CALIFORNIA DECIDES

**PROPOSITION LAB** | **Proposition 40**


# PROP 40:
# THE BILLIONAIRE TAX ACT


## Summary

Proposition 40 would create a California wealth tax. It would likely raise tax revenue in the short run, but the bigger issue is whether California comes out ahead in the long run. This requires accounting for the permanent income tax losses from departing billionaires (estimated to be a net $25 billion loss) and the tax revenue losses from their businesses and start-ups. The tax also suffers from a timing mismatch with the reduced federal grants it is meant to address and faces substantial constitutional and administrative challenges.


## 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 healthcare**.**
- **A vote NO means:** No wealth tax is imposed, and current tax law is unchanged.
- **Full legal text:** Initiative 25-0024A1, Office of the Attorney General (PDF)[1]
- **Legislative Analyst's Office analysis:** Summary of Major Fiscal Effects

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### 1. WHAT, WHERE, WHEN, WHY?

- **What would it do? (And how much would it cost or raise?)**
  A one-time 5 percent levy on total net worth for individuals with assets 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 cause California to lose at least $25 billion for the state over the long run.[2]

- **Where would it have jurisdiction?**
  Statewide, on individuals who were California residents on January 1, 2026. More importantly, the measure claims authority to tax *worldwide assets* with default apportionment of 100 percent to California. This means that the measure effectively assumes that each household affected by the tax resides fully in California and has no conflicting tax liabilities elsewhere. There will be a petition process to appeal this assumption for taxpayers whose wealth has thin California ties.

  That claim faces two constitutional obstacles. First, the US Commerce Clause requires a degree of fair apportionment of interstate assets—a vulnerability the measure's own text concedes by acknowledging its formula may be "held invalid" [1, Sec. 50306 (b) (8)].[3] Second, regarding assets of foreign nationals located beyond US borders, California cannot unilaterally extend its taxing authority past the federal government's own reach under the Supremacy Clause.

- **When would it go into effect?**
  Residency status was set on January 1, 2026. Notably, this was just seventy-seven days after the ballot proposition was filed and more than five months before it qualified for the ballot.

  Net worth would be measured on December 31, 2026. Lump-sum payment (which would be a minimum of $55 million for a taxpayer with $1.1 billion in assets) would be due just months later, by April 15, 2027, or could be spread over five years. Spreading the payment equally over five years would impose an additional deferral charge equal to 15 percent of the original amount.

  A built-in lawsuit runs on the measure's own clock, targeting a California Supreme Court ruling by November 1, 2027. This is an implicit acknowledgment that the measure will generate legal challenges, but that is unlikely to be the end of the story. Hoover Institution research highlights the nine European countries which have repealed their own wealth taxes, in part because administration of the tax was so costly that the revenue wasn't worth it.[4]

- **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. 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.[5] 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, meaning that state leaders can avoid the additional cost if they want to.

## 2. THE LEGAL LANGUAGE

- **Full text:** Initiative 25-0024A1, "The 2026 Billionaire Tax Act," California Office of the Attorney General) (thirty-two 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.
  - 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.

## 3. OVERVIEW

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 0 percent at $1.0 billion and 5 percent at $1.1 billion. A married couple is treated as a single taxpayer.

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

Not all assets are included in the net worth calculation. Directly held real estate is excluded, which sidesteps a fight with Proposition 13 restrictions. 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.

The revenue from this tax is not allowed to go into the general fund. The 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 budget rules. The revenue is earmarked: 90 percent goes to healthcare and 10 percent to education and food assistance, with annual spending caps of $22.5 billion and $2.5 billion. This 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.

## 4. THE PROPONENTS' CASE

Proponents claim the wealth tax will generate $100 billion in revenue from approximately 200–250 billionaires with roughly $2 trillion in aggregate wealth. They intend for the revenue to offset reductions in federal Medi-Cal funding under the One Big Beautiful Bill Act, which covers roughly one in three Californians. The measure earmarks 90 percent of tax collections to healthcare and 10 percent to education and food assistance.

California billionaire wealth grew 144 percent in three years from $843 billion in 2022 to over $2 trillion by the end of 2025. Since 1982, the inflation-adjusted wealth of the billionaires has grown thirtyfold, while the average Californian's inflation-adjusted income roughly doubled. Proponents argue that the difference comes from a lower tax burden and that since the billionaires benefited from California's business environment, they should pay some of their wealth to support the social safety net. Proponents also note that corporate income taxes, apportioned by in-state sales rather than owner residence, remain in California regardless of whether individual billionaires depart.

Proponents argue that the seventy-seven-day window between the act's filing and January 1, 2026, residency date made it virtually impossible for any billionaire to establish legal domicile in another state. Changing residency requires more than a forwarding address; it involves severing ties, relocating daily life, and satisfying the Franchise Tax Board's multifactor residency standard. For this reason, they argue that any departures announced during that window are declarations of intent, not completed changes of legal residence, and the state will prevail in those disputes.

Proponents maintain that the act's constitutional challenges are winnable and that the measure is designed to survive them. The ballot measure's severability clause instructs courts to preserve enforceable provisions of the act, even if individual sections are struck down. The proponents' legal experts argue the formulaic valuation rules, the trust lookback, and the deferral account make substantial collection feasible. The act's own text anticipates and addresses several categories of legal challenge [1, Sec. 50311].[6] If the attorney general declines to defend the act, section 9 authorizes any California citizen to litigate on its behalf and charge the fees to the attorney general's office.

### 5. THE OPPONENTS' CASE

Critics argue that the $100 billion figure overstates collectible revenue even before incorporating the behavioral response of taxpayers. They point out the proponents fail to exclude directly held real estate, pensions, and retirement accounts from the tax base, and that valuation disputes over the value of privately held businesses will further reduce assessed asset value.

They also point out that observed departures from the state offer direct evidence that the tax base has already eroded. At least six billionaires publicly left California between the measure's filing date and January 1, 2026, including Sergey Brin and Larry Page, the two wealthiest individuals on the list. Those departures alone remove roughly $536 billion from the tax base, and many others may have left without a public announcement.

California's Legislative Analyst's Office projects revenue of only "tens of billions" and stresses that the estimate is uncertain.[7] California already draws roughly 40 to 50 percent of its income tax collections from the top 1 percent of earners, and previous Hoover Institution research has highlighted how Prop 30's (2012) increased income taxes motivated almost 1 percent of the affected households to leave the state the next year.[8] The Legislative Analyst's Office acknowledges that there will be lost income tax collections from this group.

Perhaps more important is that Section 50310 of the act permits the legislature to amend any provision by a two-thirds vote. This means that the threshold of $1 billion in assets, the tax rate, and the "one-time" nature are all elements that the legislature can change, either immediately or sometime in the future.

Moreover, the state has a history of making temporary taxes permanent. Proposition 30's "temporary" income tax surcharge, enacted in 2012, was extended by Proposition 55 in 2016. It remains in effect today, and Proposition 3 on the ballot this November would make it permanent.

Furthermore, the act's revenue does not match the obligation it is meant to address in either timing or structure. Roughly two-thirds of the federal Medi-Cal reductions under the One Big Beautiful Bill Act are concentrated after 2030, but one-time wealth tax collections, net of income tax losses, are projected to be exhausted by 2029. The measure earmarks 90 percent of revenue to healthcare but does not require the legislature to allocate those funds specifically to offset the federal reductions, meaning the stated fiscal rationale is not binding on how the money is spent.

Lastly, if passed the measure is certain to be subject to multiple legal challenges that will likely reduce the tax revenue collected and will certainly delay the tax receipts. The measure itself includes a validation lawsuit that runs into 2027, and federal challenges could extend beyond that.

### 6. ANALYSIS AND ASSESSMENT

The central question voters should consider is not whether billionaires can afford to pay a one-time 5 percent wealth tax. The better question is whether the state comes out ahead.

In the best case, ignoring every offsetting loss, Hoover Institution research calculates that the tax will collect about $40 billion over five years, not the $100 billion that proponents claim.[9] However, this does not fully account for behavioral changes to avoid taxation, which are natural and should be expected. Nor does it include the effect of reduced income taxes that departing wealthy individuals take with them. And no analysis has yet had sufficient time to analyze the other indirect effects of the act. Most notably, what impact will the outmigration of business leaders have on start-ups and employment, and how much of that tax revenue will be lost?

The one-time framing of the wealth tax understates the fiscal consequences of the act because it ignores the indirect and ongoing effects. 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.

When this loss is analyzed as a growing perpetuity, even a modest fraction of billionaire departures results in a net loss of tax revenue. This is because the present value of many years of lost income tax revenue exceeds the one-time wealth tax revenue. Once those recurring losses are counted against the one-time haul, the measure will cause a loss of $25 billion at best. The state loses more from future income tax revenue than it collects in the wealth tax. This measure can raise money in the short run and still leave California worse off in the long run.

Moving beyond billionaires' direct tax revenue, there is also a question of their departures' impact on jobs and economic growth. Start-ups are a key element of California's economy. When founders leave, future economic growth and job opportunities leave with them. A departing founder will not move all their jobs at once, but a Hoover Institution analysis illustrates that over time the job growth that would have otherwise occurred in California will be redirected to states with better business climates, as shown in the experiences of Tesla, Oracle, and other firms.[10] As a result, raising current revenue through wealth taxes risks future economic growth, job creation, and the tax revenue that they would generate.

Moreover, administering the tax will be complicated, costly, and controversial. Hoover Institution research showcases why nine out of the twelve European countries that had wealth taxes in 1990 had repealed them by 2025.[11] This was because wealth tax administration is costly, requiring complex valuation of assets and responding to ongoing legal challenges. It also motivated tax-avoidant behavior, such as shifting assets and outmigration. And it discouraged business formation or expansion in the tax jurisdiction, leading to the net revenue from the wealth tax being low or even negative.

California will face these same difficulties in administering a wealth tax. The excluded value of real estate, pensions, and retirement accounts will reduce the overall wealth of the targeted households, legal challenges to valuation will reduce the amounts collected, and installment and deferral elections will stretch tax collections over years.

In addition, the act imposes a valuation formula for the ownership of private businesses which calculates net worth as a person's ownership share multiplied by the book value, plus 7.5 times the average book profits.[12] This formula could create a taxable asset value so high that it exceeds 100 percent of the company's private ownership value, meaning that it will certainly face sustained litigation from taxpayers with the resources to contest every audit.

The act also faces constitutional challenges that could reduce collectible revenue, independent of any behavioral response. The measure claims authority to tax worldwide assets with a default 100 percent apportionment to California. But the Commerce Clause requires fair apportionment of interstate wealth, and the Supremacy Clause limits California's ability to tax assets of foreign nationals located beyond the federal government's own jurisdictional reach. The measure's own text concedes these vulnerabilities: Section 50306(b)(8) acknowledges that the apportionment formula may be "held invalid," and the severability clause instructs courts to reform dates and provisions rather than strike the act entirely, effectively inviting years of litigation over which portions survive.[13]

Proponents argue the seventy-seven-day window between filing and the residency date was too short for anyone to establish domicile elsewhere. However, 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.

Regardless of how residency disputes are ultimately resolved, every contested departure increases the state's enforcement costs, extends the collection timeline, and reduces the certainty of revenue the act is designed to deliver. Furthermore, the departures reveal two important things: (1) if the tax imposed no real burden, billionaires would not relocate, and (2) if those departing billionaires were certain of winning their residency disputes with the state, they would not need to invest significant resources in defeating the measure.

## ENDNOTES

[1] 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] Initiative 25-0024A1, "The 2026 Billionaire Tax Act," Sec. 50306(b)(8).

[4] Joshua D. Rauh, Benjamin Jaros, Matheus Cosso, and John Doran, "Wealth Tax Primer," Hoover Institution, February 18, 2026: https://www.hoover.org/research/wealth-tax-primer.

[5] Joshua D. Rauh, Benjamin Jaros, Daniel Heil, and Tom Church, "Medi-Cal and One Big Beautiful Bill: Federal Medicaid Reforms and the Fiscal Premise of California's Billionaire Tax Act," Hoover Institution, May 27, 2026: https://www.hoover.org/new-hoover-paper-challenges-fiscal-rationale-california-billionaire-wealth-tax.

[6] Initiative 25-0024A1, "The 2026 Billionaire Tax Act," Sec. 50311.

[7] Legislative Analyst's Office, "Proposition 40: Imposes One-Time Tax on Certain Taxpayers. Initiative Constitutional Amendment and Statute," Legislative Analyst's Office, 2026: https://lao.ca.gov/ballot/2026/prop40-110326.pdf.

[8] Joshua D. 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.

[9] Jaros et al., "The Net Present Value of the Billionaire Tax Act."

[10] Joshua D. Rauh and Lincoln Gerstner, "California's Anchor Firms are Hiring. Just Not in California," The Fiscal Reality Check, May 26, 2026: https://fiscalrealitycheck.substack.com/p/californias-anchor-firms-are-hiring.

[11] Rauh et al., "Wealth Tax Primer."

[12] Initiative 25-0024A1, "The 2026 Billionaire Tax Act," Sec. 50303.

[13] Initiative 25-0024A1, "The 2026 Billionaire Tax Act," Sec. 50306(b)(8).