

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

- They may be subject to state and federal income tax audits for not reporting the wages.
- When they file for UI or SDI, their benefits may be delayed or denied.
- They won't have check stubs, 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

For more information about 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.



STATE OF CALIFORNIA

LABOR AND WORKFORCE DEVELOPMENT AGENCY

EMPLOYMENT DEVELOPMENT DEPARTMENT

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.

Paying cash wages “under the table”...

Is it really worth the risk?



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

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 avoiding the payment of payroll taxes.

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

- Tax and insurance expenses associated with payroll are avoided.
- An unfair competitive advantage is created.
- Employees request no withholding on their pay.
- Bookkeeping is reduced.
- It is a common practice in some industries.

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 is financially dangerous to your business.

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 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.

	Employer A	Employer B
UI/ETT (3.5%)	\$1,225.00	\$3,500.00
¹ State Disability Insurance* (SDI) (1.0%)		1,000.00
² Personal Income Tax (PIT) (6%)		6,000.00
³ Penalty (120%)		12,600.00
⁴ Non-Registered Penalty		500.00
Interest (@4%)		424.00
⁵ Total due for 1 year	\$1,225.00	\$24,024.00

¹ SDI — Normally withheld from the worker.

² PIT may be abated. Refer to Information Sheet: *Personal Income Tax Adjustment Process* (DE 231W).

³ Sections 1112.5, 1126, 1128A & 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 2012 tax rates. Tax rates, interest, and penalties are subject to change each year.

* Includes Paid Family Leave (PFL).

Note: The UI and ETT are paid by you, the employer. The SDI and PIT are paid by your employees. However, if you fail to withhold employee-paid taxes, they become your responsibility.

Does it pay?

No! As you can see, Employer B would pay almost **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.