

### PROP 3: THE PERMANENT HIGH-INCOME TAX INITIATIVE

#### Summary

Proposition 3 would take the Prop 30 higher personal income tax rates on top earners and make them permanent. Voters approved Prop 30 as a temporary measure in 2012 to close a budget shortfall. The measure was then extended in 2016 under Prop 55. Under current law the increased taxes expire after the 2030 tax year, so a yes vote is, in effect, a tax increase from 2031 onward compared with the law as it now stands. Hoover Institution research on the 2012 rate increase found that high earners' responses to the higher tax rates, either by leaving the state or reporting less income, erased much of the revenue the higher rates were expected to raise.

Other Hoover Institution research shows that California's budget already depends to an unusual degree on a small, mobile group of taxpayers whose income tends to be dependent on stock market performance. It also finds that much of the money raised for schools has been absorbed by rising pension costs rather than reaching classrooms.

Proposition 3 would enshrine into the state constitution increased fiscal dependence on a variable tax with no future date for voters to revisit the decision.

#### Quick Facts

- **Official ballot title:** "Provides Permanent Funding for Schools and Health Care by Extending Existing Tax on High Incomes. Initiative Constitutional Amendment."<sup>1</sup>
- **Measure's own name:** The California Children's Education and Health Care Protection Act of 2026 (AG No. 25-0016).
- **Type:** Initiative constitutional amendment
- **A vote YES means:** The temporary higher personal income tax rates on top earners become permanent instead of expiring after the 2030 tax year. Taxable income above about \$371,000 for single filers and \$743,000 for joint filers (2025 tax brackets, adjusted annually for inflation) would continue to face marginal rates of 10.3 to 12.3 percent and of 13.3 percent on income above \$1 million.
- **A vote NO means:** The higher tax rates expire on schedule. Beginning in 2031, the top rate would return to 9.3 percent (plus the separate 1 percent income tax surcharge on income above \$1 million, for a combined top rate of 10.3 percent).
- **Full legal text:** [Initiative 25-0016, Office of the Attorney General \(PDF\)](#)
- **LAO analysis:** [Proposition 3, Legislative Analyst's Office \(PDF\)](#)

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## 1. OVERVIEW

Proposition 3 would remove the expiration date on the higher personal income tax rates that California voters first approved as Proposition 30 in 2012. These temporary taxes were intended to forestall additional education budget cuts in the wake of tax revenue declines following the Great Recession.<sup>2</sup> They were set to expire after 2018, but Proposition 55 in 2016 extended the taxes through 2030 and added the formula for the taxes to fund Medi-Cal when revenues exceed specific benchmarks.

Now Prop 3 would make these taxes—1, 2, and 3 percentage point surcharges on top of the state's 9.3 percent bracket—permanent. Combined with the separate 1 percent surcharge tax on personal income above \$1 million (created by Proposition 63 in 2004), the Prop 30 income tax surcharges give California the highest top marginal personal income tax rate in the nation, at 13.3 percent. This rises further to 14.6 percent on wage income once the now-uncapped state disability insurance payroll tax is included.

These income tax surcharges fall on roughly the top 2 percent of tax filers in any given year, a group that already pays about half of all state income taxes. Because much of their income comes from highly variable capital gains, stock options, and business sales, the Legislative Analyst's Office (LAO) expects the revenue at stake to swing between about \$5 billion in a weak year and \$15 billion in a strong year.<sup>3</sup>

Supporters stress that Proposition 3 does not raise anyone's rate this year. That is true—but incomplete. Current law already schedules these rates to end after 2030, so the relevant comparison is not today's tax bill but the one taxpayers would face in 2031. Measured against current law, a yes vote raises taxes on affected earners from that point forward, permanently. The LAO's own description of a yes vote is that "an income tax increase on high-income earners" would become permanent.<sup>4</sup>

Despite Prop 30 originally being advertised as necessary to avoid education funding cuts, the tax doesn't provide as much additional state funding for schools as would be expected on the surface. The tax revenue flows into the state's general fund and is held in the Education Protection Account (EPA), whereupon it is disbursed to schools (89 percent) and community colleges (11 percent). However, because the EPA counts as general fund revenue, and Prop 98 only mandates (under the formula currently in effect) that about 40 percent of the general fund goes to education, only about 40 percent of Prop 30's tax revenue actually represents an increase to school funding. Except for special circumstances, the remaining 60 percent of the EPA doesn't necessarily increase school-related expenditures because those dollars count toward the Prop 98 guarantee. This means that policymakers can use the funding to replace other obligatory general fund education expenditures on a dollar-for-dollar basis.<sup>5</sup>

In years when the state's general fund revenues exceed both the Proposition 98 education spending guarantee and the cost of maintaining existing state programs, half of the excess (up to \$2 billion, as stipulated by Prop 55) goes to Medi-Cal health services.<sup>6</sup> The remainder supports other general fund programs and budget reserves. In summary, what was initially framed as a temporary tax to avoid cuts to education funding has shifted to effectively become ordinary California tax revenue and is poised to become permanent.

## 2. THE LEGAL LANGUAGE

- **Full text:**  
Initiative 25-0016, "The California Children's Education and Health Care Protection Act of 2026," California Office of the Attorney General (filed August 29, 2025).<sup>7</sup>
- **Key language:**  
The important change is actually the deletion of the expiration date for the higher tax brackets.
- **What it amends:**  
Section 36 of Article XIII of the California Constitution, the section created by Proposition 30 and extended by Proposition 55. Because the change is constitutional, the legislature cannot repeal or reduce the rates—only another statewide vote could change the tax rates.

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

- **What?**

A permanent extension of the 1, 2, and 3 percentage point personal income tax surcharges on high earners, which would otherwise expire after the 2030 tax year.

- **Where?**

Statewide, written into the state constitution at Article XIII, Section 36.

- **When?**

On the November 3, 2026, ballot. If it passes, the rates never expire. If it fails, the last tax year of the higher rates is 2030.

- **Why?**

The measure's sponsors, led by the California Teachers Association, frame making the tax permanent as protecting school and children's healthcare funding from what would otherwise be a revenue loss. Opponents, led by the California Taxpayers Association, argue that Californians already pay among the nation's highest taxes and that Sacramento should fix its excessive spending before making temporary taxes permanent.

## 4. ANALYSIS AND ASSESSMENT

The LAO's estimate that the Prop 30 income tax surcharge is worth from \$5 billion to \$15 billion in revenue is effectively a static figure: It assumes that high earners keep living, working, and reporting income in California exactly as they would without the tax. Hoover Institution research examines this assumption directly. Using the full dataset of California tax returns, Hoover Senior Fellow Joshua D. Rauh and coauthor Ryan Shyu studied what happened after Proposition 30 raised top rates in 2012—0.8 percent more of the top-bracket tax base left the state in 2013 than otherwise would have been expected without the tax change. Moreover, the high earners who stayed reported substantially less taxable income; counterintuitively, this was actually the larger effect. Together, these responses erased 45.2 percent of the expected revenue gain in the first year and 60.9 percent of the total gain within the first two years.<sup>8</sup>

A companion Hoover analysis noted that the 2017 federal tax reform which created a cap on state and local tax deductions hit high-income Californians with a force equivalent to 82 percent of another Proposition 30 tax increase. It suggested that the state was likely on the wrong side of the Laffer curve, meaning that increasing the top income tax rates was actually reducing the total tax revenue collected.<sup>9</sup>

Similarly, in an October 2026 op-ed on Proposition 3 itself, Rauh and Hoover fellow Gregory Kearney argue that the top-bracket tax rates are now money losers for California. Before the 2017 cap on state and local tax deductions, high-income Californians could deduct much of their state tax bill on their federal returns. This had the effect of softening the impact of the income tax surcharges. Once the cap took effect, the surcharges imposed by Prop 30 began bearing close to their full weight on the state's high-income households, which sharpened the incentive to move or restructure income. By the authors' estimates, since 2018 the state has been losing more tax revenue from departing taxpayers or erosion of the tax base than it collects from those that remain.<sup>10</sup>

Supporters of Prop 3 reply that high earners have not fled California, pointing to studies that find modest migration among millionaires. But Rauh's earlier findings show why that reply misses the point: Departures accounted for less than a tenth of the lost revenue. Most of the erosion came from taxpayers who stayed and reported less income. This could have occurred by realizing fewer capital gains, shifting business activity to other taxing jurisdictions, or simply working less (or perhaps accepting other forms of income). Effectively, Prop 30 has provided a textbook example of how a tax base can shrink without anyone moving away.

Proposition 3 would also enshrine a revenue structure that Hoover research identifies as a major source of California's fiscal instability. Hoover Senior Fellow Lee E. Ohanian shows that the top 1 percent of California households now provides

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roughly 40 to 50 percent of all personal income tax revenue and that the top 10 percent pay almost 90 percent.<sup>11</sup> Because high-earning households tend to receive a large portion of their income from the stock market, which is highly variable, California's personal income tax revenue surged by 55 percent in 2021 and then fell nearly 35 percent in 2023.

This feast-or-famine paradigm creates complications for funding ongoing programs and exposes California to revenue risk that it has little control over.<sup>12</sup> Rauh and coauthor Jillian Ludwig describe this fragility as “baked into the system” and recommend steering more capital gains revenue into reserves rather than ongoing spending.<sup>13</sup> Proposition 3 does the opposite: It treats the most volatile revenue in the state as a permanent foundation for ongoing commitments.

Moreover, the phrase “the top 2 percent of tax filers” somewhat misrepresents who pays the Prop 30 income tax surcharges. This is because those who pay the tax are not solely a group of consistent high earners. Some Californians would cross the relevant tax threshold only in the year they sell a home they have owned for decades or a small business they built. Capital gains from home sales are taxable when they exceed the home-sale exclusion of \$250,000 for single filers and \$500,000 for joint filers. Citing a 2025 Redfin analysis, Rauh and Kearney note that 62 percent of California homes have appreciated at least \$250,000 in value over their last sale price, and 33 percent had appreciated by at least \$500,000.<sup>14</sup> This suggests that a sizable share of California homeowners would see large one-time gains that could push them into the surcharge brackets in the year they sell. Owners of pass-through businesses, who report business profits on their personal returns, would also face these surcharges in successful years or years where they sell their businesses.

The biggest argument made in favor of Proposition 3 is premised on public schools not losing existing funding. However, Hoover research raises the question of where the increased funding has actually gone. By Rauh and Kearney's calculations, the annual pension contributions for California's K–12 school districts almost tripled between 2015 and 2023 to about \$13 billion (excluding teachers' own contributions).<sup>15</sup> Over that period, the share of school employee spending devoted to pensions nearly doubled, from about 7 percent to more than 13 percent.<sup>16</sup> If school districts had held pension costs at their 2015 share, Rauh and Kearney estimate, nearly \$6 billion more would have been available for other education priorities last year alone.<sup>17</sup> In other words, Prop 30's income tax surcharges appear to a large extent to be funding increased retirement benefits.

## CONCLUSION

Proposition 3 would turn a tax that voters were told was temporary into a permanent feature of the California Constitution. Compared with current law, it raises taxes on high earners from 2031 onward. Hoover Institution research suggests the revenue it protects is considerably smaller than the official estimate because the state's most mobile taxpayers respond to higher rates by leaving or by reporting less income. It would also lock in California's reliance on a narrow and volatile tax base while doing nothing to address the pension costs that have absorbed much of the money raised in the name of schools.

## ENDNOTES

<sup>1</sup> California Secretary of State, Proposition 3, Official Voter Information Guide, November 3, 2026, <https://voterguide.sos.ca.gov/propositions/3/index.htm>.

<sup>2</sup> California Secretary of State, Proposition 30 arguments and rebuttals, Official Voter Information Guide, California General Election, Tuesday, November 6, 2012, <https://vigarchive.sos.ca.gov/2012/general/propositions/30/arguments-rebuttals.htm>.

<sup>3</sup> Legislative Analyst's Office (LAO), "Proposition 3: Provides Permanent Funding for Schools and Health Care by Extending Existing Tax on High Incomes. Initiative Constitutional Amendment," <https://lao.ca.gov/ballot/2026/prop3-110326.pdf>.

<sup>4</sup> LAO, "Proposition 3."

<sup>5</sup> Pleasanton Unified School District, "Education Protection Act Account (Prop 30)," accessed October 27, 2026, <https://www.pleasantonusd.net/departments/business-services/fiscal-services/education-protection-act-account-prop-30>.

<sup>6</sup> LAO, "Proposition 55: Tax Extension to Fund Education and Healthcare. Initiative Constitutional Amendment," <https://lao.ca.gov/ballot/2016/Prop55-110816.pdf>.

<sup>7</sup> "The California Children's Education and Health Care Protection Act of 2026," Initiative 25-0016, submitted to the Office of the California Attorney General, August 29, 2025, <https://oag.ca.gov/system/files/initiatives/pdfs/25-0016%20%28%26quot%3BThe%20California%20Children%26%23039%3Bs%20Education%20and%20Health%20Care%20Protection%20Act%20of%202026%26quot%3B%29.pdf>.

<sup>8</sup> 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): 34–86, <https://doi.org/10.1257/pol.20200500>.

<sup>9</sup> Joshua D. Rauh, Ryan Shyu, and Gregory Kearney, "A Proposition 30 Explainer," *Defining Ideas*, October 31, 2019, <https://www.hoover.org/research/proposition-30-explainer>.

<sup>10</sup> Joshua Rauh and Gregory Kearney, "Proposition 3 Would Make California's Tax Hike Permanent. Voters Should Ask Where the Money Goes," *Orange County Register*, October 2, 2026, <https://www.ocregister.com/2026/10/02/proposition-3-would-make-californias-tax-hike-permanent-voters-should-ask-where-the-money-goes/>; republished as Rauh and Kearney, "It's Not Just the Wealth Tax on the Ballot. Prop 3 Would Cement California's Sky-High Income Tax Rates," *The Fiscal Reality Check* (Substack), October 19, 2026, <https://fiscalrealitycheck.substack.com/p/its-not-just-the-wealth-tax-on-the>.

<sup>11</sup> Lee E. Ohanian, "How Much Longer Will the Top 1 Percent Save California's Budget?" *California on Your Mind*, May 19, 2026, <https://www.hoover.org/research/how-much-longer-will-top-1-percent-save-californias-budget>.

<sup>12</sup> LAO, "The 2026-27 Budget: Proposition 98 Guarantee and K-12 Spending Plan," February 4, 2026, [https://lao.ca.gov/reports/2026/5110/2026-27\\_Prop98\\_020426.pdf](https://lao.ca.gov/reports/2026/5110/2026-27_Prop98_020426.pdf).

<sup>13</sup> Joshua D. Rauh and Jillian Ludwig, "The California State Budget and Revenue Volatility: Fiscal Health in a Deficit Context," March 29, 2023, <https://www.hoover.org/research/california-state-budget-and-revenue-volatility-fiscal-health-deficit-context>.

<sup>14</sup> Rauh and Kearney, "It's Not Just the Wealth Tax."

<sup>15</sup> Rauh and Kearney, "It's Not Just the Wealth Tax."

<sup>16</sup> Rauh and Kearney, "It's Not Just the Wealth Tax."

<sup>17</sup> Rauh and Kearney, "It's Not Just the Wealth Tax."