FTB Form 587, Nonresident Withholding Allocation Worksheet Webinar Script

SLIDE 1

Hello and welcome to the Franchise Tax Board's Form 587, *Nonresident Withholding Allocation Worksheet* webinar.

We designed this webinar to help withholding agents, payees, and tax practitioners gain a better understanding of FTB Form 587, when it is used, and how to properly complete the form. This is a recorded webinar and will last about 10 minutes.

SLIDE 2

Before we get started lets go over the objectives of today's webinar. We will cover:

- When withholding is required
- Why withholding is required
- The purpose of Form 587
- When to complete Form 587
- How to complete Form 587 and
- Resources and contact information

Let's get started.

SLIDE 3

When is withholding required?

Withholding is required when a nonresident is paid to perform a service anywhere in California *or* a distribution of California source income is made to a nonresident *and* the total payment or distribution exceeds $1,500.00 in the calendar year, unless an exemption applies.

SLIDE 4

Why is withholding required?

California Revenue and Taxation Code (R&TC) Section 18662 and the related regulations require withholding of income or franchise tax on certain payments made to nonresidents (including individuals, corporations, partnerships, LLCs, estates, and trusts) for income received from California sources.

Generally, nonresidents with California source income are required to file California tax returns and pay California income tax. Nonresident withholding is a prepayment of the income tax that may be due from the nonresident. It is similar to an estimated tax payment or wage withholding.

SLIDE 5

What is the purpose of Form 587

Form 587 is used to determine the amount of withholding required for payments to nonresidents. It is commonly used when a nonresident independent contractor performs services within and outside of California or to distinguish the portion of payments made for goods from the portion made for services.

SLIDE 6

When to complete Form 587

The withholding agent requests that the payee complete, certify by signing, and return Form 587 anytime a contract is entered into and before a payment is made to the payee.

The withholding agent is required to rely on the certification made by the payee for the duration of the contract provided the form is complete and accepted in good faith.

The withholding agent is also required to retain the completed Form 587 for a minimum of 5 years and provide to FTB upon request.

SLIDE 7

Let's take a look, at how to complete Form 587. In this scenario:

- ABC Company, Inc. hires an out of state independent contractor, John Doe, to perform services. John Doe performs a portion of the services in his state of residence and a portion in California.
- The total contract amount is $100,000.
- Prior to the service being performed, ABC Company, Inc. (the withholding agent) sends Form 587 to John Doe (the payee).
- John Doe completes Form 587 and returns it to ABC Company, Inc. certifying that $60,000 is for services performed in California and $40,000 is for services performed outside California.

SLIDE 8

- In this scenario, withholding is only required on the $60,000 paid for services within California.
- The withholding is computed as follows: $60,000 of California source income multiplied by the 7% withholding rate equals a withholding amount of $4,200 due to the California Franchise Tax Board.

SLIDE 9

Now let’s take a look at an example of what Form 587 should look like when completed.

I would like to point out when using Form 587, please make sure the tax year matches the year the contract is initiated.

In part 1 of Form 587, the withholding agent information is completed with ABC Company Inc. information.

SLIDE 10

Part 2 is where the nonresident payee information is entered. In this example it is John Doe’s information. It is important that the payee's taxpayer identification number is provided and the appropriate entity type is selected.

Here John Doe is an individual, therefore the SSN/ITIN box is selected and his ID number is entered.

SLIDE 11

Part 3 is where the payment type is entered. In this example it was for services provided within and outside of California.

SLIDE 12

Part 4 is the income allocation section. Let's take a closer look.

As mentioned earlier, John Doe received a payment of $100,000 for the services he provided to ABC Company Inc. $60,000 was for services performed in California and $40,000 for services performed outside California. Therefore, John Doe would enter $60,000 on line 1(a) and $40,000 on line 1(b). The total $100,000 would be entered on line 1(c).

The sum total for column (a) should then be entered on line 6(a). This is the amount that is subject to the 7% withholding.

You will notice that we provide the nonresident withholding threshold amount on the form. If the total payment amount on line 6(a) is $1,500 or less then no withholding is required.

In addition, we indicate the backup withholding threshold amount is $0. If Form 587 is provided without a taxpayer identification number, backup withholding is required. For more information on back up withholding go to **ftb.ca.gov** and search for **backup withholding**.

SLIDE 13

The final step to complete Form 587 is the certification. The nonresident payee must sign and date this section to certify the information being provided is true and correct.

SLIDE 14

Before we conclude today's webinar let's go over some resources and contact information.

To find the information provided today and more go to our website at **ftb.ca.gov** and search for **587** to locate the Nonresident Withholding Allocation Worksheet or search for **1017** to find information on Resident and Nonresident Withholding Guidelines.

You can view available nonwage withholding credits and electronically submit forms through MyFTB by going to **ftb.ca.gov** and logging in to MyFTB.

Or simply give us a call at 916.845.4900 or toll free at 888.792.4900. Our telephone staff is available to take your calls Monday through Friday, from 8 a.m. to 5 p.m., Pacific Time.

This concludes today's presentation and we hope it was helpful to you. On behalf of the California Franchise Tax Board, thank you for viewing this webinar.