

**CALIFORNIA DRESSAGE SOCIETY  
TAX REPORTING, TIPS AND INSTRUCTIONS**

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**FEDERAL TAX REPORTING**

**Form 1099's**

**Who gets one** – Any non-corporate entity that CDS (as a whole) pays more than \$600 for services. A non-corporate entity is an individual, partnership, sole proprietor, joint venture, trust or estate.

**What services qualify** – Clinics, judging, technical delegate work, show management, services for preparing show grounds, etc. Basically anything that is paying someone for the time and materials. This includes judge's "walking around" money unless he/she provides receipts as described below. Bartering "payments" (e.g. free lesson for arranging a clinic) also qualify for Form 1099 reporting under different rules than the \$600 amount.

**What payments can be excluded** – The only payments that can be excluded from this are payments which reimburse expenses for which you receive receipts. If you do not receive receipts, you must include the payment in the services amount reported to CDS. It then becomes the recipient's responsibility to report the expenses to the IRS.

**What information do I need to collect** – You need to get the person's name, address and social security number. After the event, this information should be sent to Diana Muravez, CDS Treasurer or to the CDS Central Office. It is preferred that you do not wait until the end of the year to submit this information. I will discuss the procedure for foreign persons and non-California residents later.

**How do I get this information** – Form W-9, Request for Tax Information is the perfect solution. You merely hand this form to the individual before they perform the services and say that the CDS rules require them to fill this out in order to work for us. This should eliminate the problem of someone saying that their social security number is "none of our business". If they want our money, it is our business.

**Why is this so important** – Several years ago, the IRS decided to actively pursue non-filers and those who under-report their income. They discovered that many of those people were "independent contractors" (i.e. people with their own business). So the IRS began to concentrate on its Form 1099 program which was already in place. This program forced businesses to file the required forms on the businesses that they worked with. This saved the IRS a lot of time and effort in locating non-filers and under-reporters as they had all of business to help them. CDS is a business and is required to file these Forms. The penalty for failure to file the forms or to file them incomplete is \$50/form. More importantly, CDS could lose its non-profit status. As you can imagine, this would add up if CDS did not comply.

**CALIFORNIA TAX REPORTING**

**PERSON IS A RESIDENT OF CALIFORNIA**

**What needs to be filed** – For the person who receives compensation from CDS and is a resident of California, no separate reporting from that required by the IRS is needed. CDS will file a Form 1099 with the State as well.

**PERSON IS NOT A RESIDENT OF CALIFORNIA**

**Who does this apply to** – It does not matter whether the person is from Idaho or France, the same rules apply. Again, it is applicable to non-corporate entities (individuals, partnerships, joint ventures, trust, estates). If you don't know, you should request a Form W-9 discussed above.

**Withholding of California tax required** – A 7% withholding tax must be subtracted from the non-resident person's total payment for payments for independent contractor services rendered in California. This includes judges, clinicians, technical delegates, etc. It is also applicable to prizes and winnings.

***When is California withholding not required*** – The payment is for goods rather than services (e.g. saddle vs judging fee).

Also if the total payments to the non-resident person for the calendar year are less than the \$1,500, then we do not have to withhold. Of course, this is a problem for CDS because there are so many chapters and events, that it is hard for us to know whether a particular person is working for us at different times during the year. In fact, the person may not realize that he/she is working for us because it is not always clear where the payments are coming from. Thus, the policy of CDS is that withholding will be required for these persons.

If the person insists that they will not receive more than \$1,500 in income from California that year, he/she can provide you with Forms 587 and 588 which he/she signs “under penalties of perjury” and we can rely on to avoid the withholding. This form must be submitted to the Franchise Tax Board before the payment is made to the person.

***What should you do with the withholding money*** – You should send the withholding money as soon as possible after the payment to Diana Muravez, CDS Treasurer. She will remit the money to the Franchise Tax Board in the name of the person who the money was withheld from. Diana will need the person’s name, address and social security number to do this. A copy of the Form W-9 can be sent to her if that is easier.

## **FOREIGN PERSON TAX REPORTING**

***What if the foreign person does not have a social security number*** – You should not make a payment from CDS funds. You should not use another CDS member to funnel the payment through as that person will have to get a 1099 for the “income” at the end of the year. This is likely to be a great shock to them. If the foreign person needs a social security number, he/she can request a number from the IRS using Form SS-4.

***Assuming the foreign person does have a social security number*** – Assuming you have received a completed Form W-9 for the foreign person, you can make a payment to him/her, but we may have to withhold tax from the total amount that you pay. The amount of tax that must be withheld can be dependent on where the foreign person lives, how much time he/she is in the US for this calendar year and how much he/she is being paid. The United States has tax treaties with the Western European countries where the foreign person you are paying is likely to live. The treaty will dictate whether or not you have to withhold on the payments made. The rate of withholding is 30%. The penalties for not withholding are equal to the amount that should have been withheld plus penalties for failure to file the proper forms and pay the tax. It can be very expensive!

***How much should you withhold*** – To determine whether you should be withholding, please contact Diana Muravez with information about the country that the foreign person lives in and when he/she will be here. Diana must make the payment of the withholding to the IRS within a month of the payment to avoid penalties, so your prompt attention to this is crucial.

***Exemptions from withholding*** – The foreign person may tell you that he/she is exempt from withholding. If that is true, then he/she must give CDS a Form 8233 which is signed by him/her “under penalties of perjury”. We must forward that document to the IRS. Diana Muravez will collect all of these forms and take care of the filing with the IRS. The Form 8233 must be given to us before the payments are made and we have to get a new one each year.

***Immigration law implications*** – There may be immigration law implication to the foreign person receiving income in the US, especially if he/she tries to come into the country on a visitor’s visa where he/she is not supposed to work while here. The foreign person needs to obtain advice from a competent immigration attorney or from the United States Immigration Service. There are a number of foreign judges and clinicians who are “legal”, so it is possible to obtain the necessary paperwork.

*This information is general in nature and is not meant to cover every circumstance. If you have a question about a particular situation, please call Diana Muravez, CDS Treasurer, for guidance. It is critical to CDS’ good standing with the tax authorities that you comply with these rules.*