



California Non-Resident Withholding

Property Management Solutions for Over 30 Years

Overview

A procedure for withholding and paying the tax for non-resident owned units.

The procedures in this document assume that the optional module "Tax Collection" is purchased and installed.

The procedure that follows is for withholding and paying the tax for non-resident owned units you are managing in accordance with FTB Publication 1017 (Rev 12-2021) using Form 592. It involves analyzing and determining the net income for each unit, calculating the withholding, then moving it from the owner/property ledger to a management group ledger. The report generated provides all the information required to manually complete the FTB form 592. Per the FTB, reporting must be done manually for up to 250 payees. Checks are written to the Financial Tax Board from the management group ledger and are paid four times a year on a 3 month, 2 month, 3 month, 4 month schedule. There are 2 possible methods for collecting the tax.

METHOD 1 (Recommended): Collect tax by period and pay the tax by period.

Tax is collected for the prior months, based on the schedule. This ensures that you are collecting the right amount from the owner, but you may need to increase his distribution reserve so you have enough money in his ledger after his distribution to collect 4 months of taxes (28% of the monthly rent). The schedule to use is California Tax, which corresponds to the 3,2,3,4 schedule. This means collecting for Jan-Mar on April 1, April-May on June 1, June-Aug on Sept 1, Sept-Dec on Jan 1.

METHOD 2: Collect tax monthly, pay tax by period.

Tax withheld is collected for the prior month and paid per the schedule. (To collect for current month, see NOTE below.) The withholding is taken from the ledger monthly and paid to the tax authority. Using this method there is a possibility you may take \$1 too much or \$1 too little because of the rounding. You will need to set up a separate recurring transfer so you can generate a report that includes 1 period totals to use to fill in the state forms. There is also a possibility that tax money may be wrong if you take a vacant management fee and you are computing the tax on rent less management fee. See Addendum B.

NOTE: The tax collection and recurring transfers consider transactions relative to the Next Scheduled date. For example, a "monthly" schedule with a Next Scheduled date of 3/1 will consider transactions from 2/1 - 2/28. A "monthly" schedule with a Next Scheduled of 3/16 will consider transactions from 2/16 - 3/15. Thus, if you want to include this month's rent collections to show on this month's statement and your day to do statements is the 20th, then set the Next Scheduled to the 20th and you will collect tax on all relevant transactions from the 21st of last month through the 20th of this month. The recommended Next Scheduled date is the 1st of next month.

METHOD 1 and 2 – steps 1-9 are the same for both methods.

One Time

1. Set up a *Withholding Tax* Management Group. It is where the tax monies will accumulate. That will keep them separate from your management fee income.
 - a. Go to Profiles, Management Group.
 - b. Click New, click OK to the warning message
 - c. Make the Short ID something like TAX MG and long description Withholding Tax.
 - d. Save
2. Under <<Setup, Account Codes>> set up an account code called *Tax Hold: Tax Withheld* with an account type of expense. It will be used to take the withholding amount from the owner.
3. Set up another account code called *Tax In: Withheld Tax* with an account type of income. It will be used to put the tax money into the Management Group ledger.
4. Set up a third account code called *Tax Paid: Withholding Paid* with an account type of expense. It will be used to pay the Tax authority.
5. Under <<Setup, Bill Codes>> set up a Bill Code called of *Tax Paid: Withholding Paid* to point to the *Tax Paid: Withholding Paid* account code created above. It will be used on the check to the Tax Authority.
6. Under <<Setup, Categories>> set up a Category for *Non-Resident Withholding*.

[Category]

Name: Non-Resident Withholding

Section:

Category Type: General

Alert Type: None

Reminder Type: None

Sort Position:

Category is a Label

Category is a Note

Profile Specific

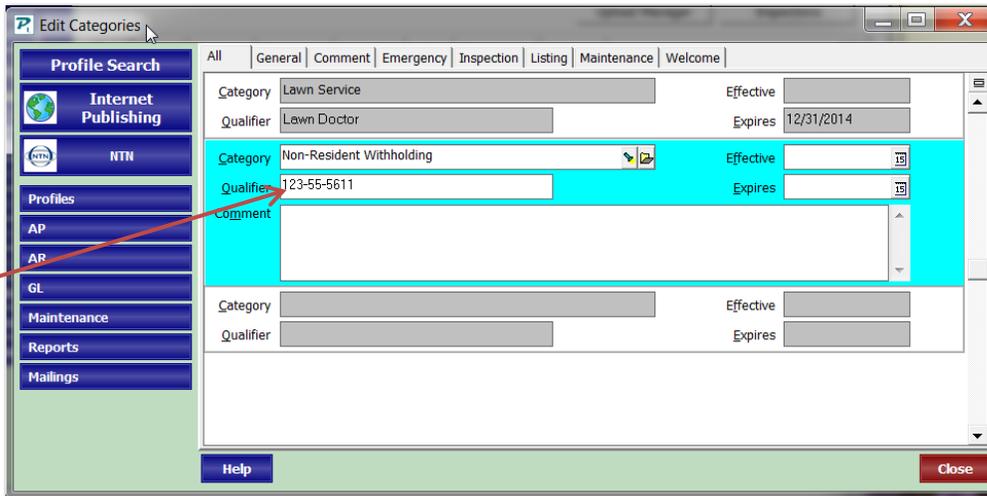
Hero PM Code:

Comment

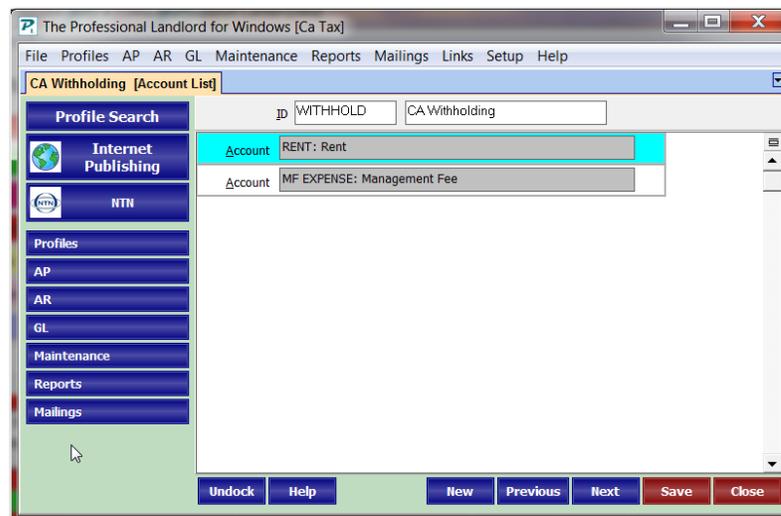
Comment is a Template for New Categories

Undock Help Delete New Previous Next Save Close

7. For single family residences, add the category to the Unit Profile.
 - a. Edit the Unit Profile and go to the Categories tab.
 - b. Click <Edit> in the upper right.
 - c. Choose the Non-resident category you created in step 6.
 - d. Enter the payer's tax ID in the Qualifier field.
8. For multi-unit properties, put the category in the Property profile. Enter the Tax ID in the Qualifier field and enter the property address in the Comment field.



9. Set up an Account List under <<Setup, Account List>>. Name it Withhold or something similar. It will be used as the Source List in the Recurring Transfer record. The account list should contain the account code for Rent, the account code for Management Fee Expense and any other accounts that should be considered per FTB directives.



METHOD 1 - Collect and pay tax by period – One Time continued

10. Under <<Setup, Recurring Transfer>> set up a Recurring Transfer profile for use in calculating the withholding and moving it to the withholding management group.
 - a. Make the Schedule *California Tax*.
 - b. Mark the "Round to the Nearest Dollar" checkbox.
 - c. Set the Next Scheduled date.
 - d. Make the Alternate Payee the Tax management group created in Step 1.
 - e. The recurring transfer uses the ledger transactions as the basis for creating the journal entry.

CA Tax [Recurring Transfer]

ID CA CA Tax Used for Tax Collection

Schedule

Schedule California Tax

Next Scheduled 04/01/2015

Schedule Expires

Delay in Days

Transfer Amount

Percentage 7

Minimum

Maximum

Round to Nearest Dollar

Include if No Calculated Amount

Posting Information

Debit Account TAX HOLD: Tax Withheld

Credit Account TAX IN: Withheld Tax

Alternate Payee TAX: Tax Management Group

Reference CA Withholding Transfer From Management Group

Memo

Source Account

Source List WITHHOLD: CA Withholding

Limit to Category Non-Resident Withholding

Undock Help New Previous Next Save Close

NOTE: A separate Recurring Transfer profile must be created for any owner or group of owners who have obtained a reduction or waiver on the established rate.

Distribution Reserve

Go into each owner or property profile, on the Checks & Statements tab, and increase the Distribution Reserve so you will have enough to take the tax when due. 28% of the taxable amount is due in January for the September-December period.

Each Submission

- Go to <<GL, Scheduled Journal Entries>>. Mark the radio button for Tax Collection. Restrict to the CA Tax tax collection.
- Click <Compile>. The amount of withholding is based on the unit-specific rent income transactions for each ledger.

Scheduled Journal Entries

Recurring Journal Entries
 Recurring Transfers
 Reconcile Property Management Fees
 Tax Collections

Scheduled Through: 04/01/2015

Limit to Schedule: [Dropdown]

Restrict to: CA: CA Tax

Transfer Candidates

Date	Payer	Transfer Amount	
04/01/2015	FAIR436: 436 Fairway Drive	\$146.00	<input checked="" type="checkbox"/> Skip
04/01/2015	MAIN212: 212 Main Street	\$121.00	<input type="checkbox"/> Skip
04/01/2015	OAK2118: 2118 Oak Street	\$123.00	<input type="checkbox"/> Skip
04/01/2015	WB202: Willow Brooke Unit 202	\$26.00	<input type="checkbox"/> Skip
04/01/2015	WB203: Willow Brooke Unit 203	\$150.00	<input type="checkbox"/> Skip

Buttons: Help, Post, Report, Cancel

Footer: All / Selected / Selected Negative / Skipped Zero / Skipped Non-Zero

- Print the report. This has the information you need to write the check and fill in the state report.
- Click <Post>.

Post Tax Collections

April 1, 2015

CA Tax

Period	Tax ID	Reference	Owner Address	Taxable	Tax Collected	Skipped
01/01/2015 03/31/2015	123-55-5611	436 Fairway Drive Vienna, VA 22180	Harrison S. Golden 11 Walking Lane Preston, NH 02190	\$2,080.50	\$146.00	
01/01/2015 03/31/2015	123-55-2089	212 Main Street Faifax, VA 21015	Frederick L. Clayton 238 Vista Way Valdesta, CA 80290	\$1,733.74	\$121.00	
01/01/2015 03/31/2015	123-55-2111	2118 Oak Street Vienna, VA 22180	Donald S. Schenk 3342 Alligator Walk Plantation, FL 74390	\$1,764.00	\$123.00	
01/01/2015 03/31/2015		Willow Brooke Unit 202 Unit 202 Vienna, VA 22181	Charles W. Harris 773 Arrowwood Street Wilton, CT 07451	\$372.00	\$26.00	
01/01/2015 03/31/2015		Willow Brooke Unit 203 Unit 203 Vienna, VA 22181	Charles W. Harris 773 Arrowwood Street Wilton, CT 07451	\$2,139.00	\$150.00	
				\$8,089.24	\$566.00	\$0.00
Count				5	5	0

Write a check to the tax authority using the Tax Management Group as the Bill To and the Bill Code you created earlier.

Write Check

Posting Date: 04/01/2015 Hand Written

Invoice #: APRIL 1, 2015

Payee: FTB: Franchise Tax Board [Vendor] Vendor

Bank: CHECKING: Bank Account Checking

One Time:

Memo:

Work Order:

Check Number:

Discount (%):

Discount (\$):

1. Invoice 2. Payee Address & Comments

Bill To: TAX: Tax Management Group [Management Group] Management Group

Bill Code: TAX PAID: Tax Paid

Amount: \$566.00 Split Charge with Owner

Undiscounted Total: \$566.00 Total Discount: Total Discount Discounted Total: \$566.00

METHOD 2 - Collect monthly, pay per schedule.

One Time – see steps 1-9 above

10. Under <<Setup, Recurring Transfer>> set up a Recurring Transfer profile for use in calculating the withholding monthly and moving it to the withholding management group.
 - a. Make the Schedule Monthly.
 - b. Mark the "Round to the Nearest Dollar" checkbox.
 - c. Set the Alternate Payee to the Tax management group created in Step 1.
 - d. The recurring transfer uses the ledger transactions as the basis for creating the journal entry.

Note: A separate Recurring Transfer profile must be created for any owner or group of owners who have obtained a reduction or waiver on the established rate.

The screenshot shows the 'CA Tax - Monthly [Recurring Transfer]' window. The ID is 'CA TAX' and the name is 'CA Tax - Monthly'. The 'Used for Tax Collection' checkbox is checked. The 'Schedule' section has 'Monthly' selected, 'Next Scheduled' as '01/01/2015', and 'Schedule Expires' as blank. The 'Transfer Amount' section has 'Percentage' set to '7', 'Minimum' and 'Maximum' as blank, and 'Round to Nearest Dollar' checked. The 'Posting Information' section includes 'Debit Account' (TAX HOLD: Tax Withheld), 'Credit Account' (TAX IN: Withheld Tax), 'Alternate Payee' (TAX: Tax Management Group), 'Reference' (CA Withholding), 'Memo' (blank), 'Source Account' (blank), 'Source List' (WITHHOLD: CA Withholding), and 'Limit to Category' (Non-Resident Withholding). The 'Transfer From Management Group' checkbox is unchecked. Navigation buttons at the bottom include Help, New, Previous, Next, Save, and Close.

11. Set up another Recurring Transfer profile per Method 1, to be used for report purposes only.

12. Make the Schedule California Tax. Mark the "Round to the Nearest Dollar" checkbox.

13. This will be used for information only. Although you will compile, the transactions will not be posted.

The screenshot shows the 'CA Tax [Recurring Transfer]' window. The ID is 'CA REPORT' and the name is 'CA Tax Reporting Only'. The 'Used for Tax Collection' checkbox is checked. The 'Schedule' section has 'California Tax' selected, 'Next Scheduled' as '04/01/2015', and 'Schedule Expires' as blank. The 'Transfer Amount' section has 'Percentage' set to '7', 'Minimum' and 'Maximum' as blank, and 'Round to Nearest Dollar' checked. The 'Posting Information' section includes 'Debit Account' (TAX HOLD: Tax Withheld), 'Credit Account' (TAX IN: Withheld Tax), 'Alternate Payee' (TAX: Tax Management Group), 'Reference' (CA Withholding), 'Memo' (blank), 'Source Account' (blank), 'Source List' (WITHHOLD: CA Withholding), and 'Limit to Category' (Non-Resident Withholding). The 'Transfer From Management Group' checkbox is unchecked. Navigation buttons at the bottom include Help, New, Previous, Next, Save, and Close.

Each Month

- Go to <<GL, Scheduled Journal Entries>>. Mark the radio button for Tax Collection. Restrict to the monthly tax collection.
- Click <Compile>. The amount of withholding is based on the unit-specific rent income transactions for each ledger.
- You can print the report.
- Click <Post>.

Scheduled Journal Entries

Recurring Journal Entries
 Recurring Transfers
 Reconcile Property Management Fees
 Tax Collections

Scheduled Through: 01/13/2015

Limit to Schedule: [Dropdown]

Restrict to: CA TAX: CA Tax - Monthly

Date	Payer	Transfer Amount	
01/01/2015	CEDAR327: 327 Cedar Lane	\$43.00	<input checked="" type="checkbox"/> Skip
01/01/2015	FAIR436: 436 Fairway Drive	\$73.00	<input type="checkbox"/> Skip
01/01/2015	MAIN212: 212 Main Street	\$61.00	<input type="checkbox"/> Skip
01/01/2015	OAK2118: 2118 Oak Street	(\$7.00)	<input type="checkbox"/> Skip
01/01/2015	WB202: Willow Brooke Unit 202	\$166.00	<input type="checkbox"/> Skip
01/01/2015	WB203: Willow Brooke Unit 203	\$225.00	<input type="checkbox"/> Skip

Buttons: Help, Post, Report, Cancel

Footer: All / Selected / Selected Negative / Skipped Zero / Skipped Non-Zero

Post Tax Collections

January 13, 2015

CA Tax - Monthly						
Period	Tax ID	Reference	Owner Address	Taxable	Tax Collected	Skipped
12/01/2014 12/31/2014	123-55-5611	327 Cedar Lane Vienna, VA 22181	Harrison S. Golden 11 Walking Lane Preston, NH 02190	\$621.00	\$43.00	
12/01/2014 12/31/2014	123-55-5611	436 Fairway Drive Vienna, VA 22180	Harrison S. Golden 11 Walking Lane Preston, NH 02190	\$1,040.25	\$73.00	
12/01/2014 12/31/2014	123-55-2089	212 Main Street Faifax, VA 21015	Frederick L. Clayton 238 Vista Way Valdesta, CA 80290	\$866.87	\$61.00	
12/01/2014 12/31/2014	123-55-2111	2118 Oak Street Vienna, VA 22180	Donald S. Schenk 3342 Alligator Walk Plantation, FL 74390	(\$100.00)	(\$7.00)	
12/01/2014 12/31/2014		Willow Brooke Unit 202 Vienna, VA 22181	Charles W. Harris 773 Arrowwood Street Wilton, CT 07451	\$2,371.50	\$166.00	
12/01/2014 12/31/2014		Willow Brooke Unit 203 Vienna, VA 22181	Charles W. Harris 773 Arrowwood Street Wilton, CT 07451	\$3,208.50	\$225.00	
				\$8,008.12	\$561.00	\$0.00
Count				6	6	0

The money has now moved from the owner/property ledgers into the Withholding Management Group ledger. You can run an Income Details report to see the money in the ledger.

Income Details			
January 1, 2015 to April 1, 2015			
Tax Management Group			
Date	Description	Amount	Balance
01/01/2015	Beginning Balance		\$0.00
Income			
Withheld Tax			
04/01/2015	Withheld Tax to Tax Management Group for Willow Brooke Unit 203	\$150.00	
04/01/2015	Withheld Tax to Tax Management Group for 436 Fairway Drive	\$146.00	
04/01/2015	Withheld Tax to Tax Management Group for 2118 Oak Street	\$123.00	
04/01/2015	Withheld Tax to Tax Management Group for 212 Main Street	\$121.00	
04/01/2015	Withheld Tax to Tax Management Group for Willow Brooke Unit 202	\$26.00	
		Withheld Tax	\$566.00
		Total Income	\$566.00
Expenses			
Tax Paid			
04/01/2015	Tax Paid by check #4444 to Franchise Tax Board	\$566.00	
		Total Expenses	\$566.00
		Net Income (Loss)	\$0.00
		Net Balance Change	\$0.00
04/01/2015	Ending Balance		\$0.00

Each Reporting Period - prior to completing the tax forms and writing check

- For submissions, go to <<GL, Scheduled Journal Entries>>. Mark the radio button for Tax Collection. Restrict to the California tax reporting. Click on the folder button to view the Recurring Transfer profile. Verify that the Next Scheduled date is the 1st day of the reporting month (April 1 for Jan 1-Mar 31).

- Click <Compile>. The amount of withholding is based on the unit-specific rent income transactions for each ledger for the quarter.

Date	Payer	Transfer Amount	
04/01/2015	FAIR436: 436 Fairway Drive	\$146.00	<input checked="" type="checkbox"/> Skip
04/01/2015	MAIN212: 212 Main Street	\$121.00	<input type="checkbox"/> Skip
04/01/2015	OAK2118: 2118 Oak Street	\$123.00	<input type="checkbox"/> Skip
04/01/2015	WB202: Willow Brooke Unit 202	\$26.00	<input type="checkbox"/> Skip
04/01/2015	WB203: Willow Brooke Unit 203	\$150.00	<input type="checkbox"/> Skip

- Print the report. This is the information you will use to pay the tax authority and fill in the state report.
- Click Cancel. DO NOT POST. The tax money has already been moved. This is strictly for the check and for reporting purposes.

- After you print the report, go to the Recurring Transfer profile for quarterly reporting and change the Next Scheduled date to the first day of the next reporting month.

Post Tax Collections
April 1, 2015

CA Tax - Reporting Only						
Period	Tax ID	Reference	Owner Address	Taxable	Tax Collected	Skipped
01/01/2015 03/31/2015	123-55-5611	436 Fairway Drive Vienna, VA 22180	Harrison S. Golden 11 Walking Lane Preston, NH 02190	\$2,080.50	\$146.00	
01/01/2015 03/31/2015	123-55-2089	212 Main Street Fairfax, VA 21015	Frederick L. Clayton 238 Vista Way Valdosta, CA 80290	\$1,733.74	\$121.00	
01/01/2015 03/31/2015	123-55-2111	2118 Oak Street Vienna, VA 22180	Donald S. Schenk 3342 Alligator Walk Plantation, FL 74390	\$1,764.00	\$123.00	
01/01/2015 03/31/2015		Willow Brooke Unit 202 Unit 202 Vienna, VA 22181	Charles W. Harris 773 Arrowwood Street Wilton, CT 07451	\$372.00	\$26.00	
01/01/2015 03/31/2015		Willow Brooke Unit 203 Unit 203 Vienna, VA 22181	Charles W. Harris 773 Arrowwood Street Wilton, CT 07451	\$2,139.00	\$150.00	
				\$8,089.24	\$566.00	\$0.00
Count				5	5	0

Write a check to the tax authority using the Tax Management Group as the Bill To and the Bill Code you create earlier.

After writing the check, you can run the Income Details report again to show that the management group has been zeroed out. Because the rounding was done on a monthly basis, it is possible there will be a surplus or shortage of a few dollars.

Income Details			
January 1, 2015 to April 1, 2015			
Tax Management Group			
Date	Description	Amount	Balance
01/01/2015	Beginning Balance		\$0.00
Income			
Withheld Tax			
04/01/2015	Withheld Tax to Tax Management Group for Willow Brooke Unit 203	\$150.00	
04/01/2015	Withheld Tax to Tax Management Group for 436 Fairway Drive	\$146.00	
04/01/2015	Withheld Tax to Tax Management Group for 2118 Oak Street	\$123.00	
04/01/2015	Withheld Tax to Tax Management Group for 212 Main Street	\$121.00	
04/01/2015	Withheld Tax to Tax Management Group for Willow Brooke Unit 202	\$26.00	
	Withheld Tax	\$566.00	
	Total Income	\$566.00	
Expenses			
Tax Paid			
04/01/2015	Tax Paid by check #4444 to Franchise Tax Board	\$566.00	
	Total Expenses	\$566.00	
	Net Income (Loss)	\$0.00	
	Net Balance Change	\$0.00	
04/01/2015	Ending Balance		\$0.00

ADDENDUM A

Special situation: a partnership where one owner is resident, another is non-resident.

To have the tax transaction show on your reports, create a new transfer record for that property with a tax of 3.5% (assuming each owner has equal shares in the property).

In the Property profile, make the non-resident owner the first on the list, because that is the one that will show on the report.

That will produce a report that you can use to fill out the form, and put the correct amount in the Tax Management Group when you write the check.

However, the 3.5% deducted will be equally divided between the owners for distribution purposes, so you will have to do a journal transfer to reimburse the property from the non-resident owner ledger each time you do the transfer.

IF there are more than 1 non-resident owners in the partnership:

The best way to handle this is manually each month with a journal transfer or scheduled journal entry. To determine the amount:

1. Total rent less total management fee = NET RENT
2. Multiply the NET RENT by the percentage of ownership of the non-resident owner(s) = SOURCEAMT
3. Multiply the SOURCEAMT by the 7% tax = TOTAL TAX
4. Divide the TOTAL TAX by the number of non-resident owners = NET TAX

You can set up a Recurring Journal Entry from each owner profile to debit the NETTAX amount from the owner ledger and credit the Tax Management Group.

For example: Suppose you have a partnership of 5 owners, each with 20% ownership. 4 of them are non-resident, one is resident. Rent is \$100 per month, management fee is \$200 per month.

1. $\$1000 - \$200 = \$800$ (NET RENT)
2. $\$800 \times 80\%$ (20% x 4) = $\$640$ (SOURCEAMT)
3. $\$640 \times 0.07$ (7%) = $\$44.80$ (TOTAL TAX)
4. $\$44.80 / 4 = \11.20 (NET TAX)

ADDENDUM B

Special situation: a unit is vacant for a time and you are taking the tax monthly.

NOTE: The tax is based on the net of rent less management fees for the reporting period.

Example A: Rent is \$1000/month, management fee is \$80, even if unit is vacant. Unit is vacant January and February, rented in March.

- Method 1 - The tax owed for Jan-March is \$53 ($1000 - 240 \times .07$). That is what will be posted and will show on the report.
- Method 2 - In January the system will post a refund to the owner of \$6 ($-80 \times .07$). In February it will do the same. In March it will take \$64, meaning a net over 3 months of \$52. The quarterly report will show the right amount (\$53).

Example B: Rent is \$1000 / month, management fee is \$80, even if unit is vacant. Unit is vacant January - March.

- Method 1 - The calculated tax for Jan-March is negative, but that is not refunded or reported - there is no tax on that reporting period. Click on the Selected Negative tab and skip that line. No tax will be posted nor will it show on the report.
- Method 2 - In January the system will post a refund to the owner of \$6 ($-80 \times .07$). In February and March it will do the same. When you compile the quarterly report you will see the negative tax for the reporting period. Then you know that those transactions will have to be voided out because no tax is owed.