remittance using FTB Form 592-A or FTB Form 592-V, or request a refund or credit of the erroneously withheld amount to be refunded or credited either to the withholding agent or to the payee, as appropriate. If the withholding agent requests that the erroneously withheld amount be retained as a credit against the withholding agent's future withholding obligations (in cases where the withholding agent has repaid the erroneously withheld funds to the payee), the Franchise Tax Board will retain the withholding amount in the name of the withholding agent who can then apply the excess withholding on a later period remittance as a prior payment.

(d) Interest and Penalties.

(1) Interest. Revenue and Taxation Code section 18668, subdivision (b), requires the Franchise Tax Board to compute and assess interest on any amount not paid on or before the due date required by regulations, at the rate established pursuant to Revenue and Taxation Code section 19521, computed from the due date to the date paid. This interest is not a penalty, but compensation for the use of the funds from the date the withheld funds were due to the date remitted.

(2) Penalties and Liabilities.

(A) Information Return Penalties. Revenue and Taxation Code section 19183 incorporates federal information return penalties by reference. FTB Form 592, FTB Form 592-F, FTB Form 593 and FTB Form 592-B are information returns, and failure to file those returns may subject the withholding agent to information return penalties as specified in Regulation sections 18662-0 through 18662-8.

(B) Real Estate Information Return Penalties. A penalty may be assessed if the withholding agent fails to file a correct FTB Form 593 between the due date and 30 days after the due date. The penalty increases if a correct FTB Form 593 is filed more than 30 days following the due date, and again more than 6 months following the due date, or if a correct FTB Form 593 is never filed.

If the noncompliance is due to an intentional disregard of the requirements of Regulation sections 18662-0 through 18662-8, the penalty increases to the greater of \$100 or 10 percent of the required withholding. The penalty is for each FTB Form 593 that the withholding agent does not file correctly by the due date.

(C) Liability of Withholding Agent for Unpaid Withholding. Revenue and Taxation Code section 18668, subdivision (a), provides that a withholding agent is liable for the amount that should have been withheld, together with applicable penalties and interest, unless it is shown that the failure was due to reasonable cause.

When the withholding agent pays the liability under subsection (d)(2)(C) for unpaid withholding and information return penalties plus interest, and when the nonresident payee subsequently files a return and pays the tax, the liability for unpaid withholding may be reversed upon written request by the withholding agent; however, the withholding agent remains liable for any information return penalties plus interest.

(D) Special Rules for Real Estate Withholding.

1. Real Estate Notification and Withholding Penalties. The penalty for not properly notifying buyers is the greater of \$500 or 10 percent of the required withholding. The penalty for failing to withhold is the greater of \$500 or 10 percent of the required withholding. If the failure to withhold is shown to be due to reasonable cause, the Franchise Tax Board will withdraw the penalty.

2. Real Estate Information Returns and False Exemption Certificates. The withholding agent may be subject to a \$50 penalty if the withholding agent does not provide the sellers with correct copies of FTB Form 593 by the due date. If the noncompliance is due to an intentional disregard of the requirements set forth in Regulation sections 18662-0 through 18662-8, the penalty increases to the greater of \$100 or 10 percent of the required withholding. The penalty is for each FTB Form 593 that is not furnished. FTB Form 593 is considered correct when all applicable fields are completed, the information is correct, and the correct version of the form is used. The Franchise Tax Board will make available on its website at www.ftb.ca.gov and will designate the proper version of FTB Form 593 for each year. The pre-printed year on FTB Form 593 must match the year the transaction occurred. For sales, this is the year escrow closed. For installment payments, this is the year of the installment payment. For exchanges, this is the year the last requirement of the exchange was completed or when it was determined that the exchange would not meet the Internal Revenue Code section 1031 requirements and any cash or cash equivalent was distributed to the seller. If the seller knowingly executes a false FTB Form 593-C, Real Estate Withholding Certificate, or any successor form designated by the Franchise Tax Board on its website at www.ftb.ca.gov ("FTB Form 593-C"), the seller may be subject to a penalty of the greater of \$1,000 or 20 percent of the required withholding. The required information specified in FTB Form 593-C is set forth in subsection (n), below.

(e) Other Information Returns. The Franchise Tax Board may prescribe in writing when other information returns and withholding statements must be provided to the payee and/or to the Franchise Tax Board.

(f) Coordination With Group Returns. Except as set forth in Revenue and Taxation Code sections 18534 and 18536, withholding of tax is allowed as a credit against the tax shown on a group nonresident return.

(g) FTB Form 593, Real Estate Withholding Tax Statement. See Regulation section 18662-3, subsection (j).

(h) FTB Form 593-V, Payment Voucher for Real Estate Withholding. See Regulation section 18662-3, subsection (k).

(i) FTB Form 592, Resident and Nonresident Withholding Tax Statement. See Regulation section 18662-4, subsection (i).

(j) FTB Form 592-V, Payment Voucher for Nonresident or Resident Withholding. FTB Form 592-V shall contain the following information:

(1) A check box to indicate how FTB Form 592 was submitted, by one of two methods (electronic or paper).

(2) Total number of payees reported on FTB Form 592-V.

(3) Withholding Agent Information, which includes the business name, business identification number (SSN, FEIN, California corporation number, or Secretary of State file number), contact name at the business, telephone number, and business address.

(4) Amount of payment submitted with FTB Form 592-V.

(k) FTB Form 592-F, Foreign Partner or Member Annual Return. See Regulation section 18662-4, subsection (j).

(l) FTB Form 592-A, Payment Voucher for Foreign Partner or Member Withholding. FTB Form 592-A shall contain the following information:

(1) A space to indicate the month, day, and year of the start of the partnership's or LLC's calendar or fiscal year.

(2) A space to indicate the month, day, and year of the end of the partnership's or LLC's calendar or fiscal year.

(3) Withholding Agent Information, which includes the business name, business identification number (SSN, FEIN, CA corporation number, or Secretary of State file number), contact name at the business, telephone number, and business address.

(4) Amount of payment submitted with FTB Form 592-A.

(m) FTB Form 592-B, Resident and Nonresident Withholding Tax Statement. FTB Form 592-B shall contain the following information:

(1) A check box indicating whether the form is filed as an amended FTB Form 592-B.

(2) Withholding Agent Information, which includes name, identification number (SSN, FEIN, California corporation number, or Secretary of State file number), address, and telephone number.

(3) Payee Information, which includes name, identification number (SSN, FEIN, California corporation number, or Secretary of State file number), and address.

(4) A check box to indicate the types of income being reported: Payment to Independent Contractors; Trust Distributions; Rents or Royalties; Distributions to Domestic Nonresident Partners, Members, Beneficiaries, or S Corporation Shareholders; Estate Distributions; Elective Withholding; Elective Withholding/Indian Tribe; Allocations to Foreign (non-U.S.) Nonresident Partners/Members; or Other. For "Other," an explanation must be provided.

(5) Total amount subject to withholding.

(6) Total California tax withheld (excluding backup withholding).

(7) Total backup withholding.

(n) FTB Form 593-C, Real Estate Withholding Certificate. See Regulation section 18662-3, subsection (i).

Note: Authority cited: Section 19503, Revenue and Taxation Code. Reference: Section 18662, Revenue and Taxation Code.