

California Withholding Tax

Some years ago, the State of California decided that too many sellers were either selling property and moving out of state or selling and trying to get around paying the state's "fair share" of capital gains taxes. As a result, California enacted into law a withholding tax to protect the state's right to taxation. This tax is withheld by the title company at the close of escrow. The amount of withholding is 3-1/3%. California has a form given to sellers by the title company which addresses some of the exemptions available to sellers of real property in the State of California. Some of these include involvement in a 1031 Tax Deferred Exchange, sale of a residence used as a "primary" for 2 of the last 5 years (with further parameters) and a sale of real property by a qualifying corporation. In all instances, you should consult your personal tax advisor to see how any of these could affect you.