



## FTB Publication 1016

# Real Estate Withholding Guidelines



### Online Resources

Go to [ftb.ca.gov](http://ftb.ca.gov) and search for **real estate withholding** for:

- **Forms and Publications**  
Find forms and information about real estate withholding requirements.
- **Electronic Funds Transfer (EFT)**  
Register for EFT and pay real estate withholding taxes electronically.
- **SWIFT**  
File your information returns electronically.
- **Subscription Services**  
Sign up to receive emails on updated real estate withholding information.
- **Webinars**  
Learn valuable information on real estate forms.

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## Purpose

This publication provides guidance on the tax withholding requirements for sales of California real property. This information is not applicable in all situations, should not be considered legal advice, and is not binding to the Franchise Tax Board (FTB).

## Legal Authority

California Revenue and Taxation Code (R&TC) Section 18662 and the related regulations require withholding of tax at source from the sale or exchange of California real estate. All California residents, nonresident individuals, and non-California business entities are subject to withholding requirements unless certain exceptions specified in R&TC Section 18662, subdivision (e)(3), are met.

## General Information

Real estate withholding is a prepayment of income (or franchise) tax due from sellers on the gain from the sale of California real property. It is not an additional tax on the sale of real estate.

## Definitions

The terms buyer, seller, real estate escrow person, and Qualified Intermediary when used throughout this publication have the following meanings:

**Buyer** refers to the buyer or any other transferee of real property.

**Seller** refers to the seller or any other transferor of real property.

**Real estate escrow person (REEP)** refers to any attorney, escrow company, or title company responsible for closing the transaction, or any other person who receives and disburses payment for the sale of real property.

**Qualified Intermediary (QI)** refers to the entity that facilitates a deferred like-kind exchange. A QI is also known as an accommodator or buyer.

## Real Estate Withholding Forms

Go to [ftb.ca.gov](http://ftb.ca.gov) to find the following real estate forms we mention in this publication:

Search for...	Form Title
593	<i>Real Estate Withholding Tax Statement</i>
593-C	<i>Real Estate Withholding Certificate</i>
593-E	<i>Real Estate Withholding – Computation of Estimated Gain or Loss</i>
593-I	<i>Real Estate Withholding Installment Sale Acknowledgement</i>
593-V	<i>Payment Voucher for Real Estate Withholding</i>

We accept electronic signatures on all withholding forms.

## Withholding Requirement

California law requires real estate withholding whenever a transfer of title on California real property occurs.

### Examples:

- Sales or transfers of real property (including gifts and exchanges)
- Leaseholds/options
- Short sales
- Easements
- Personal property sold with real property (if not stated separately)
- Vacant land

Withholding is the responsibility of the buyer or QI, but it may be performed by the REEP on the buyer's behalf.

Whoever remits the payment, the buyer, QI, or the REEP, completes Form 593 and Form 593-V.

## Who is Subject to Real Estate Withholding

Unless an exemption applies, all of the following are subject to real estate withholding:

- Individuals
- Corporations
- Partnerships
- Limited liability companies (LLC)
- Estates
- Trusts
- Real estate investment trusts (REIT)
- Relocation companies
- Bankruptcy trusts and estates
- Conservatorships

## When Real Estate Withholding is Not Required

Real estate withholding is not required when any of the following apply:

- The total sales price is \$100,000 or less.
- When multiple sellers are involved in the transaction, the withholding is determined by the total sales price, not by each seller's portion.
- Sales of multiple parcels and/or family units (duplex, triplex, etc.) within the same escrow agreement constitute one transaction for purposes of determining the withholding requirements. Withholding is required when the combined sales price of all parcels exceeds \$100,000, even though the sales price of each separate parcel in the same escrow transaction is under \$100,000.

### Example:

Three properties (parcels) are sold within the same escrow agreement.

- Property A is sold for \$50,000
- Property B is sold for \$10,000
- Property C is sold for \$60,000

Since the total sales price exceeds \$100,000 and the properties are sold in one escrow, withholding is required.

- The property is being foreclosed upon in any of the following ways:
  - Sold according to a power of sale under a mortgage or deed of trust.
  - Sold according to a decree of foreclosure.
  - Acquired a deed in place of foreclosure.
- The transferor is a bank acting as a trustee other than a trustee of a deed of trust.
- The seller or transferor certifies to an exemption on Form 593-C.

California law excludes the following entities from withholding:

- The United States and any of its agencies or instrumentalities.
- A state, a possession of the United States, the District of Columbia, or any of its political subdivisions or instrumentalities.

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## Information for Sellers

California law requires withholding when a person (an individual, business entity, trust, or estate) sells California real property unless the seller qualifies for an exemption.

### Exemptions for Sellers

As the seller, you may qualify for partial or no withholding if you meet the criteria for an exemption and complete and sign Form 593-C under penalty of perjury. Provide a complete Form 593-C with a valid taxpayer identification number (TIN) to the buyer, QI, or REEP prior to the close of escrow or withholding is required.

If you knowingly execute (sign) a false exemption certificate, the penalty is the greater of \$1,000 or 20% of the required withholding.

### Full Withholding Exemptions

You may qualify for a full exemption if you meet at least one of the criteria we outline in the sections below.

- **Principal Residence**  
You qualify for a withholding exemption if during the five-year period (ten-year period for persons on qualified extended duty in the U.S. Armed Services or the Foreign Service) ending on the date of the sale, both of the following are true (Internal Revenue Code [IRC] Section 121):
  - You owned the property for at least two years.
  - You lived on the property as your principal residence for any two years during the five-year period.

The following exceptions apply to the two-year property ownership rule if the primary reason for the sale is due to one of the following:

- A change in place of employment.
- Health reasons.
- Unforeseen circumstances such as death, divorce, loss of job, etc.

Your principal residence is the home where you live (you may own only one principal residence at a time). If you own more than one residence, then where you live most of the time is your principal residence. Your principal residence may be any of the following:

- House
- Houseboat with sleeping, cooking, and restroom facilities
- Mobile home permanently fixed to a foundation or subject to real property taxes
- Cooperative apartment
- Condominium

Generally, the following types of properties do not qualify as your principal residence:

- Rental property
- Vacant land
- Vacation home
- Second home

However, property that has been rented or used as a vacation home may still qualify for an exemption, if it meets the criteria we outline above.

A grantor trust may qualify for this exemption, but a non-grantor trust does not unless the trust was a grantor trust before the death of the grantor.

If multiple family units (duplex, triplex, etc.) are involved in the transaction, the law requires withholding on the portion of the sales price for the nonprincipal residence unit(s). Allocate the sales price between the principal residence and the remainder of the units. To determine what portion of the sales price is subject to withholding, use the same method that you use to determine depreciation for reporting purposes on your California income tax return. Withholding is still required when the total sales price of all the units exceeds \$100,000, even if the portion of the sales price related to the nonprincipal residence does not exceed \$100,000.

- **Property Last Used as a Principal Residence**  
You qualify for a withholding exemption if you last used the property as your principal residence without regard to the two-year time period (for withholding purposes only). If the sale does not qualify for a principal residence exemption, report the gain on your federal and California income tax returns.
- **Loss or Zero Gain on Sale**  
To qualify for this exemption, the seller must calculate a loss or zero gain on the sale on Form 593-E. California law requires you to keep this form, along with Form 593-C, for five years.  
For California income tax purposes, a loss or zero gain means the adjusted basis is more than or equal to the selling price (less selling expenses).  
Short sales do not qualify for this exemption simply because the seller receives no cash from the sale or if the property sells for less than it is worth.

Use only passive activity losses that directly relate to this property sale when you determine your gain or loss.

- **Involuntary Conversion**

An involuntary conversion occurs when the property is destroyed, condemned, or disposed of under threat of condemnation and the seller receives other property or money in payment. (IRC Section 1033)

You qualify for a withholding exemption when both of the following apply:

- The conversion qualifies for a deferral of gain under IRC Section 1033.
- The seller intends to acquire property similar or related in service or use which qualifies for nonrecognition of gain.

- **Nonrecognition Treatment**

You qualify for a withholding exemption when one of the following applies:

- Property transferred to a corporation controlled by the transferor (IRC Section 351).
- Property contributed to a partnership in exchange for a partnership interest (IRC Section 721).

- **California Corporation**

A corporation qualifies for a withholding exemption when they are qualified through the California Secretary of State (SOS) or have a permanent place of business in California.

- **California Partnerships**

You qualify for a withholding exemption if you are:

- A California partnership.
- A Limited Liability Company (LLC) classified as a partnership for federal and California income tax purposes, which is not a single member LLC that is disregarded for federal income tax purposes.
- Qualified to do business in California.

- **Tax Exempt Entity**

You qualify for a withholding exemption if you are a tax-exempt entity under California or federal law (such as religious, charitable, educational, etc.).

- **Insurance company, individual retirement account, qualified pension plan, charitable remainder trust, or profit sharing plan.**

## Partial or Full Withholding Exemptions

You may qualify for a partial or full exemption if you meet one of the criteria we outline in the sections below:

- **Simultaneous or Deferred Like-Kind Exchange**  
You may qualify for a withholding exemption if your transaction qualifies for a simultaneous or deferred like-kind exchange under IRC Section 1031.

If you receive money or other property (in addition to property that is a part of the like-kind exchange) which exceeds \$1,500 from the transaction, withholding is required based on the withholding calculation you select on Form 593.

If the exchange does not take place or if the exchange does not qualify for nonrecognition treatment, the QI must withhold 3 1/3% (.0333) of the total sales price unless the seller elects to use the Alternative Withholding Calculation Method.

- **Structured as an Installment Sale**

You may qualify for a withholding exemption when your sale is structured as an installment sale. The buyer is required to withhold on the principal portion of each installment payment (including the down payment during escrow). We require the buyer to submit to us a copy of both Form 593-I and the promissory note.

See the **Installment Sales** section on Page 8 for more information.

## Calculate Withholding

As the seller, you may choose between the two withholding calculation methods available:

- Total Sales Price Method
- Alternative Withholding Calculation Method

REEPs and QIs are not authorized to provide legal or accounting advice for purposes of determining withholding amounts. We encourage sellers to consult with a tax professional for this purpose.

### Total Sales Price Method

To calculate the withholding using the Total Sales Price Method, multiply the total sales price or boot by 3 1/3% (.0333). Boot is defined as the money, debt relief, or the fair market value of "other property" received by the seller in an exchange in addition to replacement property.

### Alternative Withholding Calculation Method

To calculate the withholding using the Alternative Withholding Calculation Method, also known as the Optional Gain on Sale Election Method, multiply the estimated gain calculated on Form 593-E by the seller's or transferor's maximum tax rate. To find the current maximum tax rates, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **tax rates**.

If you elect to compute withholding using the Alternative Withholding Calculation Method, you are required to:

- Complete and sign Form 593-E (the form you used to calculate the amount of your loss or gain for withholding purposes).
- Sign Form 593.

By signing these forms, you certify under penalty of perjury the gain shall not be less than the gain required to be recognized. California law requires you to keep Form 593-E for your records for five years, and we may review relevant escrow information to ensure withholding compliance.

### Calculate Withholding for Multiple Sellers

Calculate the withholding for multiple sellers by applying the withholding rate to each seller's proportion of the sale.

### Example 1: Total Sales Price Method

Total sales price or boot: \$200,000

Seller's ownership percentages:

A = 20%, B = 30%, C = 50%

Withholding calculations for each seller:

- A.  $\$200,000 \times 20\% \times .0333 = \$1,332$
- B.  $\$200,000 \times 30\% \times .0333 = \$1,998$
- C.  $\$200,000 \times 50\% \times .0333 = \$3,330$

### Example 2: Alternative Withholding Calculation Method

Gain on sale: \$200,000

Seller's ownership percentages:

A = 20%, B = 30%, C = 50%

Withholding for individual seller assuming a maximum tax rate of 12.3%:

- A.  $\$200,000 \times 20\% \times .123 = \$4,920$
- B.  $\$200,000 \times 30\% \times .123 = \$7,380$
- C.  $\$200,000 \times 50\% \times .123 = \$12,300$

### Seller's Filing Requirements

If you meet California filing requirements, even if you are exempt from withholding, you must timely file a California income tax return to report the income and claim the amount withheld. If the withholding is more than the actual tax liability, we refund the overpayment after you file your income tax return and we process it. If your withholding payment is more than your tax liability, California law does not provide for early refunds of taxes withheld on sales of real estate. If withholding is less than the actual tax liability, additional tax may be due.

If you are exempt from withholding, you are still required to file California income tax returns if you meet the filing requirements. To get more information about California filing requirements or to order tax forms, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **filing requirements**.

To verify we applied the withholding credits to your account, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **myftb** or call us at 916.845.4900.

### Like-kind Exchange Filing Instructions

For tax years beginning on or after January 1, 2014, sellers are required to file Form 3840, *California Like-Kind Exchanges*, when a California resident or nonresident defers gain on the sale or exchange of California property for out-of-state replacement property (R&TC Sections 18032 and 24953). Taxpayers are required to file an information return for the tax year of the exchange and in each subsequent tax year in which the gain or loss attributable to the exchange has not been recognized under IRC Section 1031. If a taxpayer fails to file the required information return, we can estimate the net income from any available information, including the amount of gain deferred, and propose to assess the amount of tax, interest, and penalties due.

In a like-kind exchange, withholding is reported as a credit for the taxable year the withholding occurred. If a QI withholds for a failed exchange or on boot in the year following the year of the sale, the seller generally reports withholding in the second year. However, the law allows sellers to choose one of more of the following three options to report and claim the withholding credit:

1. When the seller reports the gain and withholding in the year the exchange fails (year 2).

The QI withholds...	The Seller...
In the year the exchange fails (year 2).	Reports the gain and withholding on their year 2 California income tax return.
<b>Example:</b> If a seller sells a property in December 2014, but the exchange fails in April 2015, the QI reports the withholding with a 2015 Form 593.	

2. When the seller reports the gain and withholding in the year of the sale (year 1).

The QI withholds...	The Seller...
In the year the exchange fails (year 2).	1. Calls us to request we move the withholding credit to the year of the sale (year 1). If we move the credit before the seller files their income tax return, the credit will be available after we process their income tax return. 2. Reports the income and withholding on their year 1 income tax return.
<b>Example:</b> If a seller sells a property in December 2014, but the exchange fails in April 2015, the QI reports the withholding on a 2015 Form 593. The seller contacts us to request we move the withholding to their 2014 tax year and reports the gain and withholding on their 2014 income tax return.	

3. When the seller pays all related taxes before the exchange and funds are distributed.

The QI withholds...	The Seller...
And retains the seller's funds until they receive notice from the seller that we approved the QI to release and distribute the funds without withholding.	1. Files an income tax return to report the income and pays all related taxes in the year of the sale (year 1). 2. Calls us to request a release from withholding. We cannot approve a release request until we review and process the seller's income tax return. 3. Receives an approval letter from us (generally within 30 days) which releases the seller from all future withholding and provides a copy to the QI.
<b>Example:</b> If a seller sells a property in December 2014, but the exchange fails in April 2015. The seller files their 2014 income tax return, reports the gain from the sale, and pays all related taxes. The seller contacts us and requests we release the QI from the withholding requirement. The QI holds the seller's funds until the seller receives an approval letter from us which releases the QI from the withholding requirement. The seller provides a copy of the approval letter to notify the QI to distribute the funds to the seller without withholding.	

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## Installment Sales Filing Instructions

If the sale includes an installment agreement, the buyer withholds on the principal portion of each payment made to you, the seller. We require that you file the appropriate California income tax return to report installment sale income and claim the related withholding credit in each tax year you receive installment payments.

## Elect Out of Withholding on Installment Payments

If you do not want the buyer to withhold from payments following the close of escrow, you can elect not to report the gain as an installment method (IRC Section 453[d]) by taking the following actions:

- File a California income tax return and report the entire gain on Schedule D-1, *Sales of Business Property*, in the year of the sale.
- After you file your income tax return and report the entire gain, contact us by phone, fax, or mail to request we release the buyer from withholding on the installment sale payments. (Refer to **Additional Information** section on Page 12 for contact information.)

Once we receive your request, we issue an approval or denial within 30 days. The buyer must continue to withhold until they receive a copy of the approval notice from you.

## Trusts

A **grantor trust** is a trust where the grantor (the person who transferred property into the trust) retains the right to cancel or revoke the trust. Once canceled, a grantor trust is disregarded for tax purposes and the grantor (usually an individual) must report a real estate sale and claim the withholding on their individual California income tax return. Generally, family trusts and living trusts are grantor trusts.

Withholding is required on a grantor trust unless the grantor qualifies for an exemption. Use the individual's (grantor's) information to complete all withholding forms.

A **non-grantor trust** is a trust not owned by an individual and viewed as a separate taxable entity. If the seller is a non-grantor trust, then use the name of the trust and the trust's federal employer identification number to complete all withholding forms. Do not use the trustee name or TIN on withholding forms.

If the trust distributes the income from the gain on the sale of California real estate, then the trust is also required to distribute the withholding. The trust must file Form 592, *Resident and Nonresident Withholding Statement*, to allocate the related withholding credit to the beneficiary. The Schedule K-1 is not used to pass through the withholding.

## Estates

The law does not provide for an exemption to an estate because the decedent was a California resident. However, if the property being sold qualifies as the decedent's principal residence, withholding is not required if certified on Form 593-C.

## Disregarded Single Member LLCs

If the seller is a single member LLC that is disregarded for federal income tax purposes, then that single member is considered to be the real estate seller. As a result for withholding purposes, the title to the property is considered to be in the name of the single member.

## Incidental Sellers

If incidental sellers have no financial ownership in a real estate sale, then their ownership percent is zero and no withholding is required.

### Examples of sellers on title for incidental purposes:

- A father is on title only because he cosigned to help his daughter qualify for a loan. If the father completes Form 593-C showing zero percent of ownership, then no withholding is required on the father. The daughter is subject to the normal withholding requirements.
- A son is on title only to receive property upon his mother's death. If the son completes Form 593-C showing zero percent of ownership, then no withholding is required on the son. The mother is subject to the normal withholding requirements.

## Foreign Sellers

Foreign sellers follow the same rules as domestic sellers for California real estate withholding.

## Sellers With No TIN

A seller must have a valid TIN to qualify for a withholding exemption. If a seller does not have a TIN, the seller can contact the Internal Revenue Service (IRS) and apply for an Individual Taxpayer Identification Number (ITIN).

If a seller is unable to get an ITIN before the close of escrow, then Form 593-C is void and withholding is required. The seller can elect to have withholding calculated using:

- The Total Sales Price Method on the total sales price and then remit the withholding to us without a TIN.
- The Alternative Withholding Calculation Method on the gain and then remit the withholding to us without a TIN.

The seller must contact us once they obtain a TIN, and we will assign the withholding credit to the seller. Failure to provide a valid TIN results in the denial of the real estate withholding credit when the seller files their California income tax return.

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## Penalties and Interest

For complete penalty and interest information, see the **Penalties and Interest** section on Page 11.

## Information for Buyers

### Withholding Requirement

As the buyer, California law requires you to withhold on the sale of California real estate, unless a QI is involved in a deferred like-kind exchange. Once the REEP notifies you of your responsibility to withhold, you must fulfill your withholding requirement. The REEP may assist you in complying with the withholding requirements by doing the following:

- Perform or assist in the withholding.
- Complete the necessary withholding forms.
- Remit the required withholding.

The REEP may charge a fee for this assistance, not to exceed \$45 for each seller. This fee is negotiable and may be paid by either you or the seller.

### Deferred Exchange

In deferred exchange transactions, the QI is considered the buyer:

- For withholding purposes.
- For boot received in excess of \$1,500.
- If the exchange does not occur or meet the requirements of IRC Section 1031.

For QI specific information, see the **Information for QIs** section on Page 10.

### Buyer's Instructions During Escrow

Unless you delegate your withholding responsibility to the REEP, you must:

1. Provide the seller with a copy of the following forms with instructions as soon as escrow opens:
  - Form 593
  - Form 593-C
  - Form 593-E
  - Form 593-I

Ensure the tax year on the forms matches the tax year in which the transaction takes place.

2. Instruct the seller to complete and sign Form 593-C and return it to the QI or REEP by the close of escrow if the seller qualifies for an exemption. Do not send Form 593-C to us unless we request it.
3. Complete the following forms:
  - Form 593
  - Form 593-V
  - Form 593-I with a copy of the promissory note (if applicable)
4. Withhold the required amount from the seller.
5. Report and remit the withholding by following the instructions below.

## Calculate Withholding

If no exemptions apply, the seller may choose between the two withholding calculation methods available.

If the seller elects to use the Alternative Withholding Calculation Method, they are required to complete Form 593-E, provide the withholding amount, and certify by signing Form 593. If Form 593 is not certified with the seller's signature or the withholding amount is not provided, calculate the withholding using the Total Sales Price Method.

For more information about withholding calculations, see the **Calculate Withholding** section on Page 4.

## Report and Remit Withholding

To report and remit the withholding, mail the required withholding amount to us with the following completed forms:

- Form 593
- Form 593-V, if you remit by check or money order
- Form 593-I, with a copy of the promissory note (if applicable)

Use Form 593 to report withholding and Form 593-V to remit withholding.

Complete three copies of Form 593 to report real estate withholding on completed sales, installment payments, or exchanges, including failed exchanges. Distribute the copies as follows:

- Send one copy of Form 593, along with Form 593-V and withholding payment, to us.
- Provide one copy to the seller for California income tax reporting purposes by the 20th day of the month following the month escrow closes.
- Keep one copy of the form for a minimum of five years to provide to us upon request.

Unless the sellers are married or in a registered domestic partnership, file a separate Form 593 for each seller using their proportional share of withholding.

Form 593 may be filed with us electronically using our Secure Web Internet File Transfer (SWIFT) instead of paper. However, the buyer, QI, or REEP must provide the seller or transferor with a paper Form 593. For electronic filing, submit your file using the SWIFT process we outline in FTB Pub. 923, *Secure Web Internet File Transfer (SWIFT) Guide for Resident, Nonresident, and Real Estate Withholding*. Go to [ftb.ca.gov](http://ftb.ca.gov) and search for **923** to get FTB Pub. 923.

Mail Form 593-V to remit real estate withholding payments to us by check or money order, even if you filed Form 593 electronically. After you mail your payment, if you need to adjust it, call us for assistance to avoid penalties. Payments automatically withdrawn from a bank account through an electronic funds transfer (EFT) do not require Form 593-V. Go to [ftb.ca.gov](http://ftb.ca.gov) and search for **eft** to find more information about electronic funds transfers.

File Form 593-I to report the installment sale and include a copy of the promissory note with your first installment payment (which is also known as the down payment during escrow). Do not include Form 593-I or the promissory note with any subsequent installment payments following the close of escrow.

### Due Dates

The withholding payment, Form 593-V, and a copy of Form 593 are due as follows:

Transaction Type	Due Date
Conventional sale or transfer	The 20th day of the month following the month escrow closes.
Simultaneous Exchange	
Installment Payment	The 20th day of the month following the month the payment is made.
Deferred Exchange	The 20th day of the month following the month the last leg of the exchange closed.
Failed Exchange	The 20th day of the month following the month when it was determined the exchange would not meet the IRC Section 1031 requirements and the proceeds were distributed to the seller.

If the proceeds from a completed or failed exchange are not distributed until the year after the relinquished property is sold, report the withholding for the year in which the proceeds were distributed or the exchange failed since the seller qualifies for installment sale reporting.

## Installment Sales

An installment sale is a sale of property where the seller receives at least one payment after the tax year in which the sale occurs.

As the buyer, you are required to withhold on the principal portion of the down payment (this includes any deposits, down payments, or amounts paid in escrow excluding the interest portion). Report the withholding payment with Form 593, Form 593-I, and a copy of the promissory note. Remit the withholding payment with Form 593-V.

You must also withhold on the principal portion of all installment payments following the close of escrow. You are required to:

- Calculate the withholding amount on the principal portion of the payment.
- Withhold the required amount from the seller.

- Mail the required withholding amount to us with the following completed forms (ensure the tax year on the forms matches the tax year of the installment payment):
  - Form 593
  - Form 593-V
- Send a copy of Form 593 to the seller by the 20th day of the month following the month of the installment payment.

Withholding on all installment payments is due by the 20th day of the month following the month of the installment payment.

Withholding is required on all installment payments, unless the seller fulfills the requirements to elect out of future withholding. For more information about how the seller can elect out of withholding, see the **Elect Out of Withholding on Installment Payments** section on Page 5.

## Calculate the Withholding on Installment Payments

### Total Sales Price Method

If Form 593 is not certified, calculate the withholding using the Total Sales Price Method, as follows:

**Step 1:** Determine the amount of the installment payment excluding interest. If you are withholding on:

- The down payment in escrow, enter the amount of the down payment (the sales price, minus the promissory note amount).
- An installment payment following the close of escrow, enter the principal portion of the payment.
- The final payoff in escrow, enter the amount required to pay the remaining principal.

**Step 2:** Calculate the withholding amount:

- Installment payment amount excluding interest \$ \_\_\_\_\_.
- Withholding amount, multiply line a by 3 1/3% (0.333) \$ \_\_\_\_\_.
- Enter the results on Form 593.

### Alternative Withholding Calculation Method

Calculate the withholding using the Alternative Withholding Calculation Method, as follows:

**Step 1:** Determine the amount of the installment payment excluding interest. If you are withholding on:

- The down payment in escrow, enter the amount of the down payment (the sales price, minus the promissory note amount).
- An installment payment following the close of escrow, enter the principal portion of the payment.
- The final payoff in escrow, enter the amount required to pay the remaining principal.

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**Step 2:** Calculate the alternative withholding amount:

- a. Installment payment amount excluding interest \$\_\_\_\_\_.
- b. Installment sale withholding percentage from Form 593-I Part II \_\_\_\_\_%.
- c. Multiply line a by line b \$\_\_\_\_\_.
- d. Withholding amount, multiply line c by the applicable tax rate for the seller's filing type \$\_\_\_\_\_.
- e. Enter the results on Form 593.

Individuals and non-California partnerships calculate withholding using the current maximum tax rates. To find the current tax rates, go to **ftb.ca.gov** and search for **tax rates**.

## Penalties and Interest

For complete penalty and interest information, see the **Penalties and Interest** section on Page 11.

## Information for REEPs

### REEP's Responsibilities

The REEP plays an important role in the closing of the real estate transaction. In addition to their own responsibilities below, the REEP may assist the buyer in complying with their withholding requirements by performing or assisting in the withholding, completing the required withholding forms, and/or remitting the required withholding unless a QI is involved in a deferred like-kind exchange.

### Withholding Notification Requirement

California law requires the REEP to provide the buyers with written notification of their withholding requirements unless the buyer is an intermediary or accommodator in a deferred exchange. In addition, the REEP must provide all sellers with a copy of the Form 593, *Real Estate Withholding Forms Booklet*. If no one is responsible for closing the transaction, then the person who receives and disburses the funds for the property sold is responsible to notify the buyers.

We may assess a penalty in the amount of \$500 or 10% of the amount required to be withheld, whichever is greater, if the REEP fails to provide the buyer with written notice (unless the buyer is a QI in a deferred exchange). We may only abate this penalty if the REEP shows that the failure to notify the buyer was due to reasonable cause.

### Notification Language

The written notification must use substantially the same language as follows:

"In accordance with Section 18662 of the Revenue and Taxation Code, a buyer may be required to withhold an amount equal to 3 1/3% (.0333) of the sale price, or an alternative withholding calculation amount certified by the seller in the case of a disposition of California real property interest by either:

- A seller who is an individual, trust, or estate, or when the disbursement instructions authorize the proceeds to be sent to a seller's financial intermediary.
- A corporate or partnership seller with no permanent place of business in California immediately after the transfer of title to the California property.

The buyer may become subject to penalty for failure to withhold. The penalty is an amount equal to the greater of 10% of the amount required to be withheld or five hundred dollars (\$500).

However, notwithstanding any other provision included in the California statutes referenced above, no buyer will be required to withhold any amount or be subject to penalty for failure to withhold if:

- The sale price of the California real property conveyed does not exceed one hundred thousand dollars (\$100,000).
- The seller executes a written certificate under the penalty of perjury certifying that the seller is a corporation or a partnership with a permanent place of business in California.
- The seller, who is an individual, trust, estate, partnership, or a corporation without a permanent place of business in California, executes a written certificate under the penalty of perjury of any of the following:
  - The California real property being sold is the seller's or decedent's principal residence (within the meaning of Section 121 of the Internal Revenue Code (IRC)).
  - The last use of the property being sold was by the transferor as the transferor's principal residence (within the meaning of IRC Section 121).
  - The California real property being sold is, or will be, exchanged for property of like-kind (within the meaning of IRC Section 1031), but only to the extent of the amount of gain not required to be recognized for California income tax purposes under IRC Section 1031.
  - The California real property has been compulsorily or involuntarily converted (within the meaning of IRC Section 1033) and the seller intends to acquire property similar or related in service or use so as to be eligible for nonrecognition of gain for California income tax purposes under IRC Section 1033.
  - The California real property transaction will result in a loss or net gain not required to be recognized for California income tax purposes."

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## Form 593-C Verification Requirement

REEPs are required to verify certifications on Form 593-C to the extent that they have actual knowledge of the facts. If they have no actual knowledge of the facts, then they must only verify that the certificate, Form 593-C, is completed, signed, and received by the close of escrow.

**Example 1:** A seller completes Form 593-C and certifies a loss on the transaction. We do not require the REEP to verify the loss shown on Form 593-E.

**Example 2:** A seller completes Form 593-C and certifies that the sale is an installment sale. However, there is no first deed of trust in escrow, nor has the buyer provided a completed and signed Form 593-I or promissory note. The REEP should not accept Form 593-C and must withhold on this transaction.

**Example 3:** A seller completes Form 593-C and certifies that a California partnership is selling the property, but the REEP knows that the recorded title is not in the name of the California partnership. The REEP should not accept Form 593-C and must withhold on this transaction.

## Withhold and Remit Withholding

The requirement to withhold is the responsibility of the buyer unless a QI is involved in a deferred like-kind exchange, but the REEP may assist with the withholding on the buyer's behalf. REEPs who choose to assist the buyer should complete all applicable withholding forms and remit the required withholding to us.

For more information on the withholding requirements, see the **Information for Buyers** section on Page 7.

## Providing Buyer Assistance

The REEP may charge a fee for providing withholding assistance, not to exceed \$45 for each seller. This fee is negotiable and may be paid by either the buyer or the seller.

While providing withholding assistance to buyers is optional for a REEP, the REEP must provide written notification of withholding and the Form 593, *Real Estate Withholding Forms Booklet*.

## Requirement to Retain Withholding Forms

California law requires the REEP to keep a copy of all completed real estate withholding forms for five years following the close of escrow.

## Penalties and Interest

For complete penalty and interest information, see the **Penalties and Interest** on Page 11.

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## Information for QIs

### Withholding Requirement

A QI is required to withhold, complete the withholding forms, and remit the withholding in a deferred like-kind exchange, unless the seller or transferor qualifies for an exemption on Form 593-C. See the **Information for Buyers** section on Page 7 for withholding instructions.

## Boot

If a QI disburses money or other property (in addition to property that is a part of the like-kind exchange) exceeding \$1,500 from the sale, withholding is required unless the seller or transferor certifies to an exemption on Form 593-C other than the transfer that qualifies as a simultaneous or deferred like-kind exchange.

## Failed Exchange

If the exchange does not take place or does not qualify for nonrecognition treatment within the meaning of IRC Section 1031, it is considered a failed exchange. Withholding is required for a failed exchange unless the seller or transferor certifies to an exemption on Form 593-C, other than the exemption that qualifies as a simultaneous or deferred like-kind exchange. The QI must withhold at 3 1/3% of the Total Sales Price, unless an election is made to use the Alternative Withholding Calculation Method (use Form 593-E).

If the deferred like-kind exchange transaction failed in a second tax year, then the transaction qualifies as an installment sale. The QI files Form 593 in the year the deferred like-kind exchange failed and final distribution was made. If the seller or transferor desires, the QI may call us and ask us to move the withholding credit to the earlier tax year.

## Form 593-C Verification Requirement

QIs are required to verify certifications on Form 593-C to the extent that they have actual knowledge of the facts. If they have no actual knowledge of the facts, then they must only verify that the certificate, Form 593-C, is completed, signed, and received by the close of the deferred like-kind exchange transaction and any cash is distributed to the seller or transferor.

**Example:** A seller or transferor completes Form 593-C and certifies that the property is a principal residence. However, if the facts given to you during this transaction designate the real property as an investment, trade, or business use property, then the QI must withhold.

## Requirement to Retain Withholding Forms

California law requires the QI to keep a copy of all completed real estate withholding forms for five years following an exchange that failed or that disbursed boot or the final distribution.

## Penalties and Interest

For complete penalty and interest information, see the **Penalties and Interest** section on Page 11.

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## Penalties and Interest

Unless it is shown that the failure is due to reasonable cause and was not due to willful neglect, the following applies:

### Nonnotification Liability

We assess a liability when the REEP fails to provide written notice of the withholding requirements to the buyer unless a QI is involved in a deferred like-kind exchange. The amount is the greater of \$500 or 10% of the required withholding (R&TC Sections 18662 and 18668).

### Penalty for Completing a False Certification

Any seller or transferor who, for the purpose of avoiding the withholding requirements, knowingly executes a false exemption certificate is liable for a penalty of \$1,000 or 20% of the required withholding amount, whichever is greater. (R&TC Section 18668(e) (5))

### Information Return Penalty

We assess a penalty for failure to file complete, correct, and timely information returns. The penalty is calculated for each payee.

For information returns filed before 01/01/2016, the penalty is:

- \$15 if filed 1 to 30 days after the due date.
- \$30 if filed 31 days to 6 months after the due date.
- \$50 if filed more than 6 months after the due date.

For information returns filed on or after 01/01/2016, the penalty amount is:

- \$30 if filed 1 to 30 days after the due date.
- \$60 if filed 31 days to 6 months after the due date.
- \$100 if filed more than 6 months after the due date. (R&TC Section 19183 and IRC 6721)

### Failure to Furnish Correct Payee Statements

We assess a penalty for failure to furnish complete, correct, and timely copies of Form 593 to the seller or transferor by the due date. The penalty is \$100 for each Form 593. (R&TC Section 19183 and IRC 6722)

### Intentional Disregard Penalty

We assess a penalty on any person, including the buyer and REEP, who intentionally disregards the filing or correct information reporting requirements. For information returns filed before 01/01/2016, the penalty assessment is the greater of \$100 or 10% of the required withholding. For information returns filed on or after 01/01/2016, the penalty assessment is the greater of \$250 or 10%. (R&TC Section 19183 and IRC 6721(e))

## Failure to Withhold

We assess a liability for not withholding as required only after the buyer, unless a QI is involved in a deferred like-kind exchange as specified, has been notified in writing of the requirements. Any person, including the buyer, who fails to withhold is liable for the greater of \$500 or 10% of the amount required to be withheld. (R&TC 18662 and 18668).

### Reasonable Cause

Reasonable cause is a standard exception to most penalties under the R&TC and the IRC. Generally, reasonable cause exists where noncompliance occurs despite the exercise of ordinary business care and prudence. If it is shown that noncompliance was due to reasonable cause and was not due to willful neglect based on the facts, we will abate the penalty.

### FTB Charges Interest on Late Withholding Payments

Assessing interest on late payments is mandatory. Interest is not a penalty, but it is compensation for the use of funds. We compute interest from the due date of the withholding payment to the date it was received. (R&TC Section 18668(b))

### Rights as a Taxpayer

The California Taxpayers' Bill of Rights (R&TC Sections 21001-21028) requires that we adequately protect the rights, privacy, and property of all California taxpayers during the process of assessing and collecting taxes. Our goal is to make certain we protect your rights. We want you to have the highest confidence in the integrity, efficiency, and fairness of our state tax system. FTB 4058, *California Taxpayers' Bill of Rights*, includes information on state taxpayers' rights. Get FTB 4058 at [ftb.ca.gov](http://ftb.ca.gov) or call us at 800.338.0505 (select Personal Income Tax), or mail us at FRANCHISE TAX BOARD, PO BOX 942840, SACRAMENTO CA 94240-0040.

### Taxpayers' Rights Advocate Review

You may contact the Taxpayers' Rights Advocate if you have an ongoing state income tax problem that you have been unable to resolve through normal channels. Contacting the Taxpayers' Rights Advocate, however, is not an appeal and does not extend the period of time for filing one. You have the right to an independent administrative review if we notify you that we may levy your income or assets, file or record a notice of lien, reject your request for an installment agreement, or terminate your existing installment agreement. You must submit your request for review within 30 days of the date of the *Final Notice Before Levy* or within 30 days of the date of the *Notice of State Tax Lien*. (R&TC Sections 19008(e), 19225, and 21015.5) You may contact Executive and Advocate Services for additional information or to submit your request for review. To request an independent administrative review, call: 800.883.5910, by fax: 916.843.6022, or mail: Executive and Advocate Services MS-A381, PO Box 157, Rancho Cordova, CA 95741-0157.

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## Additional Information

### Withholding Information

#### Web

Go to [ftb.ca.gov](http://ftb.ca.gov) and search for **real estate withholding** or to download, view, and print California tax forms and publications.

**MyFTB** offers secure online tax account information and services. For more information and to register, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **myftb**.

#### Phone

**888.792.4900** or **916.845.4900** (from outside the United States), Withholding Services and Compliance phone service

#### Fax

916.845.9512

#### Mail

WITHHOLDING SERVICES AND COMPLIANCE MS F182  
FRANCHISE TAX BOARD  
PO BOX 942867  
SACRAMENTO CA 94267-0651

#### Express Mail/Overnight Delivery:

FRANCHISE TAX BOARD  
SACRAMENTO CA 94267-0651

### General Tax Information

For all other questions unrelated to withholding **or to access the TTY/TDD numbers, see the information below.**

#### TTY/TDD

800.822.6268 for persons with hearing or speech impairments

### Asistencia Por Internet y Teléfono

#### Sitio web

[ftb.ca.gov](http://ftb.ca.gov)

#### Teléfono

800.852.5711 dentro de los Estados Unidos  
916.845.6500 fuera de los Estados Unidos

#### TTY/TDD

800.822.6268 para personas con discapacidades auditivas o del habla