



BING HAN (USA) Enterprises Ltd.
#2000 – 435 Martin Street, Blaine, WA 98230
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Notice

Date: October 1, 2006

To: Independent Distributors

From: Management of Bing Han (USA) Enterprises Limited

Re: Seven Percent (7%) Withholding Tax on California source Sponsorship Commissions

Effective immediately, for any California nonresident Independent Distributors who receive California source sponsorship payment exceeding USD\$1,000 in a calendar year, Bing Han (USA) Enterprises Limited will withhold seven percent (7%) withholding tax on the subsequent commission payment. Distributor may qualify for a waiver or reduced withholding rate by submitting Form 587, Nonresident Income Allocation Worksheet, to the corporate office of Bing Han (USA) Enterprises Limited. Bing Han (USA) Enterprises Limited will then use the information provided to determine if withholding is required, and if required, what portion of the payment is subject to withhold.

Under California law (Revenue and Taxation Code Section 18662), any California nonresident Independent Distributors who **physically enter** the State of California in order to do business and receive any subsequent commission payments exceeding USD\$1,500 in a calendar year, their TOTAL commission payments not just the amount potentially exceeding USD\$1,500 are subject to a seven percent (7%) withholding tax. Please refer to FTB Publication 1023.

Form 587, as well as instructions to fill out the form can be obtained from FTB website at www.ftb.ca.gov or our Bing Han (USA) Enterprises Limited website at www.binghan-usa.com. For further inquiries, please contact your Distributor Manager or Bing Han (USA) Enterprises Limited office.

即日起，所有非加州居民代理商，一年中(日曆年)來自加州的佣金收入超過美金 1,000 元，炳翰（美國）公司將開始從佣金收入中預扣百分之七的預扣所得稅。如代理商填妥非居民收入分配表 (表格 587) 並郵寄到炳翰（美國）公司可能獲得免除或較低的預扣所得稅稅率。本公司會依據代理商填寫的資訊來決定是否需預扣所得稅及應扣除的比率。

此預扣是依據加州法令(稅法第 18662 節)：所有非加州居民的代理商，親身進入加州做生意，並在該年獲得超過美金 1,500 元的佣金，即需交百分之七的預扣所得稅。此稅款是針對該年所有來自加州的佣金收入，而非可能超過美金 1,500 元的部份。請參閱 FTB 出版品 1023。

表格 587 及其填表說明均可在 FTB 網站 www.ftb.ca.gov 或炳翰公司網站 www.binghan-usa.com 取得。欲知更多詳情，請向您的分銷經理或本公司查詢。

20 Nonresident Withholding Allocation Worksheet

587

PART I WITHHOLDING AGENT

Withholding agent's name

Withholding agent's address (number and street)		APT no.	PMB no.
City		State	ZIP Code

PART II NONRESIDENT VENDOR/PAYEE (Complete Part II through Part V and return this form to the above withholding agent)

Vendor/payee's name Owner's full name if sole proprietor

Vendor/payee's address (number and street)		APT no.	PMB no.
City		State	ZIP Code
<input type="checkbox"/> Social security no.	<input type="checkbox"/> Corporation no.	<input type="checkbox"/> FEIN	Secretary of State file no.
			Daytime telephone number ()

Nonresident Vendor/Payee's Entity Type: (Check one)

- Individual/Sole Proprietor
 Corporation
 Partnership
 Limited Liability Company (LLC)
 Estate or Trust
 Tax-Exempt (withholding not required, skip to Part V)

PART III PAYMENT TYPE

Nonresident Vendor/Payee: (Check one)

- Performs services totally outside California (no withholding required, skip to Part V)
 Provides only goods or materials (no withholding required, skip to Part V)
 Provides goods and services in California (see allocation in Part IV)
 Provides services within and outside California (see allocation in Part IV)
 Other (Describe) _____

Note to vendor/payee: If you perform all the services within California, withholding is required on the entire payment for services unless you receive a waiver or reduced withholding authorization from the Franchise Tax Board. For more information, get FTB Pub. 1023, Nonresident Withholding Independent Contractor, Rent and Royalty Guidelines.

PART IV INCOME ALLOCATION

Gross payments expected from the above withholding agent during the calendar year for:

	(a) Within California	(b) Outside California	(c) Total Payments
1 Goods and Services:			
Goods/materials (no withholding required)
Services (withholding required)
2 Rents on commercial or business property
3 Royalties on natural resources
4 Prizes and other winnings
5 Other payments
6 Total payments subject to withholding.
Add column (a), line 1 through line 5
Withholding threshold amount:	\$1,500.00

Note: If the amount on line 6 is \$1,500 or less, no withholding is required. If the amount on line 6 is greater than \$1,500, withholding is required on the entire amount at the rate of seven percent. If the FTB authorized reduced withholding or waived withholding, attach a copy of the FTB determination letter. See General Information E, Waivers and Reduced Rates.

PART V CERTIFICATION OF VENDOR/PAYEE

Under penalties of perjury, I certify that the information provided on this document is true and correct. If the reported facts change, I will promptly inform the withholding agent.

▶ Authorized representative's signature	Title	() Daytime telephone number
▶ Vendor/Payee's signature	Date	() Daytime telephone number

Instructions for Form 587

Nonresident Withholding Allocation Worksheet

References in these instructions are to the California Revenue and Taxation Code (R&TC).

General Information

A Purpose

Use Form 587, Nonresident Withholding Allocation Worksheet, to determine if withholding is required on payments to nonresidents.

The vendor/payee should complete, sign, and return Form 587 to the withholding agent. The withholding agent may then rely on the certification made by the vendor/payee to determine if withholding is required, provided the completed and signed Form 587 is accepted in good faith. The completed Form 587 should be retained by the withholding agent for record keeping purposes and be made available to the Franchise Tax Board (FTB) upon request.

Do **not** use Form 587 if:

- Payment to a nonresident is only for the purchase of goods;
- You sold California real estate. In that case, use Form 593-C, Real Estate Withholding Certificate;
- The vendor/payee is a resident of California or is an irrevocable trust that has at least one California resident trustee. In that case, use Form 590, Withholding Exemption Certificate;
- The vendor/payee is a corporation, partnership, or limited liability company (LLC) that has a permanent place of business in California or is qualified to do business in California. In that case, use Form 590; or
- The payment is to an estate and the decedent was a California resident. In that case, use Form 590.

B Law

R&TC Section 18662 and the related regulations require withholding of income or franchise tax on certain payments made to nonresidents of California for personal services performed in California and for rents and royalties on property located in California. The withholding rate is seven percent unless the FTB approves a reduced rate or a waiver. See General Information E, Waivers and Reduced Rates.

C When to File This Form

The withholding agent should request that the vendor/payee complete, sign, and return Form 587 when a contract is entered into or before payment is made to the vendor/payee.

Form 587 will remain valid for the duration of the contract (or term of payments), provided there is no material change in the facts. The vendor/payee, by signing Form 587, agrees to promptly notify the withholding agent of any changes in the facts.

D Withholding Requirements

Payments made to nonresident vendors/payees (including individuals, corporations, partnerships, LLCs, estates, and trusts) are subject to withholding. However, no withholding is required if total payments of California source income to the vendor/payee during the calendar year are \$1,500 or less.

Payments subject to withholding include, but are not limited to:

- Payments for services performed in California by nonresidents;
- Rent paid to nonresidents if the rent is paid in the course of the withholding agent's business;
- Royalties paid to nonresidents for the right to use natural resources located in California;
- Payments of prizes for contests entered in California;
- Distributions of California source income to nonresident beneficiaries from an estate or trust; and
- Other payments of California source income made to nonresidents.

Payments not subject to withholding include payments:

- To a resident of California or to a corporation with a permanent place of business in California. See note below;
- To a corporation qualified to do business in California. See note below;
- To a partnership that has a permanent place of business in California. See note below;
- For sale of goods;
- For income from intangible personal property, such as interest and dividends, unless the property has acquired a business situs in California;
- For services performed outside of California;
- To a vendor/payee that is a tax-exempt organization under either California or federal law;
- Representing wages paid to employees. Wage withholding is administered by the California Employment Development Department (EDD). For more information, contact your local EDD office; or
- To reimburse a vendor/payee for expenses relating to services performed in California if the reimbursement is separately accounted for and not subject to federal Form 1099 reporting. Corporate vendors/payees, for purposes of this exception, are treated as individual persons.

Note: If the California resident, qualified corporation, or partnership is acting as an agent for the nonresident payee, the payment

is subject to withholding if the nonresident payee does not meet any of the exceptions on Form 590.

E Waivers and Reduced Rates

A nonresident vendor/payee may request that income taxes be withheld at a lower rate or waived. To apply for a withholding waiver to reduce or eliminate withholding, get Form 588, Nonresident Withholding Waiver Request. If the FTB has granted a waiver or authorized a reduced withholding rate, attach a copy of FTB's determination letter to Form 587.

F Requirement to File a California Tax Return

A vendor/payee's exemption certification on Form 587 or Form 590 or a determination letter from the FTB waiving withholding does not eliminate the requirement to file a California tax return and pay the tax due. For return filing requirements, see the instructions for Long or Short Form 540NR, California Nonresident or Part-Year Resident Income Tax Return; Form 541, California Fiduciary Income Tax Return; Form 100, California Corporation Franchise or Income Tax Return; or Form 100S, California S Corporation Franchise or Income Tax Return.

G Where to get Publications, Forms, and Additional Information

By Internet: You can download, view, and print California tax forms and publications from our Website at www.ftb.ca.gov.

By Phone: To have publications or forms mailed to you, or to get additional nonresident withholding information, please contact the Withholding Services and Compliance Section at the address or automated telephone number below:

WITHHOLDING SERVICES AND
COMPLIANCE SECTION
FRANCHISE TAX BOARD
PO BOX 942867
SACRAMENTO CA 94267-0651

Telephone: **(888)** 792-4900
(916) 845-4900
(not toll-free)

FAX: (916) 845-9512

H To get Publications, Forms, and Information Unrelated to Nonresident Withholding

By Automated Phone Service: Use this service to check the status of your refund, order California forms, obtain payment and balance due information, and hear recorded answers to general questions. This service is available 24 hours a day, 7 days a week, in English and Spanish.

From within the
United States (800) 338-0505
From outside the
United States (916) 845-6600
(not toll-free)

Follow the recorded instructions. Have paper and pencil handy to take notes.

By Mail: Please allow two weeks to receive your order. If you live outside of California, please allow three weeks to receive your order. Write to:

TAX FORMS REQUEST UNIT
FRANCHISE TAX BOARD
PO BOX 307
RANCHO CORDOVA CA 95741-0307

In Person: Many libraries and some quick print businesses have forms and schedules for you to photocopy (a nominal fee may apply).

Note: Employees at libraries and quick print businesses cannot provide tax information or assistance.

Assistance for persons with disabilities

We comply with the Americans with Disabilities Act. Persons with hearing or speech impairments, please call:

TTY/TDD (800) 822-6268

Asistencia para personas discapacitadas. Nosotros estamos en conformidad con el Acta de Americanos Discapacitados. Personas con problemas auditivos pueden llamar al TTY/TDD (800) 822-6268.

Specific Instructions

Private Mailbox (PMB) Number

If you lease a private mailbox (PMB) from a private business rather than a PO box from the United States Postal Service, include the box number in the field labeled "PMB no." in the address area.

Part I – Withholding Agent

The withholding agent must complete Part I before giving Form 587 to the vendor/payee.

Part II – Nonresident Vendor/Payee

The vendor/payee must complete all information in Part II including the FEIN or social security number and vendor/payee's entity type. No withholding is required if the vendor/payee is a tax-exempt entity. Check the tax-exempt box if the vendor/payee is:

- An entity that is exempt from tax under either California or federal law such as a church, pension, or profit-sharing plan;
- An insurance company, IRA; or
- A federal, state, or local government agency.

Tax-exempt vendors/payees do not need to complete Part III and Part IV, but must complete Part V.

Part III – Payment Type

The nonresident vendor/payee must check the box that identifies the type of payment being received.

No withholding is required when vendors/payees are residents, qualified corporations, or have a permanent place of business in California.

Part IV – Income Allocation

Use Part IV to identify payments that are subject to withholding. Only payments sourced within California are subject to withholding. Services performed in California are sourced in California. In the case of payments for services performed when part of the services are performed outside California, enter the amount paid for performing services within California in column (a). Enter the amount paid for performing services while outside California in column (b). Enter the total amount paid for services in column (c).

If the vendor/payee's trade, business, or profession carried on in California is an integral part of a unitary business carried on within and outside California, the amounts included on line 1 through line 5 should be computed by applying the vendor/payee's California apportionment percentage (determined in accordance with the provisions of the Uniform Division of Income for Tax Purposes Act) to the payment amounts. For more information on apportionment, refer to California Schedule R, Apportionment and Allocation of Income.

Withholding agent. If the amount on line 6 is greater than \$1,500, the withholding agent must withhold on all payments made to the vendor/payee until the entire amount on line 6 has been withheld upon. If circumstances change during the year (such as the total amount of payments), which would change the amount on line 6, the vendor/payee must submit a new Form 587 to the withholding agent reflecting those changes. The withholding agent should evaluate the need for a new Form 587 when a change in facts occurs.

If a reduced rate was authorized by the FTB, compute the withholding required by applying the authorized rate to the amount on line 6.

Part V – Certification of Vendor/Payee

Enter your name, title, and daytime telephone number. Sign and date the form and return it to the withholding agent.