

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

- They are subject to state and federal income tax audits for not reporting the wages.
- When they file for Unemployment or Disability Insurance, their benefits may be delayed or denied.
- They won't have check stubs, W-2s, 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:

- Unemployment Insurance benefits
- State Disability Insurance benefits
- Schools
- Law Enforcement

For more information about payroll tax reporting, you may visit your local Employment Tax Office, listed in the *California Employer's Guide* (DE 44) or on our Web site at www.edd.ca.gov/Payroll_Taxes/, or you may call us toll-free at 1-888-745-3886.

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

If you wish to remain anonymous, you do not have to provide your name.



STATE OF CALIFORNIA

LABOR AND WORKFORCE DEVELOPMENT AGENCY

EMPLOYMENT DEVELOPMENT DEPARTMENT



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

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 avoiding the payment of payroll taxes.

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

- To avoid tax and insurance expenses associated with payroll.
- To create an unfair competitive advantage.
- Employees request no withholdings.
- Reduces bookkeeping burden.
- It is a practice in some industries.

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

- It is illegal and 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 expense to this employer is the Unemployment Insurance and Employment Training payroll taxes, 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 EDD auditor had to assess taxes on the full \$100,000 in wages paid.

	Employer A	Employer B
Unemployment/ Training Tax (3.5%)	\$1,225.00	\$3,500.00
¹ State Disability Insurance* (1.1%)		1,100.00
² Personal Income Tax (6%)		6,000.00
³ Penalty (120%)		12,720.00
⁴ Non-Registered Penalty		500.00
Interest (@4%)		424.00
⁵ Total due for 1 year	\$1,225.00	\$24,244.00

- ¹ State Disability Insurance — Normally withheld from the worker
² Personal Income Tax may be abated—see DE 231W (How to Reduce Your Personal Income Tax Liability)
³ Section 1112.5, 1126, 1128A & B California Unemployment Insurance Code (CUIC)
⁴ Section 1126.1 CUIC
⁵ Calculations are based on year 2010 tax rates. Tax rates are subject to change each year.

* Includes Paid Family Leave.

Note: Unemployment Insurance and Employment Training Tax are paid by you, the employer. State Disability Insurance and Personal Income Tax 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 Worker’s Compensation or State Disability Insurance benefits. If your employees’ wages have not been reported, an investigation by EDD will follow.

Are you really reducing your bookkeeping burden?

No! Initially this may be the case, but when 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 had reported correctly from the beginning.