

A new study says Prop. 40 could lose revenue for the state.

California's Wealth Tax Boomerang

The history of wealth taxes is that they raise much less revenue than hoped as targeted taxpayers find ways to avoid them. That looks to be the case with California's wealth tax ballot measure (Proposition 40), which a new paper by the Hoover Institution's Joshua Rauh and Benjamin Jaros estimates will result in a net revenue loss of \$38.9 billion.

The SEIU United Healthcare Workers West and its friends are selling Prop. 40 as a "onetime" 5% tax on the wealth of residents with more than \$1 billion in net worth. They claim the tax will raise \$100 billion in revenue from 200 billionaires. This is a risky gamble that may backfire, as the Hoover paper explains.

Seven billionaires with \$539.9 billion in wealth moved out of California between the initiative's filing last autumn and the date at which residency would be determined for purposes of assessing the tax (Jan. 1, 2026), according to public reports. That means nearly 30% of Prop. 40's estimated \$1.9 trillion potential tax base has already disappeared.

Other billionaires may have moved out of the state this year and may still avoid the tax if it passes, since courts might strike down its retroactive application. The economists identify at least eight Prop. 40 legal vulnerabilities, including its assessment of a taxpayer's worldwide assets and dubious valuation methods for nonpublicly traded assets. What are the chances Prop. 40 survives all legal challenges? Slim. The economists in their analysis take into account the risk that some or all provisions of Prop. 40 get overturned. This would further shrink the potential tax base.

The state will also lose annual income tax payments from billionaires who leave. The Hoover economists estimate that the state's billionaires pay between \$3.3 billion and \$5.8 billion annually in state income tax. Absent Prop. 40, these income-tax payments would grow with incomes. The economists estimate these reduced payments would exceed wealth tax revenue.

"The state's cash flows will have a pattern similar to that of the sale of a financial security: the state receives an up-front payment today from one narrow group of taxpayers in exchange for a lost stream of payments in the future," the paper explains. The overall result will be a revenue loss of \$38.9 billion to the state.

Prop. 40 has already done damage, and if it passes, expect more pain than gain.

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