



# ISSUE Insights



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## Franchise Tax Board Nonresident Withholding Guidelines

Beginning January 1, 2010, California property management companies must withhold a portion of rent collected from California properties that are owned by their clients who reside outside of the state. This rule applies only to out-of-state owners. The management company must – on a quarterly basis - forward those funds to the Franchise Tax Board (FTB) along with the required FTB forms.

When rental payments are greater than \$1,500 per calendar year, the management company must withhold 7 percent of the rent collected.

The withholding rate for foreign clients is higher:

- ✓ 9.3% for noncorporate partners
- ✓ 8.84% for corporate partners
- ✓ 10.84% banks and financial institutions

The Franchise Tax Board Guidelines allow the withholding agent (the management company) to use a “reasonable method” to calculate the total amount withheld. The management company, therefore, may deduct their management fees and other property expenses and then calculate the required percentage withheld. When deducting fees and other expenses in order to calculate a reduced withholding, a Form 589 is required.

The entities and individuals subject to withholding include,

- Individuals who are non-residents of California;
- Corporations, Partnerships and LLC’s that do not have a permanent place of business in California and are not qualified by the Secretary of State to do business in California; or
- Nonresident estates and trusts.

Certain entities and individuals are exempt from the withholding requirement. They include,

- California residents;
- Corporations, Partnerships, LLC’s qualified to do business in California with a permanent place of business in California;
- Estates where the deceased was a California resident at the time of death;



- The total payments or distributions of California source income to the nonresident are equal to or less than \$1,500 for the calendar year;
- Tax-exempt organizations;
- Insurance Companies, IRA's, Qualified Pension and Profit Sharing Plans;
- California non-grantor trusts;
- An out-of-state owner who meets one of the exemptions on the FTB Form 590, *Withholding Exemption Certificate* and files the Form with the FTB;
- An out-of-state owner who has received written authorization from the FTB waiving the withholding; or
- A bank or banking association.

**Note:** Owners must complete Form 590 to certify their status. A link to the form is provided below. Exemptions apply to the actual payee and not to their agent or representative.

**For more information, contact your accountant and/or:**

Link to CAA's Frequently Asked Questions [click here](#):

Contact the California Franchise Tax Board: (888) 792-4900 or [www.ftb.ca.gov](http://www.ftb.ca.gov)

Franchise Tax Board Resident & Nonresident Withholding Guidelines

[http://www.ftb.ca.gov/forms/2009/09\\_1017.pdf](http://www.ftb.ca.gov/forms/2009/09_1017.pdf)

Form 588 – Nonresident Withholding Waiver Request

<http://www.ftb.ca.gov/forms/misc/588.pdf>

Form 590 – Exemption Certificate

[http://www.ftb.ca.gov/forms/2010/10\\_590.pdf](http://www.ftb.ca.gov/forms/2010/10_590.pdf)

Form 590-P- Withholding Exemption Certificate

[http://www.ftb.ca.gov/forms/2010/10\\_590p.pdf](http://www.ftb.ca.gov/forms/2010/10_590p.pdf)

Form 592 – Quarterly Resident & Nonresident Withholding Statement

[http://www.ftb.ca.gov/forms/2010/10\\_592.pdf](http://www.ftb.ca.gov/forms/2010/10_592.pdf)

Form 592-B – Resident and Nonresident Withholding Tax Statement [http://www.ftb.ca.gov/forms/2010/10\\_592b.pdf](http://www.ftb.ca.gov/forms/2010/10_592b.pdf)

