

**MEMO# 21481**

August 16, 2007

# **California Proposes Regulations To Require Withholding On California Source Income; Conference Call Scheduled**

[21481]

August 16, 2007

TO: ADVISER DISTRIBUTOR TAX ISSUES TASK FORCE No. 12-07  
TAX COMMITTEE No. 36-07 RE: CALIFORNIA PROPOSES REGULATIONS TO REQUIRE  
WITHHOLDING ON CALIFORNIA SOURCE INCOME; CONFERENCE CALL SCHEDULED

The California Franchise Tax Board ("FTB") is considering proposed regulations that generally would require withholding on California source income paid to nonresidents. The FTB discussed the regulations at an "interested parties" meeting on August 13, 2007. [\[1\]](#)

Prop. Reg. § 18662-4 (b)(8) generally would exclude from withholding payments from intangible personal property, such as interest or dividends, unless the property has acquired a business situs in California or the payee has failed to provide a valid taxpayer identification number. Prop. Reg. § 18662-5 (a)(3) would treat income from intangible personal property as situated in California "when the property is employed as capital in California" or the "possession and control of the property has been localized in connection with a business, trade, or profession in California so that its substantial use and value attach to and become an asset of that business." Prop. Reg. § 18662-7 addresses nonresident withholding rules for domestic pass-through entities. The proposed regulations do not include any express exceptions for regulated investment companies ("RICs").

The FTB has requested comments regarding the proposed regulations. A conference call has been scheduled for Wednesday, August 22, 2007 at 2:00 pm (eastern time) to discuss

the proposed regulations and whether the Institute should submit comments to the FTB. If you would like to

participate in the call, please complete the attached response form and fax it to Ezella Wynn at 202-326-5841 by close of business Tuesday, August 21, 2007. To access the call, please dial 888-398-1687 and enter passcode 65030.

Lisa Robinson  
Associate Counsel

### [Attachment](#)

#### **endnotes**

[1] Go to [http://www.ftb.ca.gov/law/intParty/ipmtgTopics\\_081307.pdf](http://www.ftb.ca.gov/law/intParty/ipmtgTopics_081307.pdf) to read a topic overview. Go to [http://www.ftb.ca.gov/law/intParty/DraftWH@SourceReg\\_081307.pdf](http://www.ftb.ca.gov/law/intParty/DraftWH@SourceReg_081307.pdf) to read the regulations. Go to [http://www.ftb.ca.gov/law/intParty/08DraftWHforms\\_081307.pdf](http://www.ftb.ca.gov/law/intParty/08DraftWHforms_081307.pdf) to see draft forms and instructions related to the proposed regulations.

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