

The Cost of Going Without HR

What small business owners pay when people problems are left unmanaged

Most small business owners are running lean. There is no HR department. No dedicated compliance person. No one whose job it is to stay on top of employment law, handle a termination carefully, or build the structure that keeps a growing team from becoming a liability.

The moment a people problem escalates, whether it is a termination gone wrong, an employee complaint, or a Department of Labor audit, the costs are almost never in the budget.

This guide walks through what the data says about the real financial exposure of going without HR support. These are not worst-case numbers pulled from headlines. They are published penalty amounts, documented averages, and research findings that apply to businesses of every size.

1. Compliance violations and government penalties

A business does not have to be doing anything intentionally wrong to get caught. Missed posting requirements, an outdated handbook, a misclassified worker, or an overtime error can all trigger audits, back pay orders, and fines.

SITUATION	POTENTIAL COST	SOURCE
OSHA violation (serious or other-than-serious)	Up to \$16,550 per violation	OSHA
OSHA willful or repeated violation	Up to \$165,514 per violation	OSHA
Repeated or willful minimum wage or overtime violation	Up to \$2,515 per violation, plus back wages	U.S. Department of Labor
Form I-9 paperwork violation	\$288 to \$2,861 per form	U.S. Department of Homeland Security
ACA employer penalty when coverage is unaffordable or does not meet minimum value (employers with 50+ full-time equivalents)	\$5,010 per affected full-time employee for 2026	IRS
Pay transparency violations (if you hire in a state or city with these laws)	Varies by location; some penalties reach \$250,000 for willful violations	State and local law

Federal penalty amounts normally rise with inflation every January. The 2026 increase was cancelled, so the 2025 maximums above remain in effect for 2026.

An I-9 audit that finds paperwork errors on 20 forms could mean fines of \$5,760 to \$57,220, before any other violation is counted. Most small businesses have never had their I-9s reviewed.

2. Employment lawsuits and discrimination claims

Employment lawsuits are not limited to large corporations. Small businesses are often more vulnerable because they lack the documentation, policies, and records that form the foundation of a solid defense.

In fiscal year 2025, the EEOC processed 88,201 new charges of discrimination and secured \$660 million for workers, its third-highest total monetary recovery in recent history.

SITUATION	POTENTIAL COST	SOURCE
Defending a claim through summary judgment	\$75,000 to \$125,000 in legal fees	Employment defense attorney estimates
Claims against employers with fewer than 500 employees that ended in defense and settlement costs	19% of claims, averaging about \$125,000	Hiscox Guide to Employee Lawsuits
Recent discrimination lawsuit judgments	Median of about \$200,000; one in four over \$500,000	As reported by HR Dive

Even when a business has done nothing wrong, getting a claim dismissed can cost \$75,000 or more in legal fees. The absence of documented HR processes is one of the biggest factors that turns a winnable case into a costly one.

3. Employee turnover

Turnover is one of the most consistent and underestimated costs in a small business. When an employee leaves, the expense does not stop at recruiting. It includes onboarding time, reduced productivity during the learning curve, lost knowledge, and the impact on the team left behind. Most of these costs never appear as a line item in the budget.

SITUATION	POTENTIAL COST	SOURCE
Replacing a frontline employee	About 40% of annual salary	Gallup
Replacing a technical professional	About 80% of annual salary	Gallup
Replacing a manager or leader	About 200% of annual salary	Gallup
Overall range to replace one employee	One-half to two times annual salary	Gallup
Voluntary turnover cost to U.S. businesses	About \$1 trillion per year	Gallup

A business with 20 employees and a 20% annual turnover rate is replacing 4 people per year. At a conservative \$20,000 per replacement, that is \$80,000 a year in turnover costs, and most of it is invisible on the P&L. Clear onboarding, consistent manager training, and structured performance conversations are some of the strongest drivers of retention.

4. The hidden costs business owners do not see coming

Beyond fines and lawsuits, the absence of HR structure creates daily drag that compounds over time. These costs rarely show up on a single line of a report, but they are real.

Owner time spent on HR issues Every hour a business owner spends handling a disciplinary situation, a termination, or an employee complaint is an hour not spent on clients, revenue, or growth. At \$100 an hour, five hours a week on people issues adds up to \$26,000 a year in lost opportunity.	Misclassified workers Treating an employee as an independent contractor can trigger back taxes, penalties, and lawsuits. The IRS and the Department of Labor both treat misclassification as an enforcement priority, and a single audit can reach six figures in back taxes and benefits.
Poor hiring decisions A bad hire in a small business carries outsized impact. A widely cited estimate puts the cost at 30% of that person's first-year earnings, and the real number is often higher once you count team disruption and client impact.	Unemployment and workers' comp exposure Terminations handled without documentation lead to contested unemployment claims and higher rates. Workplace injuries without proper protocols lead to higher workers' comp premiums and possible OSHA scrutiny.

5. What HR support costs vs. what you risk without it

HR support does not have to mean a full-time hire. Outside HR support gives you the expertise when you need it, without the salary, benefits, and overhead of a full-time HR position.

WITHOUT HR SUPPORT	WITH VELOCITYHR SUPPORT
I-9 paperwork errors on 20 forms: up to \$57,220	I-9 review and correction before an audit finds the problems
Defending one claim: \$75,000 to \$125,000	Documentation, a proper termination process, and defensible records
Replacing one technical employee: up to 80% of salary	Retention-focused structure, clear expectations, and better hiring
Owner time on HR issues: \$26,000 a year in lost opportunity	HR handled by an expert so you can stay focused on your business
Misclassification audit: six figures in back taxes and penalties	Classification review and a proper contractor vs. employee structure

Who VelocityHR works with

VelocityHR is built for small and mid-sized businesses with 5 to 250 employees that do not have a dedicated HR department. Based in Florida, I serve businesses throughout Polk and Hillsborough counties and clients remotely across the US. Business owners come to me when people issues are taking time they do not have and creating risk they cannot afford.

Ready to see where your business stands?

Book a free 30-minute discovery call at calendly.com/robynsecor. No obligation, just an honest conversation about what your business actually needs.

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