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# XI-A Collecting and Remitting Backup Withholding for California State Income Taxes

## BACKGROUND

Franchise Tax Board (FTB) Regulations require Agencies to initiate backup withholding of State Income Taxes for payments made to out-of-state vendors and others in certain circumstances. Instructions and Forms for Backup Withholding of State Income Taxes are available on the FTB Web Site at [http://www.ftb.ca.gov/individuals/WSC/Backup\\_Withholding.shtml](http://www.ftb.ca.gov/individuals/WSC/Backup_Withholding.shtml).

This process is described in SAM Section 8422.195 and 8422.196

The Uniform Codes Manual assigns General Ledger 3130—State Income Taxes Withheld for collection of Backup Withholding.

## OVERVIEW OF CALSTARS PROCESS

In CALSTARS, there are 2 transactions codes, W21 - Rec State Income Tax Withhold (Manual) and W22 - Rec State Income Tax Withhold (Auto), for withholding State Income Taxes and 2 Transaction Codes, W23 - Schedule Payment State Inc Tax Withheld To FTB (Manual) and W24 - Schedule Payment State Inc Tax Withheld To FTB (Auto), to remit the taxes withheld to the Franchise Tax Board.

## TYPICAL TRANSACTION

The vendor presents an invoice for \$1,000.00 that is subject to withholding. The entire amount of the invoice is entered for payment.

TC 231 Sched Expend Not Prev Encumbered Or Accrued (Auto)  
Dr 9000 Expenditures  
Cr 3021 Claims in Process

The withholding entry of \$70.00 reduces the amount disbursed to the vendor to \$930.00 and sets up a document for General Ledger 3130.

TC W22 Rec State Income Tax Withhold (Auto)  
Dr 3021 Claims in Process  
Cr 3130 State Income Tax Withheld

Periodically, the Agency will remit the tax payment to the FTB using TC W23 (Manual Claim Schedule) or W24 (Automated Claim Schedule). This liquidates the document and prepares a claim schedule to disburse the taxes withheld to the FTB.

TC W24—Schedule Payment State Inc Tax Withheld To FTB (Auto)  
Dr 3130 State Income Tax Withheld  
Cr 3021 Claims in Process

The net Expenditure is \$1,000.00 from the original TC 231 or TC 232 and the net effect on the Cash is a reduction of \$1,000.00 after the remittance to FTB.

The T Accounts for a typical set of transactions is shown in Exhibit XI-A-1.

EXHIBIT XI-A-1

T ACCOUNTS FOR WITHHOLDING AND REMITTING STATE INCOME TAX

ACCOUNTING EVENT	TRANS CODE		GL IMPACT	
	AUTO	MANUAL	DR	CR
<b>Schedule Payment and Withholding of Taxes</b>				
1. Schedule Invoice for Payment	231	240	9000	3021
2. Record Taxes Withheld	W22	W21	3021	3130
3. Record Claims Filed	360		3021	3020
4. Record Claims Paid	362	252	3020	1140
<b>Remit Withheld Taxes To Franchise Tax Board</b>				
5. Remit Taxes Withheld to FTB	W24	W23	3130	3021
6. Record Claims Filed	360		3021	3020
7. Record Claims Paid	362	252	3020	1140

9000 Expenditures		3021 Claims in Process		3130 State Income Taxes		
(1)	1000			(1)	1000	
		(2)	70		(2)	70
		(3)	930		(3)	
			70	(5)	70	
		(6)	70		(6)	
		3020 Claims Filed		1140 Cash in State Treasury		
		930	(3)			
(4)	930			930	(4)	
		70	(6)			
(7)	70			70	(7)	

## **COLLECTING WITHHOLDING OF STATE INCOME TAXES**

When it is determined that Backup Withholding is appropriate, the agency will enter a transaction (TC 231 or TC 232) for the total amount of the invoice. The agency will calculate the amount to be withheld and enter a transaction for that amount using TC W22 using the same vendor as the invoice was paid to. The TC W22 entry should be made to the same PCA as the original TC 231 or TC 232 entry and should immediately follow that entry. If it is not, a negative net to vendor message may result because each disbursing appropriation must have a positive total of cash disbursed. For a manual claim schedule the invoice amount will be entered using TC 240 and the tax withheld will be entered using TC W21

The TC W22 or TC W21 will create a document to General Ledger 3130 using the current doc number with the vendor that the taxes were withheld from. It is suggested that the current document number for the TC W22 or TC W21 be the claim schedule number with the suffix incremented for each vendor on the claim schedule. This will facilitate reporting and remitting the backup withholding to Franchise Tax Board.

Agencies may wish to include an explanation of backup withholding using the RA Message Process.

## **REPORTING AND REMITTING WITHHELD TAXES TO FRANCHISE TAX BOARD**

Periodically, using the instructions from the Franchise Tax Board (FTB), the agency will remit the withheld taxes using the Claim Schedule process.

Review the D06 for General Ledger 3130 to obtain a listing of all documents with a non-zero balance. This will be the total amount that should be remitted to FTB.

Using the Vendor Number obtained from the D06 the Vendor Edit Table can be queried to obtain the Tax Identification Number and address for each vendor for entry into the California Form 592.

The Vendor Payment File will be queried using the Vendor Number and Claim Schedule Number as criteria and the TC 231 and TC 232 amounts will be totaled and reported in the Total Income field on the California Form 592. If the document number does not reference the claim schedule then the Vendor Payment file or History file will have to be queried using TC W21 and TC W22 as criteria to obtain the claim schedule number and then the Vendor Payment file will be queried to obtain the total expenditures using the Vendor Number and Claim Schedule Number as criteria.

The amounts for TC W21 and TC W22 will be totaled and entered into the Amount of Tax Withheld field. This total should match the total for each vendor on the D06.

A TC W23 or TC W24 will be used to liquidate the withheld amounts for each document in GL 3130 - State Income Taxes Withheld and to create a claim schedule to Franchise Tax Board. TC W23 and W24 must be entered with the FTB Vendor Number. This will result in a vendor mismatch to the document which can be overcome by using the Fund Override field on the CALSTARS entry screen or forcing the entry with F10 and using the 44 Fund Override Indicator in the Error Correction process.

The California Form 592B for each vendor can be filled out in January by totaling the quarterly California Form 592 reports. The December cutoff for this process should reflect the cutoff for the 1099 process to avoid discrepancy between the income reported to the IRS and the income reported to FTB (See Volume 1, Chapter XII Reportable Payments).