

# WSJ Print Edition

*The left is pushing a referendum that will force him to choose.*

## Gavin Newsom Has a Wealth Tax Dilemma

### REVIEW & OUTLOOK

What would Democrats in Sacramento do if they didn't have billionaires to pay their bills? The prospect is suddenly occurring to Gov. Gavin Newsom as a union-backed referendum for a wealth tax risks driving away the state's private-jet class.

Mr. Newsom has denounced our editorials over the years highlighting legislative proposals to establish a wealth tax. "Wealth taxes are going nowhere in California," he has insisted. Not so fast. A wealth tax may be going to voters this November.

The Service Employees International Union-United Healthcare Workers West (SEIU-UHW) has filed a ballot initiative for the 2026 general election that would impose a one-time (supposedly) wealth tax of 5% on state residents with more than \$1 billion in net worth. The union says the tax would hit 200 billionaires.

The tax would apply to billionaires deemed state residents as of Jan. 1, 2026. It would also apply to their trusts. The New York Times reported this week that venture capitalist Peter Thiel and Google co-founder Larry Page were looking to vamoose before year's end. Better keep all receipts and flight logs.

California tax authorities pursued inventor Gilbert Hyatt for decades after he moved to Nevada in the early 1990s. The state claimed he faked the move to dodge millions of dollars in taxes and allegedly rummaged through his trash for evidence of California residence. After a nearly 25-year battle, he won. Imagine how Sacramento's Captain Ahabs will pursue flight risks when tens of billions of dollars in tax revenue are at stake.

The tax would be assessed on the shares in public companies at their market value as of Dec. 31, 2026. If share prices later decline, tough. Billionaires would have to pay tax on the "fair market value" of illiquid and intangible assets—e.g., private equity stakes, patents, artwork—based on a certified appraisal.

The only asset exceptions would be real estate, pensions and retirement accounts. Billionaires would likely have to liquidate stock holdings—and pay 13.3% state income tax on their capital gains—or borrow against assets to pay the wealth tax.

The SEIU-UHW claims the wealth tax will generate \$100 billion in revenue and mitigate reductions in federal Medicaid spending in the GOP's tax bill. "Over the next ten years, federal cuts to Medi-Cal alone are projected to total approximately \$190 billion," the initiative says. This is false. The state Legislative Analyst's Office recently said the GOP tax bill's Medicaid and food-stamp reforms will add \$1.3 billion to the state's \$18 billion budget shortfall this year. That's nothing compared to the \$120 billion the feds will pay to Medi-Cal this year.

California's real fiscal problem is that revenue can't keep pace with Democratic spending. The wealth tax won't fix California's deficits. It will make the state's budget problems worse by driving out top earners. The top 1% pay half of the state's income tax.

Silicon Valley Rep. Ro Khanna says a onetime tax on wealth won't undermine the incentive to create and grow businesses in the state. His venture-capital donors should demand refunds. The initiative is a warning to anyone with wealth or stock options to flee.

Even Mr. Newsom seems to get this. The Governor's spokesperson says he opposes "state-level wealth taxes" because they drive away affluent people. But California's high income taxes do too. Notice that Mr. Newsom isn't opposing

confiscatory taxes on principle. With his eye on the White House, look for him to endorse a federal tax on unrealized capital gains, as Joe Biden did.

Alex Spiro, a lawyer who represents wellheeled Californians, is urging Mr. Newsom to stop the initiative. “It will trigger an exodus of capital and innovation from California,” Mr. Spiro last month wrote to the Governor. “Our clients have made clear they will permanently relocate if subjected to this tax.”

Mr. Newsom could sue to block the initiative from the ballot, which is what he did to kill a referendum in 2024 that sought to make it harder for Sacramento to raise taxes. The state Supreme Court ruled for Mr. Newsom, holding that the anti-tax initiative “would substantially alter our basic plan of government.” This better describes a wealth tax.

As he gears up for a presidential bid, Mr. Newsom has some choices to make between the California left and the centrist voters he’d need to win nationally. Does he worry more about losing progressives, or the taxpayers who bankroll his state?

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