

## SALT INSIGHTS

Jurisdiction: California  
Tax Type: Individual/Corporate/Partnership  
Issue: California Withholding  
Date: July 5, 2018

### SYNOPSIS:

California Revenue and Taxation Code (“R&TC”) Sections 18662, 18664, 18666 and the related regulations require withholding of California income or franchise taxes from payments and distributions made to non-residents on California source income in excess of \$1,500. Withholding however, does not apply to wages paid to employees, payments for goods and materials or sales of real estate located outside of California.

R&TC Section 17951 requires non-residents to be taxed on all income from California sources. California source income includes payments for personal services performed in California. The location where the personal services are performed determines the source of income. California source income subject to withholding includes revenue related to; leases, rents, royalties, winnings, and payouts. Note that California does not conform to federal law relating to income protected by U.S. tax treaties. California income is taxable and subject to withholding.

Withholding on domestic (non-foreign) vendors is at a rate of 7 percent of the gross payments made to non-residents. The withholding rate on foreign (non-US) vendors is California’s highest effective tax rate for each vendor’s entity type; non-corporate vendors – 12.3 percent, corporate vendors – 8.84 percent and foreign bank and financial institution vendors – 10.84 percent.

### INSIGHT:

In managing withholding requirements, withholding agents can rely on a California street address as an indication of a payee’s residency status for alleviating withholding requirements. Also, in some cases, the FTB may authorize a waiver of withholding if the payee has California tax returns on file for the past two taxable years. Contact SimekScott to discuss.

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