**Property Managers and California Withholding**

Property managers are required to withhold 7% of the gross rent or lease payments in excess of $1,500 per calendar year, and remit those payments to us if they both:

* Manage real property
* Collect rent or lease payments for California property owners that reside outside of California (nonresident owner)

The property manager may deduct its management fees.  
This article will identify when a property manager is required to:

* Withhold taxes
* The amount that the property manager needs to withhold
* The consequences that will result if a property manager fails to withhold and remit the taxes to us

California law requires withholding of tax by persons having the control, receipt, custody, disposal, or payment of items of income, commonly termed “withhold at source.” (Title 18 California Code of Regulations (CCR) section 18662-1(a)(1)). As a property manager providing services to nonresident property owners, including but not limited to renting, leasing, or collecting rent or lease payments on behalf of the nonresident owner, you are considered the withholding agent for California withholding purposes.  As a withholding agent, you are required to withhold 7% on rent or lease payments to nonresidents when the total payments of California source income, excluding property management fees, exceed $1,500 for the calendar year. For example, a property manager who collects rents from tenants for a nonresident California property owner is required to withhold 7% of all payments associated with rents paid to nonresident owners when the payments are greater than $1,500 per calendar year. The property manager may deduct its management fees and then calculate the seven 7% withholding based on the amount to be sent to the property owner.

For California withholding purposes, nonresident owners include one of the following:

* Individuals who reside outside of California
* Corporations, Partnerships, and LLCs that do not have a permanent place of business in California or are not registered with the California Secretary of State to do business in California
* Any trust without a resident grantor, beneficiary, or trustee, or estates where the decedent was not a California resident

As a withholding agent, you are responsible for withholding; however, there are various ways to be exempt or to withhold a reduced amount.  
For California withholding purposes, the following property owners are exempt from withholding:

* California residents
* Corporations, Partnerships and LLCs registered with the California Secretary of State to do business in California, or who have a permanent place of business in California
* Estates where the deceased was a California resident at the time of death
* Nonresident owners whose gross payments do not exceed $1,500 in a calendar year

California residents or corporations, partnerships, and limited liability companies with a permanent place of business in California, use Form 590, Withholding Exemption Certificate, to certify an exemption from withholding. When a Form 590 exemption is certified, no withholding is required.

California nonresident property owners or property managers may qualify for a waiver or reduced withholding. To request a waiver from withholding submit Form 588, Nonresident Withholding Waiver Request. To request reduced withholding submit Form 589, Nonresident Reduced Withholding Request.

If we grant a waiver or authorize a reduced withholding amount, we will notify the requester of the withholding by sending a Waiver Determination Notice or Reduced Withholding Approval letter.

If the nonresident owner is unable to obtain an approved waiver from withholding, then the property manager must withhold on the rental and lease payments collected if the gross payments exceed $1,500.

Property managers report tax withheld on California source income to us using Form 592, Resident and Nonresident Withholding Statement. Withholding is remitted for the payment period associated with the income earned (April 15, June 15, Sept 15, Jan 15), along with the Form 592-V, Payment Voucher for Resident and Nonresident Withholding.

The property manager is required to send Form 592-B, Resident and Nonresident Withholding Tax Statement to the nonresident property owner by January 31 of the following calendar year. Form 592-B shows the California nonresident property owner the total amount withheld and reported on Form 592 for the tax year. The nonresident property owner must file Form 592-B with their California income tax return to claim the withholding credit.

Example:

A property management company collected rents for a property owned by a New York resident. The rents collected for each payment period total $10,000. The property management fees per payment period are $1,000.

| Sample table for tax news. | | | | | |
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| **Payment Period** | **1 (Due 4/15/XX)** | **2(Due 6/15/XX)** | **3 (Due 9/15/XX)** | **4 (Due 1/15/X1)** | **Total** |
| **Rents Collected** | $10,000 | $10,000 | $10,000 | $10,000 | $40,000 |
| **Less management Fees** | ($1,000) | ($1,000) | ($1,000) | ($1,000) | ($4,000) |
| **Amount to be withheld upon** | $9,000 | $9,000 | $9,000 | $9,000 | $36,000 |
| **Multiply by withholding percentage** | 7% | 7% | 7% | 7% | 7% |
| **Amount to be withheld and sent to FTB** | $630 | $630 | $630 | $630 | $2,520 |

In this scenario, the property manager would be required to send the withholding of $630 to us for each payment per payment period along with a completed Form 592 and Form 592-V. By January 31 of the following year, the property manager is required to send the nonresident property owner Form 592-B, which shows the amount of rents collected of $40,000 and withholding remitted of $2,520.

The Form 592-B gives the property owner the information needed to claim the income and withholding on their California Tax Return.

If property managers, as withholding agents, fail to withhold and timely remit the required amount of withholding to us, they become liable for the amount that was required to be withheld, unless it is shown that the failure to withhold was due to reasonable cause. Property managers may also be liable for penalties and interest associated with their failure to withhold. Visit our [Withholding on payments to nonresidents](https://www.ftb.ca.gov/pay/withholding/withholding-on-nonresidents.html) webpage for more information.

The above information was taken from:

<https://www.ftb.ca.gov/about-ftb/newsroom/tax-news/august-2020/property-managers-and-california-withholding.html>

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