

Your Employees Face Consequences When Paid “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 will not have check stubs, a **Wage and Withholding Statement (Form W-2)** (irs.gov), or a way to verify their earnings.

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
- SDI
- Schools
- Law enforcement

For more information about state payroll tax reporting, please visit the **EDD Payroll Taxes** (edd.ca.gov/Payroll_Taxes), contact the Taxpayer Assistance Center at 1-888-745-3886, or visit your local **Employment Tax Office** (edd.ca.gov/Office_Locator) listed in the **California Employer’s Guide (DE 44)** (PDF) (edd.ca.gov/pdf_pub_ctr/de44) and at the **EDD** (edd.ca.gov).

To report instances of cash wages paid “under the table,” please call 1-800-528-1783.

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



State of California

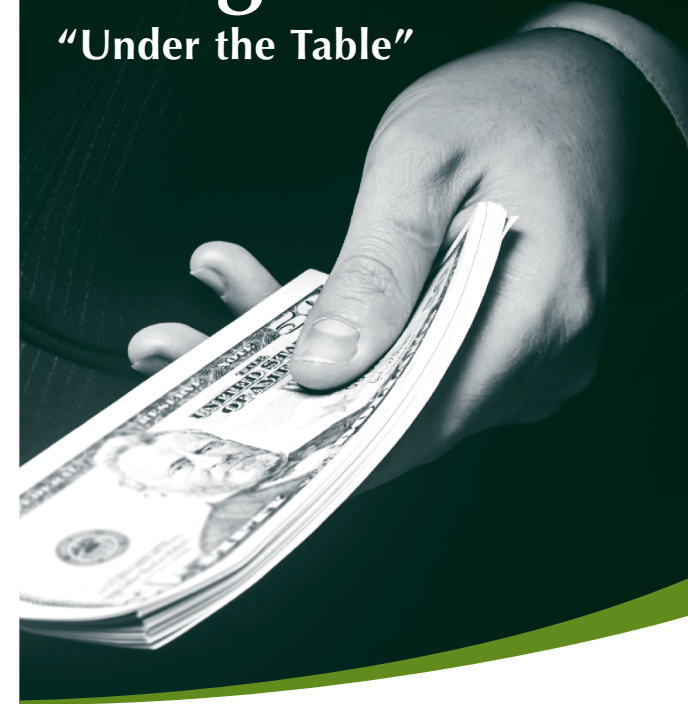
Labor and Workforce Development Agency

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 1-888-745-3886 (voice) or TTY 1-800-547-9565.

Paying Cash Wages

“Under the Table”



Is it really worth the risk?

EDD Employment
Development
Department
State of California

Paying Cash Wages “Under the Table”

“Under the table” means paying wages to employees by cash, check, or other compensation with the intent to evade paying payroll taxes.

How Some Justify Paying “Under the Table”

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

Why You Shouldn’t Pay Cash Wages “Under the Table”

It is illegal. This practice may result in a large unplanned liability, including substantial penalty and interest charges for failing to comply with reporting requirements. You could also face criminal prosecution.

Paying “Under the Table” Does Not Avoid Paying Payroll Tax Expenses

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.

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.

	Employer A	Employer B
UI/ETT (3.5%)	\$1,225.00	\$3,500.00
¹ State Disability Insurance* (SDI) (1.1%)		1,100.00
² Personal Income Tax (PIT) (6%)		6,000.00
³ Penalty (142.3% - see footnote)		15,083.80
⁴ Non-Registered Penalty		500.00
⁵ Failure to Issue Withholding Statement Penalty		250.00
⁶ Failure to File Electronic Return Penalty		200.00
⁷ Total due for 1 year	\$1,225.00	\$26,633.80 plus interest ⁸

¹ SDI — Normally withheld from the worker.

² PIT may be abated. Refer to **Information Sheet: Personal Income Tax Adjustment Process (DE 231W)** (PDF) (edd.ca.gov/pdf_pub_ctr/de231w).

³ Sections 1112.5 (15%), 1126 (15%), 1128(a) (50%), 1128(b) (50%), and 13052.5 (12.3%) of the **California Unemployment Insurance Code (CUIC)** (leginfo.legislature.ca.gov/faces/codes). The penalties

listed in this example do not represent all possible penalties that may be charged.

⁴ Section 1126.1 of the CUIC (\$100 per employee).

⁵ Section 13052 of the CUIC (\$50 per estimated employee).

⁶ Section 1112.1 of the CUIC (\$50 for failure to file return per quarter) effective January 1, 2019.

⁷ Calculations are based on 2022 tax rates. Tax rates, interest, and penalties are subject to change each year.

⁸ The interest rate is adjusted semiannually based on the short-term federal rates in January and July of each year. Visit the **EDD Interest Rate Web Page** (edd.ca.gov/payroll_taxes/interest_rate.htm) for more information.

* 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.

If Your 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.

Paying “Under the Table” Does Not Reduce Your Bookkeeping Burden

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 and you could end up paying far more preparing for an audit alone than you would have paid by reporting correctly from the beginning.