What happens to your employees who receive cash wages “under the table?”

- When they file for UI or SDI, their benefits may be delayed or denied.
- They may be subject to state and federal income tax audits for not reporting the wages.
- They won’t have check stubs, a Wage and Withholding Statement (Form W-2), or a way to verify their earnings.

How does paying cash wages “under the table” affect California taxpayers who pay their taxes?

Taxpayers assume a greater burden to support public services such as:

- UI benefits
- SDI benefits
- Schools
- Law Enforcement

What are the consequences to your business, your employees, and taxpayers?

For more information about state payroll tax reporting, please contact the Taxpayer Assistance Center at 888-745-3886 or visit your local Employment Tax Office listed in the California Employer’s Guide (DE 44) and on the EDD website at www.edd.ca.gov/Office_Locator/.

To report instances of cash wages paid “under the table,” please call 800-528-1783.

You do not have to provide your name if you wish to remain anonymous.

The EDD is an equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities. Requests for services, aids, and/or alternate formats need to be made by calling 888-745-3886 (voice) or TTY 800-547-9565.
What does paying cash wages “under the table” mean?

This common phrase means the payment of wages to employees by cash, check, or other compensation, that is disguised with the intent of evading the payment of payroll taxes.

Some excuses used to justify paying cash wages “under the table:”

- It is a common practice in some industries.
- Cannot afford the tax and insurance expenses associated with payroll.
- The reduced expenses allows the business to be more competitive.
- Employees request no withholding on their pay.
- It simplifies bookkeeping.

Other businesses in my industry pay cash wages “under the table,” so why shouldn’t I?

- It is illegal. You could be criminally prosecuted.
- This practice could result in a large unplanned liability, including substantial penalty and interest charges for failing to comply with reporting requirements.

Are you really avoiding payroll tax expenses?

No! Let’s compare two employers: Employer A is properly reporting. Employer B is not, and is undergoing a payroll audit.

Employer A is reporting yearly payroll of $100,000 (five employees at $20,000 each). The state payroll tax expense to this employer is for the Unemployment Insurance (UI) and Employment Training Tax (ETT) up to the wage limit of $7,000 per employee.

Employer B paid the same $100,000 in wages for the year. However, this employer paid cash wages under the table, was audited, and did not keep records of payments made to specific employees. Therefore, this employer could not prove there were only five employees. An Employment Development Department (EDD) auditor had to assess taxes on the full $100,000 in wages paid.

<table>
<thead>
<tr>
<th>Description</th>
<th>Employer A</th>
<th>Employer B</th>
</tr>
</thead>
<tbody>
<tr>
<td>UI/ETT (3.5%)</td>
<td>$1,225.00</td>
<td>$3,500.00</td>
</tr>
<tr>
<td>1 State Disability Insurance* (SDI)</td>
<td></td>
<td>$900.00</td>
</tr>
<tr>
<td>(0.9%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Personal Income Tax (PIT) (6%)</td>
<td></td>
<td>$6,000.00</td>
</tr>
<tr>
<td>3 Penalty (130%)</td>
<td></td>
<td>$13,520.00</td>
</tr>
<tr>
<td>4 Non-Registered Penalty</td>
<td></td>
<td>$500.00</td>
</tr>
<tr>
<td>Interest (@3%)</td>
<td></td>
<td>$312.00</td>
</tr>
<tr>
<td>Total due for 1 year</td>
<td>$1,225.00</td>
<td>$24,732.00</td>
</tr>
</tbody>
</table>

1 SDI — Normally withheld from the worker.
2 PIT may be abated. Refer to Information Sheet: Personal Income Tax Adjustment Process (DE 231W).
3 Section 1112.5, 1126, 1128(a) and (b) of the California Unemployment Insurance Code (CUIC). The penalties listed in this example do not represent all possible penalties that may be charged.
4 Section 1126.1 of the CUIC.
5 Calculations are based on year 2015 tax rates. Tax rates, interest, and penalties are subject to change each year.

Does it pay?

No! As you can see, Employer B would pay 20 times more in state payroll taxes, penalty, and interest than Employer A. This liability will grow substantially when other governmental agencies become aware of the employer’s illegal activity.

The survival of your business could depend on your ability to pay your tax liabilities, penalties, and interest.

What if my employees request cash wages “under the table?”

- Deny the request. This is not an option. You have a legal obligation to withhold payroll taxes and report your employees’ wages.
- If your employees are injured on or off the job, they have the right to file a claim for Workers’ Compensation or SDI benefits. If your employees’ wages have not been reported, an investigation by the EDD may follow.

Are you really reducing your bookkeeping burden?

No! Initially this may be the case, but when the EDD finds unreported wages you will be required to reconstruct payroll records for an audit. If fraud or intent to evade the law is found, the audit could go back to the beginning of your business. Thus, you could end up paying far more preparing for an audit than if you would have reported correctly from the beginning.