



STATE OF CALIFORNIA
WITHHOLDING SERVICES AND COMPLIANCE MS F182
FRANCHISE TAX BOARD
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SACRAMENTO CA 94267-0651

DATE: 09/24/14

THE HOMES 4 VETS FOUNDATION
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IN REPLY, REFER TO:
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Withholding Tax at Source Requirements

You May Have California Withholding Responsibilities

We received information that your business entity may be doing business in California. Therefore, we are notifying you of your potential resident and nonresident withholding responsibilities.

Nonresident Withholding

If your business entity pays California source income to nonresidents of California, you must withhold and send Franchise Tax Board (FTB) 7 percent of all payments you make to each nonresident that exceed \$1,500 in a calendar year. (California Revenue & Taxation Code Section 18662)

If your business entity does not pay California source income to nonresidents of California, this responsibility does not apply to you.

Payments Subject to Nonresident Withholding

Payments subject to nonresident withholding include, but are not limited to:

- Nonwage payments for services performed in California.
- Lease, rent, royalty, winnings, and payout income earned in California.
- Distributions from California pass-through entities (estates, trusts, partnerships, LLCs, S corporations).

Exceptions to Nonresident Withholding

Generally, you do not need to withhold if any of the following exceptions apply. The payee:

- Is qualified with the California Secretary of State to do business in California.
- Has a permanent place of business in California.
- Is an individual who is a California resident.
- Is a tax-exempt entity under California or federal law.
- Is a government entity.
- Provides only goods or materials.
- Received a withholding waiver from FTB.
- Meets one of the other exceptions listed on Form 590, *Withholding Exemption Certificate*.

Other exceptions may apply. See FTB Publication 1017, *Resident and Nonresident Withholding Guidelines*, for details on those exceptions.

Backup Withholding — Applies to Both Residents and Nonresidents

Generally, California follows federal law and requires backup withholding on payments to a payee if the payee:

- Does not provide a taxpayer identification number.
- Provides an invalid taxpayer identification number.
- Does not certify an exemption from backup withholding.

With certain limited exceptions, California law states that if the Internal Revenue Service (IRS) requires you to withhold and remit backup withholding, you must also withhold and remit to FTB 7 percent of all reportable income payments.

Payments Subject to Backup Withholding

California residents are subject to California backup withholding on all payments they receive, regardless of source. Nonresidents are subject to California backup withholding on payments they receive from California source income.

Exceptions to Backup Withholding

Two exceptions to California backup withholding are:

- Payments of interest and dividends (reported on IRS Forms 1099-INT, 1099-DIV, 1099-OID, and 1099-PATR).
- Any release of loan funds a financial institution makes in the normal course of business.

Priority for Withholding

If more than one type of withholding applies to a payment, you perform backup withholding only.

Payees Exempt from Backup Withholding

Certain payees are exempt from backup withholding, such as government entities and tax-exempt organizations. To get a complete list of exempt payees, refer to IRS Form W-9.

Consequences for Late Filing, Late Payment, or Noncompliance

If you do not file or furnish certain withholding forms correctly and timely, we may assess penalties. A 100 percent liability applies any time you under withhold, fail to withhold, or fail to remit withholding unless you show us that the failure is due to reasonable cause. Interest applies on late payments.

For more details on nonresident or backup withholding, or to get California withholding forms and publications:

- Go to ftb.ca.gov and search for **withholding**.
- Refer to FTB Publication 1017, *Resident and Nonresident Withholding Guidelines*.
- Call: 888.792.4900 or 916.845.4900. TTY/TDD: 800.822.6268 for persons with hearing or speech impairments.
- Email: wscs.gen@ftb.ca.gov. (This address is not a secure email address. Do not send confidential information.)
- Subscribe to free, online webinars. Go to ftb.ca.gov and search for **subscription services**. On the subscription services page, select the **Tax News**, **Backup Withholding**, and **Nonresident** options. You will automatically receive email updates on these topics, including upcoming webinar invitation links.