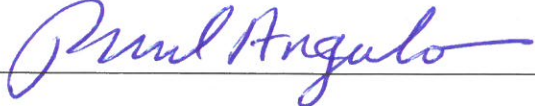




County of Riverside  
OFFICE OF THE AUDITOR-CONTROLLER  
STANDARD PRACTICE MANUAL

		<b>SUBJECT: NONRESIDENT WITHHOLDING</b>
<b>SECTION:</b>	<b>2</b>	<b>CATEGORY: ACCOUNTS PAYABLES POLICIES</b>
<b>POLICY NUMBER:</b>	<b>212</b>	
<b>REVISED DATE:</b>	<b>04/01/19</b>	<b>APPROVED BY:</b> 

**PURPOSE:** To establish standard guidelines for County departments, agencies, and special districts for the administration and processing of withholding requirements pursuant to the State of California, Franchise Tax Board (FTB) Resident and Nonresident Withholding Publication 1017.

**SCOPE:** Applies to all County departments, agencies, special districts, and authorities that are governed by the Riverside County Board of Supervisors and/or which maintain funds in the County Treasury.

**POLICY:** This policy details the responsibilities and processes to be followed when an approved Nonresident vendor is performing services, receive rental income, royalty payments, and distribution or meet domestic and foreign nonresident partner withholding requirements.

**PROCEDURE:** Guidelines to properly withhold taxes from vendors located outside of California.

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## **POLICY OVERVIEW**

California Revenue and Taxation Code (R&TC) Section 18662 and the related regulations require a 7% withholding of California gross income or franchise taxes from payments and distributions made to nonresidents on California source income. Where the nonresident lives, the location where the contract for services is entered into, or the place of payment does not determine the source of income from personal services. The location where the personal services are performed determines the source of income.

The following nonresident entities subject to withholding include:

- Individuals who are nonresidents of California.
- Corporations that do not have a permanent place of business in California and are not qualified through the Office of the Secretary of State (SOS) to do business in California.
- Partnerships and LLCs that do not have a permanent place of business in California and are not registered through SOS.
- Nonresident estates and trusts.

The withholding rate of 7% will be withheld from California Nonresidents gross income for the following payments:

- Independent contractors for services performed in California
- Entertainment performances
- Recipients of rents and royalties
- Distributions to beneficiaries of estates or trusts
- S corporation shareholders and partners

Withholding is not required if one the following exceptions is met:

- The individual, S corporation shareholder, or partner is a California resident.
- The total payments or distributions of California source income to the nonresident are equal to or less than \$1,500 for the calendar year.
- The payment is for goods.
- The services provided by the nonresident are not performed in California.
- The nonresident payee or the withholding agent receives written authorization from the California Franchise Tax Board waiving the withholding.
- The payments are wages paid to employees.

The following individuals and entities are exempt from withholding:

- California residents.
- Corporations with a permanent place of business in California.
- Corporations qualified through SOS to do business in California.
- Partnerships and LLCs with a permanent place of business in California.
- Tax-exempt organizations, under either California or federal law.

A nonresident of California vendor may request a reduction to the 7% withholding from the FTB when the 7 percent withholding on the gross California source payment results in significant over-withholding. Reduced withholding amounts are available to domestic nonresident payees only. There is no provision in R&TC Section 18666 or IRC Section 1446 to allow reduced withholding for foreign nonresident partners.

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The nonresident payee must complete *FTB Form 589, Nonresident Reduced Withholding Request*, and submit it to the FTB at least 21 business days prior to receiving payment for services being performed. The payee must provide the gross California source payment, any expenses relevant to the services being performed, and calculate a proposed reduced withholding amount. Once the nonresident vendor receives a confirmation letter from the FTB, a scanned copy must be sent to [acovendorprocessing@rivco.org](mailto:acovendorprocessing@rivco.org) for further processing.

In the event a nonresident vendor states they are exempt from the withholding requirement, the department or ACO is required to obtain a completed *FTB Form 590 Withholding Exemption Certificate*. A scanned copy can also be sent to the email address indicated above.

**DEPARTMENT RESPONSIBILITIES**

- 1) Coordinate with the ACO any vendor that may need to be set up in PeopleSoft as a nonresident vendor.
- 2) When needed provide nonresident vendors with *FTB Form 590 Withholding Exemption Certificate*.
- 3) When processing vouchers in PeopleSoft Financials, enter all voucher information accordingly. Based on the vendor code set up, the system will automatically deduct the 7% withholding from the payment amount.
- 4) In the event, the vendor has a reduced amount, contact the ACO Vendor Code desk for instructions on how to process the voucher.

**AUDITOR-CONTROLLER RESPONSIBILITIES**

- 1) When approving vendors, review vendor information and determine if the vendor is a nonresident. If needed, contact the vendor to inquire if an FTB Form 590 needs to be completed.
- 2) Configure vendor code set up to automatically withhold 7%.
- 3) FTB Form 592, Resident and Nonresident Withholding Statement, FTB Form 592-V, Payment Voucher for Resident and Nonresident Withholding, and the payment of tax withheld have specific payment due dates:

<b><u>Period Payment Made</u></b>	<b><u>Due Date</u></b>
January 1 through March 31	April 15
April 1 through May 31	June 15
June 1 through August 31	September 15
September 1 through December 31	January 15

If the due date falls on a Saturday, Sunday, or legal holiday, the due date will be the next business day.

- 4) Annually, complete and mail *Form 592-B Resident and Nonresident Withholding Tax Statement* to nonresident vendors.

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