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California Supreme Court Recognizes Good Faith Defense to Wage Statement Violations

May 13, 2024

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On May 7, 2024, the California Supreme Court resolved a lower court split over the meaning of a “knowing and intentional failure to comply” under California Labor Code Section 226, which dictates requirements for providing employees with written wage statements and the information that must be included therein. In *Naranjo v. Spectrum Security Services, Inc.* the Court held that employers can avoid penalties for a “knowing and intentional” violation of the statute if they can establish that they had an objectively reasonable good faith belief that they were in compliance with the law. The opinion is welcome relief for employers who may fail, despite their best efforts, to comply with the wage statement provisions of the California Labor Code.

Section 226 of the California Labor Code requires employers to provide written wage statements to employees at each pay period. Section 226 also requires employers to include particular information in each wage statement, such as gross and net wages earned, rate of pay, hours worked, deductions from wages, and similar information. If the employee can demonstrate an employer's failure to comply with the statute, the employee can obtain injunctive relief and recover costs and attorney's fees. If the employee can demonstrate that the failure is “knowing and intentional,” the employee may recover statutory penalties up to $4,000.

The California Labor Code also provides for the payment of penalties based on an employer's willful failure to pay wages when due. Employees typically bring a claim for failure furnish accurate wage statements as a companion claim to a claim for failure to pay wages. If an employer fails to pay wages, the employer necessarily fails to report the unpaid wages on the employee's wage statement. Thus, employers are subject to two separate claims arising from the same primary violation. Employers can avoid liability for failing to pay wages when due if the employer can show that they had an objectively reasonable good faith belief that they were in compliance with the law. At issue in *Naranjo* was whether an employer's good faith belief that they were in compliance with the law could also preclude an award of penalties for a “knowing and intentional” failure to furnish accurate wage statements.

The Court ruled in favor of the employer and held that an employer's objectively reasonable, good faith belief that it complied with the statute precludes an award of penalties for a knowing and intentional violation. Among other reasons for its decision, the Court acknowledged the correlation between claims for failing to pay wages and claims for failing to furnish accurate wage statements and observed that the legislature likely did not intend for employers to be able to assert a good faith defense to a claim for failure to pay wages and not assert such a defense to a claim for failing to furnish an accurate wage statement, which is arguably a less serious infraction than the failure to pay wages in the first place.

California employers are well-aware that California law imposes numerous strict and often complex requirements on employers and that it is easy to violate those requirements, despite best efforts to comply. The *Naranjo* opinion provides some comfort to employers that by taking objectively reasonable, good faith efforts to comply with the statutory wage statement requirements—such as seeking advice from legal counsel on compliance matters—employers may be able to avoid liability for a knowing and intentional violation of the statute.

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