



Caltech

Vendor & Supplier Guide

IRS & FTB Withholding Guidelines for U.S. Payees

Withholding Guidelines for U.S. Payees

Why was this guide published?

Some individuals and vendors do not understand the complexities of Internal Revenue Service (IRS) and Franchise Tax Board (FTB) regulations. This guide was written in an attempt to explain the basic process and framework for providing Caltech with the information necessary for us to determine reporting and withholding requirements.

Note: This guide was written for United States payees only. If you are a foreign entity or foreign national, please refer to the guide “Withholding Guidelines for Foreign Payees”.

Important Notice:

The information in this publication is provided as a guideline and is not intended to be an exhaustive discussion of all possible reportable income consequences and considerations. It is not intended to provide legal or tax advice and specifically, the California Institute of Technology is precluded from offering tax or legal advice. This guide is simply to explain reportable requirements in general terms. Reportable requirements do not necessarily indicate taxable situations. Failure to follow State and Federal regulations may result in fines and penalties imposed by the IRS or FTB. Vendors, suppliers and individuals should consult their own tax accountant as to their particular tax consequences and reporting obligations.

Compliance with all applicable laws and regulations

Caltech must comply with all applicable laws and regulations. This includes, but is not limited to:

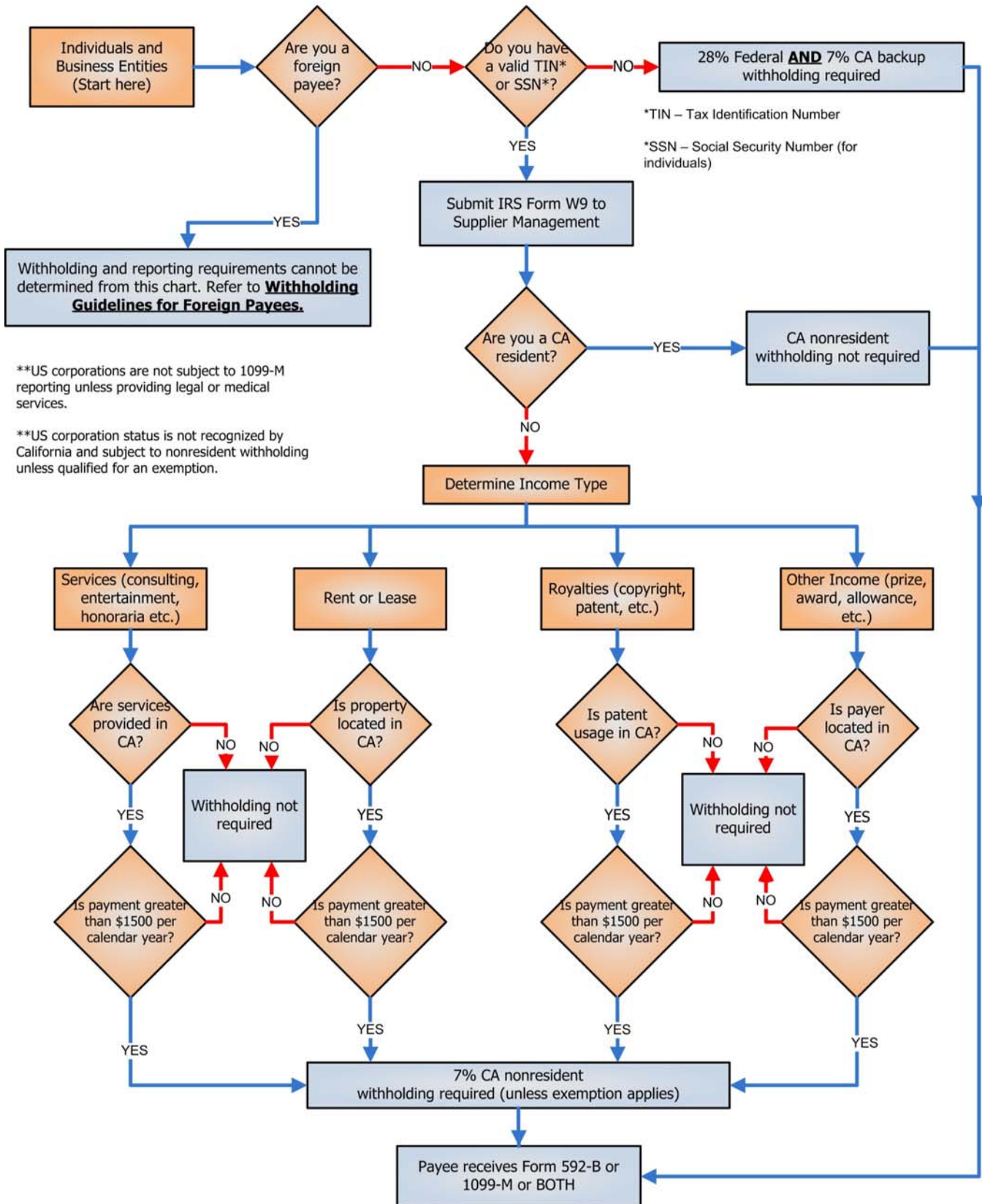
- Collecting and maintaining W-9 “Request for Taxpayer Identification Number and Certification”
- California Backup & Non-Resident Withholding (592B Determination and Withholding)
- IRS & FTB Information Reporting (1099M, 1042S, 592 reporting at year end)

Privacy Act Notice

Section 6109 of the Internal Revenue Code requires you to provide your correct TIN to persons (including federal agencies) who are required to file information returns with the IRS to report interest, dividends, or certain other income paid to you; mortgage interest you paid; the acquisition or abandonment of secured property; the cancellation of debt; or contributions you made to an IRA, Archer MSA, or HSA. The person collecting this form uses the information on the form to file information returns with the IRS, reporting the above information. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation and to cities, states, the District of Columbia, and U.S. possessions for use in administering their laws. The information also may be disclosed to other countries under a treaty, to federal and state agencies to enforce civil and criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism. You must provide your TIN whether or not you are required to file a tax return. Under section 3406, payers must generally withhold a percentage of taxable interest, dividend, and certain other payments to a payee who does not give a TIN to the payer. Certain penalties may also apply for providing false or fraudulent information.

Withholding Guidelines for U.S. Payees

Quick Flow Chart: Determine your status by following this flow chart
 Individuals, Corporations**, Partnerships, LLC, and Other Entities



Withholding Guidelines for U.S. Payees

Overview

California Institute of Technology (Caltech) is mandated by law to conform to Federal and State tax regulations. Payment Services is responsible for ensuring that policies and procedures are in compliance with income reporting and withholding rules established by government tax authorities when processing payments to suppliers doing business with the Institute.

Suppliers receiving reportable payments are subject to the appropriate tax treatment as defined by the Internal Revenue Service (IRS) and the California Franchise Tax Board (FTB). Non-Payroll income payments to Caltech staff, students, and faculty fall under the same reporting and withholding regulations.

Specific Federal and State tax treatment apply to different income types and are dependent on payee's tax status, residency, location of payer, and source of income. Payment Services must determine the appropriate tax ruling before payment is issued.

Types of Payee

- Individual
- Independent Contractor
- Corporation
- Partnership
- Limited Liability Company (LLC)
- Other business entity

Reportable Income

The following are examples of reportable income and may be subject to withholding.

- Artist and other performance fees
- Consulting and other professional services
- Gross proceeds paid to an attorney or law firm (regardless of whether or not they are incorporated)
- Guest speaker or honorarium fee
- Human subject participation
- Living and housing allowance
- Medical/healthcare and legal services (regardless of whether or not the entity is incorporated)
- Payments to individuals or sole proprietors
- Prizes and awards
- Rent or lease (real property, equipment, buildings and housing, etc.)
- Royalties (copyright, patent, intellectual property, etc.)
- Other income payments (fishing boat proceeds, crop insurance proceeds, excess golden parachute payments, etc.)

Withholding Guidelines for U.S. Payees

Types of Withholding: California State Withholding

A. Nonresident Withholding

The Franchise Tax Board requires 7% withholding from **CA source** income paid to nonresidents of California if total payments are greater than \$1,500 per calendar year. Federal income tax treaty exemption for non-resident aliens (NRA) and foreign entities does not apply to State of California withholding.

Nonresident suppliers (those who reside outside California) submitting invoices for payment are required to identify amounts considered **CA source** income. Invoices failing to specify this information may result in withholding errors and may be returned to suppliers for revision. Alternatively, suppliers may submit a completed CA Form 587 to allocate income or certify that payment is not reportable income.

Exemption from Withholding

Suppliers must submit a completed CA Form 590 to certify eligibility for exemption. To qualify:

- Payee has a permanent place of business in California
- Payee is registered to do business in California with the CA Secretary of State (SOS)
- Tax exempt entity (e.g. charities, churches, educational institutions, etc.)
- Payment is not California source income. Supplier must state specifically on the invoice or CA Form 587.

Nonresident suppliers may apply for either of the following and must submit appropriate form directly to the Franchise Tax Board for approval.

- Withholding waiver request – CA Form 588 (See “Resources” section for forms)
- Reduced withholding request – CA Form 589 (See “Resources” section for forms)

The FTB will notify Caltech by providing an authorization letter indicating the approved withholding amount. Without FTB approval, Caltech is required to withhold 7% from payment.

B. State Backup Withholding - Missing TIN

Effective January 1, 2010, the Franchise Tax Board requires 7% withholding from tax reportable income payable to individuals and entities that do not have or do not provide a valid tax identification number (TIN) regardless of California residency. The State backup withholding regulations are consistent with the IRS Federal guidelines and apply to all U. S. source income. The 7% State backup withholding is in addition to the required Federal withholding.

Caltech is required to report gross and withholding amounts to the FTB quarterly and issue Form 592-B by January 31 for the previous calendar year. For more information about reporting and withholding, please visit the FTB website.

Withholding Guidelines for U.S. Payees

Types of Withholding: Federal Withholding

A. Backup Withholding – Missing TIN

The Internal Revenue Service requires 28% withholding from tax reportable income of \$600 or greater (or \$10 for royalties) per calendar year if payee does not provide a valid TIN on IRS Form W-9. Additional 7% California backup withholding is required.

Caltech is required to report gross and withholding amounts to the IRS annually and issue Form 1099-M by January 31 for the previous calendar year.

Resources: Forms, Publications, Links

Franchise Tax Board of California

General Link: California Franchise Tax Board: www.ftb.ca.gov

State of California Forms and Publications: <https://www.ftb.ca.gov/forms/search/index.aspx>

- California Form 587 - Nonresident Withholding Allocation Worksheet
- California Form 588 - Nonresident Withholding Waiver Request
- California Form 589 - Nonresident Reduced Withholding Request
- California Form 590 - Withholding Exemption Certificate
- California Form 592B - Resident and Nonresident Withholding Tax Statement
- FTB Publication 1017 - Resident and Nonresident Withholding Guidelines
- FTB Publication 1023 - Nonresident Withholding: Independent Contractor, Rent & Royalty Guidelines
- FTB Publication 1031 - Guidelines for Determining Resident Status

Internal Revenue Service: www.irs.gov

Federal Forms and Information:

- IRS Form W-9 - Request for Taxpayer Identification Number and Certification
- IRS Form 1099 Misc - Miscellaneous Income
- IRS Publication 1281 - Backup Withholding for Missing and Incorrect Name/TIN(s)

Note: To find the most current forms and information, you should always enter the form number in the search tool on the IRS webpage.