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State of California  
**Franchise Tax Board**

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To: American Association of Franchisees & Dealers  
From: California Franchise Tax Board  
**Subject: Nonresident Withholding Responsibilities**

## Memorandum

If you pay California source income to nonresidents of California, the Franchise Tax Board (FTB) wants to make you aware that unless certain exceptions apply, you must withhold and send to FTB seven percent of all payments that exceed \$1,500 in a calendar year. (Revenue and Taxation Code Section 18662)

### **What is considered California source income?**

For your purposes, California source income may include, but is not limited to:

- Leases.
- Rents.
- Royalties

Royalties may include but are not limited to:

- ✚ Performance guarantee or deposit
- ✚ Deposit of money
- ✚ An initial or set-up fee
- ✚ Fee for advertising
- ✚ Nonrefundable bookkeeping charge
- ✚ A payment for training and school expenses
- ✚ Royalty or percentage of gross receipts
- ✚ Charges for sales kits, brochures, program, forms, decals, shirts, displays and announcements
- ✚ Rental or lease fee
- ✚ Payment for services, such as consulting or management fees

**Need withholding procedures, information, or forms from FTB?**

- Visit our website at [ftb.ca.gov](http://ftb.ca.gov) and search for **withholding**.
- Review FTB Publication 1017, *Resident and Nonresident Withholding Guidelines*.
- Call us at **888.792.4900** or 916.845.6262 (not toll-free).
- Email us at [wscs.gen@ftb.ca.gov](mailto:wscs.gen@ftb.ca.gov). Type **Nonresident Withholding** in the subject line.  
This is not a secure email address. Please do not send confidential information.

## The Three Phases of Withholding

Phase	Forms to use	Tasks
<p><b>Before</b> franchisee makes payment to nonresident franchisor</p>	<p>FTB Form 589, <i>Nonresident Reduced Withholding Request</i></p>	<p>Franchisor can use Form 589 to itemize expenses against the California source income. FTB provides franchisee a letter stating the reduced withholding amount.</p>
	<p>FTB Form 588, <i>Nonresident Withholding Waiver Request</i></p>	<p>Franchisor who qualifies can use Form 588 to get a waiver from withholding based generally on California tax filing history. Franchisee requests a copy of the waiver certificate to keep in records. No withholding required with a waiver certificate.</p>
	<p>FTB Form 590, <i>Withholding Exemption Certificate</i></p>	<p>Franchisor who is a California resident or a business with resident status can use Form 590 to certify exemption from withholding. No withholding required with a withholding exemption certificate.</p>
<p><b>At the time</b> franchisee makes payment to nonresident franchisor</p>	<p>No forms to use</p>	<p>Franchisee withholds 7 percent of all payments to nonresident franchisor that exceed \$1,500 in a calendar year, unless franchisor qualifies for reduced or waived withholding.</p>
<p><b>After</b> franchisee makes payment to nonresident franchisor</p>	<p>FTB Form 592, <i>Quarterly Resident and Nonresident Withholding Statement</i></p>	<p>After making payment to nonresident franchisor, franchisee sends to FTB a timely, completed Form 592 including the amount withheld for the quarter. FTB distributes the withholding to the franchisors account.</p>
	<p>FTB Form 592-B, <i>Resident and Nonresident Withholding Tax Statement</i></p>	<p>By January 31<sup>st</sup> following the end of the calendar year, franchisee sends each franchisor a completed 592-B and keeps a copy for records. Franchisor claims the withholding by attaching a copy of the 592-B when filing the required California tax return. The 592-B is proof of California source income and withholding.</p>