



# Ask

# The Professional

## REAL ESTATE



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**Q** Is withholding required on distributions of income to partners and shareholders living outside of California?

**A** Effective January 1, 2007 the Franchise Tax Board has announced they will begin to enforce withholding rules that have been in existence for 2 years. California partnerships and S Corporations that distribute more than \$1,500 of profits to nonresidents must withhold 7% of the distribution.

However, the entity may request a "waiver" of these rules. For example, if the entity states that a partner or a shareholder consistently makes estimated tax payments and files a California tax return, or if the shareholder can demonstrate that the 7% rate will result in an over-withholding, then the entity may request a waiver by filing Form 588, Nonresident Withholding Waiver Request.

If you have out-of-state partners or shareholders, we would recommend consulting with your tax adviser as soon as possible to determine whether these rules apply to you.