CALIFORNIA DECIDES

PROPOSITION LAB | **Proposition 40**

PROP 40:
THE BILLIONAIRE TAX ACT

Quick Facts

- **Official ballot title:** One-Time Wealth Tax for State-Funded Health Care Programs
- **Measure's own name:** The 2026 Billionaire Tax Act (AG No. 25-0024A1)
- **Type:** Combined initiated constitutional amendment and state statute
- **A vote YES means:** California billionaires pay a one-time 5 percent tax on their net worth, with the money directed mainly to health care.
- **A vote NO means:** No wealth tax is imposed and current tax law is unchanged.
- **Sponsor/proponent:** SEIU-United Healthcare Workers West. Proponent of record is Suzanne Jimenez.
- **On the ballot because:** Qualified June 17, 2026, with 980,438 valid signatures.
- **Full legal text:** Initiative 25-0024A1, Office of the Attorney General (PDF)[1]
- **LAO analysis:** Summary of Major Fiscal Effects

1. WHAT WOULD IT DO?

Proposition 40 imposes a one-time tax of 5 percent on the total net worth of any California resident worth $1 billion or more. The rate applies to the whole fortune, not just the amount above the threshold. A narrow phase-in ramps the rate between $1.0 billion and $1.1 billion so there is no cliff at exactly 1 billion [1, Sec. 50301]. A married couple is treated as a single taxpayer.

Residency is fixed on January 1, 2026, called the tax obligation date, and net worth is measured on December 31, 2026, called the valuation date [1, Sec. 50308]. The January date is already in the past. A billionaire who leaves California today would still owe the tax if voters approve it, because the law reaches back to who lived here on the first of the year. The tax is due with 2026 tax returns in 2027, payable in full or in five annual installments that carry a 7.5 percent charge [1, Sec. 50301].

Not all assets are included in the net worth calculation. Directly held real estate is excluded, which sidesteps a fight with Proposition 13. Pensions and traditional retirement accounts are excluded, Roth accounts are excluded up to $10 million, and up to $5 million of art, cars, and personal property is excluded [1, Sec. 50303].

The revenue is not allowed to go into the general fund. A constitutional amendment routes it into a separate reserve fund that sits outside the Gann appropriations limit, the Proposition 98 school-funding guarantee, and the rainy-day rules. The money goes 90 percent to health care and 10 percent to education and food assistance, with annual spending caps of $22.5 billion and $2.5 billion [1, Secs. 4–5]. One provision reaches every taxpayer in the state: All 19 million-plus California income tax filers would have to declare whether their net worth exceeds $1 billion [1, Sec. 50301].

2. THE LEGAL LANGUAGE

- **Full text:** Initiative 25-0024A1, "The 2026 Billionaire Tax Act," California Office of the Attorney General) (32 pages, as amended November 24, 2025)
- **Key language:**

  > "An excise tax is imposed for tax year 2026 on the activity of sustaining excessive accumulations of wealth by applicable individuals with net worth of $1 billion dollars ($1,000,000,000) or more, and on applicable trusts."

- **What it amends:** Adds a wealth-taxation authorization to Article XIII of the California Constitution and expressly overrides Article XIIIA (Proposition 13), the Article XIIIB Gann limit, and the Proposition 98 guarantee for this revenue. Adds new sections to the Revenue and Taxation Code (Sec. 50301 and following) creating the tax, the valuation rules, and the reserve fund [1, Secs. 4-5].

3. WHO, WHAT, WHERE, WHEN, WHY?

- **Who supports it? Who opposes it?** Sponsored by SEIU-United Healthcare Workers West, a union with a long record of using ballot measures as leverage. Vermont Senator Bernie Sanders and CA-17 Representative Ro Khanna have endorsed it. Governor Newsom opposes it, as do many wealthy tech executives like Google co-founder Sergey Brin. The "no" campaign is funded substantially by technology industry wealth. The people who are targeted by the tax are the roughly two hundred Californians the measure counts as billionaires.
- **What would it do? (And how much would it cost or raise?)** A one-time 5 percent levy on total net worth above $1 billion, collected once for tax year 2026. Proponents claim it will raise $100 billion. A Hoover Institution analysis suggests it could raise $40 billion, but when lost income tax revenue is accounted for, the act would lose $25 billion for the state over time.
- **Where would it have jurisdiction?** Statewide, on individuals who were California residents on January 1, 2026. Worldwide assets are apportioned to California, with a petition process for taxpayers whose wealth has thin California ties [1, Secs. 50306-50307].

- **When would it go into effect?** Residency fixed January 1, 2026. Net worth measured December 31, 2026. Payment due in 2027 or spread over five years. A built-in lawsuit runs on the measure's own clock, with a target California Supreme Court ruling by November 1, 2027 [1, Sec. 50314].

- **Why is it on the ballot?** Backers say scheduled federal Medicaid cuts from the One Big Beautiful Bill Act threaten Medi-Cal spending, which covers roughly one in three Californians, and that billionaire wealth has grown fast enough to fill the gap [1, Sec. 2]. Opponents question the magnitude of the Medi-Cal cuts that will occur according to supporters. A Hoover Institution analysis suggests that two-thirds of the estimated reduction in Medi-Cal spending occurs after 2030, many years after the one-time wealth tax revenues would be collected. In addition, the state's funding gap is largely dependent on whether it picks up the full cost of Medi-Cal enrollees who do not comply with the new federal work requirements.

4. TRADE-OFFS

The central question is not whether billionaires can afford it. It is whether the state comes out ahead. In the best case, ignoring every offsetting loss, the tax collects about $40 billion over five years, not the $100 billion the campaign advertises.[2] The gap opens before anyone changes behavior. The excluded real estate, pensions, and retirement accounts come out of the wealth figures, valuation contests reduce amounts collected, and installment and deferral elections stretch collections over years.

Then the base moves. A wealth tax announced in advance, attached to a residency date months before the vote, hands the wealthiest residents a clear and well-publicized reason to leave before the deadline. That is exactly what happened. At least six billionaires publicly left California between the measure's filing and the January 1, 2026 residency date, including the two largest, Sergey Brin and Larry Page. Those departures removed roughly $536 billion, close to 30 percent of the measure's tax base, before the tax could ever apply. Many more may have left without an announcement.

This is where the one-time framing is misleading. California does not just lose the one-time wealth payment from a departing billionaire. It loses that person's future income taxes, capital gains taxes, and the taxes their businesses generate, every year, permanently. Once those recurring losses are counted against the one-time haul, the measure carries a net present value of about negative $25 billion. The state pays more in lost future revenue than it collects in the wealth tax. This measure can raise real money and still leave California worse off.

5. POTENTIAL RISKS AND BENEFITS

Potential benefits

- If the money materializes, it can backfill Medi-Cal, safety-net providers, and food assistance during a real, arriving federal funding reduction [1, Sec. 2].

- The base is concentrated liquid wealth. Excluding homes and retirement accounts keeps the tax off ordinary Californians and off Proposition 13 property [1, Sec. 50303].

- Proponents' own experts argue the formulaic valuation rules, the trust lookback, and the deferral account make substantial collection feasible.[3]

- The initiative is written as a one-time levy, not a permanent new rate.

Potential risks

- Nearly 30 percent of the tax base has already left, and the loss is permanent for future income taxes, not just this one payment.
- Our analysis of the net present value is negative, roughly negative $24.7 billion in our estimate. The state can lose money on net.
- Even the Legislative Analyst's Office, which is more optimistic than we are, projects only "tens of billions," well short of $100 billion, and stresses that the number is genuinely uncertain.
- Revenue arrives late. The measure's own validation lawsuit runs into 2027, and federal challenges could extend beyond that [1, Sec. 50314].
- One-time money is aimed at a permanent obligation. Spending at the caps exhausts the fund in about four years, and the Medi-Cal shortfall it backfills continues [1, Sec. 5].
- California already draws roughly 40 to 50 percent of its income taxes from the top 1 percent. Shrinking that group deepens the state's dependence on its narrowest, most volatile tax base.[4]
- The state legislature can amend any part of the act that furthers its purpose with a two-thirds vote. So the act introduces the possibility that the tax will not be one time, that it will not just stop at billionaires, and that it could fund various initiatives beyond its initial scope [Sec. 50310].

6. OPEN QUESTIONS

- How many billionaires left quietly, beyond the six who announced it? The true erosion of the base is not yet knowable.
- Is a one-time wealth tax really one time? Proposition 30's "temporary" 2012 rates were extended by Proposition 55 and still exist. If Proposition 40 succeeds, the valuation machinery and the constitutional authority to tax wealth will remain available to the next initiative.
- How will the private-business valuation formula—ownership share times book value plus 7.5 times average book profits—hold up against a decade of audits on the best-lawyered taxpayers in the country [1, Sec. 50303]?
- Will the federal courts allow California to tax people who moved away, based on a residency date set before the vote [1, Sec. 50306]?
- If revenue falls as short as our estimate suggests, what fills the Medi-Cal gap when the fund runs dry?

7. THE QUESTIONS TO ASK BEFORE YOU VOTE

Nearly a third of the taxable wealth has already left the state before this tax can take effect. When you count the income taxes those residents would have paid every year going forward, would California actually come out ahead with this proposition, or has it traded a one-time check for a permanent hole in its most important revenue source?

The firms these billionaires anchor employ hundreds of thousands of Californians, and by one Hoover estimate roughly a quarter million jobs have already departed to other states. The measure asks about two hundred people to pay. Have you thought about the hundreds of thousands whose paychecks, contracts, and local services depend on those same people staying?

ENDNOTES

[1] Full text, Initiative 25-0024A1, "The 2026 Billionaire Tax Act," as amended November 24, 2025, California Office of the Attorney General: https://oag.ca.gov/system/files/initiatives/pdfs/25-0024A1%20(Billionaire%20Tax%20).pdf.

[2] Benjamin Jaros, Joshua D. Rauh, Gregory Kearney, John Doran, and Matheus Cosso, "The Net Present Value of the Billionaire Tax Act: An Assessment of the Fiscal Effects of California's Proposed Wealth Tax," Hoover Institution, March 4, 2026: https://www.hoover.org/research/net-present-value-billionaire-tax-act-assessment-fiscal-effects-californias-proposed.

[3] Brian Galle, David Gamage, Emmanuel Saez, and Darien Shanske, "Expert Report on the California 2026 Billionaire Tax," Research Paper No. 2026-01 (University of Missouri School of Law Legal Studies, December 31, 2025): https://eml.berkeley.edu/~saez/galle-gamage-saez-shanskeCAbillionairetaxDec25.pdf.

[4] Joshua Rauh and Ryan Shyu, "Behavioral Responses to State Income Taxation of High Earners: Evidence from California," *American Economic Journal: Economic Policy* 16, no. 1 (2024): https://www.aeaweb.org/articles?id=10.1257/pol.20200500.