



STATE OF CALIFORNIA
WITHHOLDING SERVICES AND COMPLIANCE MS F182
FRANCHISE TAX BOARD
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DATE: 02/23/17

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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.