

Paying Off the Books – the Risks

There is no doubt about it; paying off the books is risky business. It puts the employer and employee in peril by not providing the payroll coverage employers and employees are entitled to by law.

Liability to household employer:

- increased exposure to an IRS audit;
- the penalty for failing to file (or attempting to evade or defeat tax payments) is \$25,000-\$100,000 and potential jail time;
- a false or fraudulent statement or failure to furnish a tax statement could result in a \$1,000 fine;
- payment of all back employment taxes, interest, and penalties; and,
- no eligibility for tax breaks, Dependent Care Assistance Program (DCAP), or Child Tax Credit.

Liability to household employee:

- IRS penalties due to failure to file timely income taxes;
- no unemployment insurance benefits
- no legal employment history or credit history;
- no contributions to Social Security and Medicare, and therefore no eligibility to these benefits; and,
- no workers' compensation or disability coverage.