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Faced with an onerous levy on assets, taxpayers will vote against it at the ballot box or with their feet.

California Wealth Tax Backers Ignore Proposition 13 Lessons

By Jon Hartley And Arthur Laffer

California is flirting with a new and destructive tax. A proposed ballot initiative, the 2026 Billionaire Tax Act, would impose a one-time 5% levy on the net worth of California residents with more than $1 billion, calculated as of Jan. 1, 2026, with payment due in 2027 and an option to spread payments over five years at an added charge.

While the tax would be a "onetime event," nothing would prohibit similar initiatives in the future. Supporters call it a tax on billionaires, but in practice it would be a giant, government-mandated liquidation event for people whose wealth is often tied up in illiquid business equity. It also contains a feature that should make any taxpayer uneasy: It would be retroactive to the start of 2026.

California has seen this movie before, and the voters wrote the ending in 1978 with Proposition 13, a constitutional amendment that limited property-tax increases.

In the 1970s, inflation and rising home values pushed property assessments sharply upward. Many households, especially retirees, watched property-tax bills double over short reassessment cycles even though their cash incomes hadn't changed. That tax system was arbitrary and confiscatory because it treated asset appreciation on unrealized gains as if it were cash income.

Note

Proposition 13 was a voter-initiated correction. It capped property tax rates at 1% of assessed value and limited assessment increases to 2%, restoring predictability and a sense that taxation should be tethered to economic reality. Whatever one thinks of Proposition 13's trade-offs, its political logic was simple: A tax base that jumps with market prices rather than realized transactions or actual cash flow is particularly painful to taxpayers and thus will inevitably provoke a backlash. Its passage sparked a broader taxpayer revolt that reshaped fiscal politics nationally in the late 1970s.

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The difference today is the margin of adjustment: Property taxes collapsed politically because housing is immobile and the burden affected millions of voters, while a wealth tax collapses economically because financial capital is highly mobile and high earners can move. The issue here isn't only mobility. It's also asset value deflation. After Proposition 13, California property values rose. After this initiative, California asset values will fall.

The California wealth-tax initiative revives the same core design mistake, but with faster consequences. It taxes ownership, not income. Even when labeled "onetime," it requires valuing hard-toprice assets and constructing the machinery needed to tax wealth directly. That turns volatility into fiscal policy and establishes a precedent that can easily be repeated. If California can impose a retroactive 5% charge on wealth today, it can do so again tomorrow.

When assets acquire a recurring carrying cost such as a wealth tax, markets reprice them downward. A perpetual bond worth $600,000 paying $48,000 a year (an 8% yield) subjected to a permanent 1% annual wealth tax would be repriced to roughly $525,000 so that investors still earn an 8% after-tax return. To collect $6,000 a year, the state de--stroys about $75,000 in private wealth. A 5% tax with no credible commitment to remain one-time would imply far larger valuation losses.

The effects would be felt broadly. The useful capital of the superrich plays a large role in determining the overall level of employment and compensation in California. The pro-

posal would almost certainly face constitutional challenges, including over its retroactive application, its taxation of worldwide assets with tenuous ties to the state, and whether a levy on net worth functions as an impermissible property tax under California law.

Taxing highly mobile people who own wealth also makes the initiative likely to backfire. Even before the initiative qualified for the ballot, prominent founders and investors signaled sensitivity to the policy environment. High-profile figures such as Peter Thiel, Palmer Luckey, and Larry Page have already reduced their California footprint or relocated elsewhere, with the predictable knock-on effect that firms and employees reassess where to expand and where to hire.

Defenders of the initiative reply that billionaires are few and politically unpopular. But when a state relies heavily on a narrow and highly mobile tax base, a small number of departures can have outsize budget consequences.

Europe's experience should further sober California voters. Over the past few decades, most countries that experimented with broad netwealth taxes abandoned them after discovering that they raised modest net revenue relative to their administrative burden while encouraging avoidance and relocation. Of the 12 Organization for Economic Cooperation and Development countries that had broad wealth taxes in the 1990s, only Norway, Spain and Switzerland still do. Most recently, Norway's tighter wealth-tax regime coincided with an exodus: Nearly 500 high-networth individuals left the country in 2022 and 2023, illustrating how sensitive location decisions become when governments tax worldwide wealth and toughen exit rules.

California doesn't suffer from too little taxation. Its top marginal state income-tax rate is 13.3%, the highest in the U.S. Capital-gains taxes, corporate taxes and sales taxes are all at or near the highest in the nation as well. The wealth-tax initiative would amplify the problem of revenue volatility by taxing volatile paper valuations while assuming the tax base will sit still when the bill arrives.

Proposition 13 was a warning about what happens when government treats unrealized gains like income. California shouldn't need another tax revolt to remember it.

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