California Wealth Tax

An Analysis of the Proposed Wealth Tax and What it Means for the State

By

Mira Farka, Ph.D.

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California State University Fullerton

Dr. Mira Farka Ph.D., Mira Farka, Ph.D., is a Professor of Economics and Co-Director for the Woods Center for Economic Analysis and Forecasting at CSUF. She has published in leading academic journals in the fields of monetary policy and financial economics and is a nationally recognized economist in business and economic forecasting. Dr. Farka is the recipient of multiple awards for her academic research, teaching and the accuracy of her forecasts. She is also the recipient of the prestigious Outstanding Faculty for the College of Business and Economics, CSUF Faculty Recognition Award for Scholarly and Creative Activity, and the CSUF Service Award. Dr. Farka is a sough-after keynote speaker and is frequently invited to discuss economic and financial issues by various business, government, and educational organizations. Prior to joining Cal State Fullerton, she worked in Wall Street, as a senior economist for Deutsche Bank, New York. She was listed as one of OC's 500 most influential people in 2022 and 2023.

CALIFORNIA WEALTH TAX: OVERVIEW

California is currently considering a wealth tax on its wealthiest residents. The most recent proposal — the 2026 Billionaire Tax Act — is a ballot initiative that would impose a one-time 5% tax on the worldwide net worth of California billionaires as of December 31, 2026, with payments spread over five years. If passed by voters in November 2026, it would be the first major tax on general wealth in United States history.

The proposal arrives at a specific moment: California faces a projected $19 billion annual budget hole from federal spending cuts under the OBBBA (H.R. 1, signed July 2025), and the initiative is framed explicitly as a response to that fiscal emergency. It follows earlier annual wealth tax proposals — most notably AB 310 (2021) and AB 259 (2023) — which did not advance through the legislature but which generated a substantial body of academic analysis that informs the current debate.

This review synthesizes the academic and policy literature on the California wealth tax proposals. The review is organized around six themes: the inequality context motivating the tax; revenue projections and their assumptions; migration responses; avoidance and restructuring; valuation methodology, and evasion.

SECTION 1: THE CA WEALTH INEQUALITY CONTEXT

California's share of US billionaires (25%) has grown faster than its share of population (12%), even after the 2012 income tax increase — suggesting CA wealth is not fleeing the state's current tax environment (Galle et al. 2021). The CA income tax is also structurally unable to reach unrealized gains: Zuckerberg, Brin, and Page can hold Meta and Google stock indefinitely and pay zero CA income tax on accumulated wealth. A wealth tax directly addresses this gap.

The wealth of CA billionaires has risen dramatically over the past 15 years, from $300B (2011) to $700B (2019) to $2.19T (October 2025) — a 7x increase in 14 years while average CA incomes grew only 1.5% per year in real terms (Galle et al. 2025).

Metric	California	United States
Share of US population	12%	—
Share of US millionaires	17% (2021)	—
Share of US billionaires	25% (2021)	—
Top 1% income share	25.5% (2015)	22% (2015)
Billionaire collective wealth	$960B (Jan 2021)	$4.1T (Forbes)
Billionaire wealth growth (2011-2021)	$300B to $960B (+220%)	Broadly similar
CA billionaires' effective ETR (all taxes)	~23% of economic income	28% economy-wide

Source: Galle et al. (2021); IRS state statistics; Forbes billionaire list. Highlighted row: CA billionaires pay less than the average Californian as a share of true economic income — the fundamental equity justification for the tax.

A second, more immediate motivation for the 2026 proposal is fiscal rather than distributional. The OBBBA federal spending cuts enacted in July 2025 created a specific budget emergency that frames the ballot initiative (Galle et al. 2025):

- OBBBA (H.R. 1, signed July 2025): Projected $19B/year budget hole for California health spending; up to 1.6M Californians could lose Medi-Cal coverage.
- SNAP restrictions: Reduced federal nutrition assistance funding, affecting school funding formulas that rely on SNAP enrollment data.
- The 2026 Billionaire Tax is framed as asking the direct beneficiaries of OBBBA's tax cuts to fund the services OBBBA cut — a direct fiscal quid pro quo (Galle et al. 2025).

SECTION 2: REVENUE ANALYSIS

Revenue projections for the proposed California wealth tax vary significantly, reflecting deeply contested assumptions about behavioral responses, tax base stability, and enforcement effectiveness. This review covers three distinct revenue frameworks: an annual wealth tax model, a one-time billionaire tax model, and a net present value critique of both.

The Annual Wealth Tax

An earlier proposal would have imposed a 1%–1.5% annual wealth tax on residents with net worth above $50M, with revenue estimated at approximately $22.3B per year from roughly 15,000 taxpayers — about 0.07% of California families (Galle et al. 2021).

Tax Bracket	Annual Revenue Estimate
$50M to $1B (1% rate)	$11.8B/year (~14,396 taxpayers, 0.065% of CA families)
$1B and above (1.5% rate)	$10.6B/year (~172 billionaires, 0.0008% of CA families)
Total	$22.3B/year

Source: Galle et al. (2021). Based on 2019 Survey of Consumer Finances aged to 2022, combined with Forbes billionaire list. Assumes 20% avoidance/evasion rate.

The 20% avoidance/evasion assumption is somewhat conservative — slightly higher than the IRS's 15% estimate for income and corporate taxes (but lower than other estimates in the literature), reflecting the greater difficulty of valuing private assets. The revenue estimate grows with the economy each subsequent year. For comparison, the Warren federal wealth tax proposal (2019), at 2% above $50M and 3% above $1B, would raise roughly double the CA proposal.

The One-Time Billionaire Tax

The 2026 Billionaire Tax Act ballot initiative — a one-time 5% tax on California billionaires' worldwide net worth — is projected to collect $100B over five years ($20B/year) (Galle et al. 2025).

Revenue Component	Amount

CA billionaire wealth base (Forbes, Oct 2025)	$2.19 trillion (204 billionaires; 27.8% of all US billionaire wealth)
Gross 5% tax on base	$109.5 billion
Less: 10% avoidance/evasion reduction	- $10.5 billion
Net revenue estimate (5 years, 2027-2031)	~$100 billion (~$20B/year)

Source: Galle et al. (2025). Bloomberg estimates CA billionaire wealth at 7.5% higher than Forbes for overlapping names, making the $100B estimate conservative. Final collections will depend on stock market performance through December 31, 2026.

The more optimistic 10% avoidance assumption (vs. 20% for the annual tax) rests on four grounds: (i) the one-time structure means taxpayers cannot avoid by restructuring assets below the threshold over multiple years; (ii) migration response is argued to be negligible because residency is already set as of January 1, 2026; (iii) 72% of CA billionaire wealth is in publicly traded stock with SEC-reported ownership; and (iv) with only ~200 affected taxpayers, comprehensive individual-level auditing is feasible.

A Divergent View: Alternative Revenue Projections

Using the 2025 Forbes Billionaire List combined with news reports and public property records tracking individual billionaire departures, Rauh et al. (2026) find that approximately 30% of the wealth tax base had already left California before the initiative qualified for the ballot. Six billionaires publicly confirmed departure between the initiative's filing and the January 1, 2026 residency snapshot date, removing an estimated $536 billion from the taxable pool.

Applying this base erosion and modeling additional unannounced departures using wealth tax base elasticity estimates from the academic literature, estimated actual collections fall to approximately $40 billion over five years (Rauh et al. 2026). The projections are compared below:

	Galle et al. (2021)	Galle et al. (2025)	Rauh et al. (2026)
Tax structure	Annual 1%–1.5%	One-time 5%	One-time 5%
Starting wealth tax base	$1.88T (15K taxpayers)	$2.19T (204 billionaires)	~$1.53T (after ~30% departure)
Avoidance/evasion assumption	20%	10%	Higher — base elasticity
Projected collections	$22.3B/year	~$100B over 5 years	~$40B over 5 years

Source: Galle et al. (2021, 2025); Rauh et al. (2026). Highlighted row: Rauh et al. project collections at less than half the pro-tax estimate, driven primarily by documented pre-passage base erosion.

Rauh et al. (2026) go further by introducing a net present value (NPV) framework that accounts for the permanent loss of future income tax revenues from departing billionaires. California's approximately 212 billionaires generate an estimated $3.3B to $5.8B annually in state income tax revenue. Capitalizing this permanent annual loss and netting it against the one-time wealth tax collection, the estimated NPV of the 2026 Billionaire Tax Act is **-24.7 billion** — meaning **California would be financially worse off than if the tax had never been enacted**.

The Behavioral Response Context

Empirical analysis of Proposition 30 — a 2012 income tax increase of up to 3 percentage points — provides the most rigorous behavioral baseline for assessing CA revenue projections generally (Rauh & Shyu 2024). Using the complete universe of CA Franchise Tax Board filings, behavioral responses eroded 45% of projected windfall revenues within the first year and 61% within two years. Critically, over 90% of this erosion came from the intensive margin — high earners reducing their reported taxable income through restructuring, avoidance, and income shifting — rather than from physical departure.

This finding cuts against both revenue projections. Even the $40B conservative estimate may be optimistic if similar intensive-margin responses occur under a wealth tax. And the 10% avoidance assumption in the pro-tax analysis may significantly understate behavioral responses, since a smaller income tax increase generated far larger revenue erosion through avoidance alone.

SECTION 3: MIGRATION

Migration — the physical departure of wealthy California residents to lower-tax states — is the most politically visible concern surrounding the proposed wealth tax. It is distinct from the avoidance and restructuring behavior discussed in Section 4: migration refers specifically to taxpayers changing their legal domicile, thereby removing themselves from California's tax jurisdiction entirely. Migration is addressed differently across the literature: proponents treat it as a manageable and largely solved design problem, while critics point to documented pre-passage departures as evidence that the concern is real and material.

3.1 The Historical Baseline: CA Wealth Grew After 2012

Proponents anchor their migration argument in the observed trend: California's share of US millionaires grew from 15.5% to 17% between 2011 and 2021, and its share of US billionaires from 21% to 25%, despite the 2012 Prop 30 income tax increase raising the top marginal rate to 13.3% (Galle et al. 2021). On this basis, the pro-tax literature argues California is far from a tipping point at which higher taxes trigger significant outflows of wealthy residents.

The skeptical literature reframes this observation: aggregate stock levels can rise even when marginal departure rates increase, because the pool of wealthy residents is continuously replenished by income growth and new wealth creation. The relevant measure is the departure rate at the margin, not the net stock — and empirical analysis of Prop 30 finds the departure rate increased by 0.8 percentage points for the top bracket, a 53% increase over the baseline rate (Rauh & Shyu 2024). The two measures are not in conflict; they capture different phenomena.

3.2 The Empirical Dispute on Migration

The central empirical disagreement on migration is between two studies using identical underlying data — the complete universe of California Franchise Tax Board income tax filings — but reaching opposite conclusions. The source of the discrepancy is definitional: what counts as a departure?

Feature	Varner, Young & Prohofsky (2018)	Rauh & Shyu (2024)
Data	CA FTB universe of returns	CA FTB universe of returns — same
Out-migration definition	Taxpayers who stop filing as CA residents	Taxpayers who transition from resident to non-resident filing status
Key methodological issue	Misses taxpayers who continue filing non-resident returns for CA-source income after leaving	Captures full transition; non-resident filers are movers, not residents
Migration finding	Negligible: ~0.04% of million-dollar earners per 1pp rate increase (~40 people)	Significant: +0.8pp departure rate; 53% increase over baseline for top bracket

Source: Rauh & Shyu (2024); Varner et al. (2018). Highlighted row: the divergence traces entirely to how out-migration is defined. Many CA departures continue earning CA-source income and file non-resident returns for years — the narrower definition misclassifies these as still-resident.

3.3 The Annual Tax Design Response: The 4-Year Exit Phase-Out

The annual wealth tax proposal addresses migration through a specific design mechanism: departing residents remain liable on a declining fraction of their wealth for four years after leaving. The rationale is that wealth is built over a lifetime within California's economic ecosystem, so a single year of departure should not immediately extinguish all liability (Galle et al. 2021).

Year After Departure	Fraction of Worldwide Wealth Taxable in California
Year 1	75%
Year 2	50%
Year 3	25%
Year 4+	0% — full exemption achieved

Source: Galle et al. (2021). A symmetrical phase-in applies to new CA residents. This makes the annual wealth tax structurally harder to avoid by moving than the income tax, under which liability ends immediately upon departure.

No equivalent phase-out exists in the 2026 one-time tax because the one-time structure makes it unnecessary: liability is based on residency as of January 1, 2026, a date that had already largely passed when the initiative was filed.

3.4 The One-Time Tax and the Announcement Effect

The central pro-tax migration argument is that the one-time structure fundamentally changes the incentive calculus. Because the tax is based on residency as of a specific past date — January 1, 2026 — departure after that date cannot avoid it. California residency law requires demonstrating genuine change of domicile through subjective and objective factors, so residency

status as of January 1 was largely fixed by the time the initiative was publicly filed (Galle et al. 2025).

The empirical evidence tells a different story: between the initiative's filing in fall 2025 and the January 1, 2026 residency snapshot date, six billionaires publicly confirmed departure from California, removing approximately $536 billion — 30% of aggregate billionaire wealth — from the taxable base (Rauh et al. 2026). The interpretation: forward-looking taxpayers respond to announcement, not legal enactment. The relevant residency date had not yet passed when departures began.

Pro-Tax Position	Skeptical Counterpoint
Residency is fixed as of January 1, 2026 — leaving after that date does not avoid the tax	30% of the base already departed before January 1, 2026 — the announcement effect preceded the residency date
One-time structure eliminates ongoing incentive to move in future years	Constitutional amendment permanently removes the 0.4% intangible property cap — creating ongoing incentive to leave ahead of future taxes
Billionaires earn only ~2.5% of CA income tax — income tax losses from departures are modest	Future income tax losses should be capitalized, not annualized — NPV of losses exceeds one-time collection

Source: Galle et al. (2025); Rauh et al. (2026). Highlighted row: the sharpest disagreement — the pro-tax literature treats income tax losses as a small annual flow; the skeptical literature capitalizes them as a permanent stream and derives a -$24.7B NPV.

SECTION 4: AVOIDANCE

A further concern about the proposed wealth tax is avoidance — the legal reduction of taxable wealth or income by taxpayers who remain in California. This issue commonly receives less political attention because it is invisible. No high-profile news story announces that a billionaire has restructured a private equity holding into a harder-to-value trust; only the revenue shortfall is eventually visible.

4.1 The Prop 30 Baseline: Avoidance Dominated Migration

Empirical analysis of Proposition 30 provides the most important baseline for the avoidance question: physical migration accounted for only approximately 9.5% of the total revenue erosion from that tax increase (Rauh & Shyu 2024). The remaining 90%+ came from the intensive margin — high earners who stayed in California but reported significantly less taxable income. The estimated income elasticity with respect to the marginal net-of-tax rate was 2.5 to 3.2 — among the highest in the international behavioral response literature. Top-bracket stayers reported $321,000 to $436,000 less in taxable income annually, roughly 10% of their pre-reform average income of $4.15 million.

The mechanisms behind this intensive-margin response include labor supply reductions, shifting income-generating activities to other states or countries, and reclassifying income through pass-through business structures. The intensive-margin avoidance channels available under a wealth tax are wider than those under an income tax: if the tax is on the stock of wealth rather than its income flows, the avoidance response shifts from reducing reported income to reducing

reported wealth — which includes restructuring assets into forms that are harder to value, harder to observe, or eligible for deferral treatment (Rauh & Shyu 2024).

An additional concern: given the cumulative tax burden already facing high-income California residents, the state may already be operating at or above the revenue-maximizing rate for income taxation of the very wealthy before any wealth tax is added. A wealth tax layered on top would compound this further — though the Prop 30 study does not model this directly, as it concerns income taxation rather than wealth taxation (Rauh & Shyu 2024).

4.2 The Bill's Anti-Avoidance Architecture

Five mechanisms are proposed in the legislation to close the primary avoidance channels (Galle et al. 2021):

- Comprehensive base with no exemptions: the primary avoidance mechanism in every European wealth tax was the gradual introduction of business asset exemptions. Spain's exemption drove the closely-held business asset share from 15% to 77% of wealth tax filings within a few years. The CA proposal has no business asset exemption — all wealth above the threshold is taxable regardless of form.
- No income cap: French and Danish wealth taxes were fatally undermined by income caps — provisions limiting total wealth tax to a fraction of the taxpayer's reported income, which incentivized billionaires to reduce reported income and thereby cap their wealth tax liability. The CA proposal has no income cap.
- Family limited partnership (FLP) blocking rule: the most common estate planning technique used to reduce asset valuations artificially is the family limited partnership discount — minority interest and marketability discounts that can reduce an asset's taxable value by 20-40% without any real change in economic ownership. The bill blocks this by prohibiting partial interest valuations below pro-rata ownership share.
- Retroactive adjustment for undervaluation: if a taxpayer reports a private business at $100M in Year 1 and sells it for $200M in Year 3, the bill requires retroactive tax adjustment on the understated value plus interest. This converts aggressive undervaluation from a one-period gain into a time-value-of-money problem that the government eventually recovers.
- Related-party rule: transfers to related parties do not reduce the transferor's taxable wealth unless genuine economic consideration is paid. This prevents the most obvious wealth-splitting technique — distributing assets to family members to fall below the $50M threshold.

However, there appears to be quite a bit of anti-avoidance ambiguity: certain provisions in the bill appear broader than intended and may create avoidance channels rather than close them. Trust-related language could, under some interpretations, sweep in the full value of a trust rather than only the portion transferred, and rules addressing below-market transfers may add back the entire value of a transferred asset rather than merely the discount amount — effectively taxing wealth the taxpayer no longer holds (Tax Foundation 2025).

4.3 Deferrals

Deferral mechanisms designed to help illiquid taxpayers pay over time — the Optional Unliquidated Tax Claim Account (OUTCA) and the Liquidity-based Unliquidated Tax Claim

Account (LOUTCA) — allow taxpayers to defer current-year wealth tax payments until a future liquidity event, in exchange for a binding agreement to pay a share of eventual sale proceeds. The self-enforcing design feature — that the deferred obligation compounds annually, so undervaluing an asset on the original return simply increases the government's share at sale — is intended to prevent gaming the deferral system.

However, the more complex and deferral-heavy the enforcement architecture, the more opportunities exist for sophisticated taxpayers to restructure existing liquid assets into formally illiquid structures in order to qualify for deferral treatment. If a sufficiently large share of a billionaire's portfolio can be re-characterized as illiquid, the annual wealth tax effectively becomes contingent on the taxpayer's own timing decisions about when to realize value — a very different instrument from a tax on current-period wealth (Rauh & Shyu 2024).

A further structural issue arises from the eligibility conditions for deferral accounts. To qualify for an Optional Deferral Account, a taxpayer's wealth tax liability must exceed the combined value of their publicly traded assets. Because capital gains tax would have to be paid on publicly traded assets sold to satisfy wealth tax liability, it is possible for a taxpayer to have publicly traded assets worth more than their wealth tax liability in gross terms but still be insufficiently liquid to cover actual liability after capital gains — yet remain ineligible for a deferral account. In practice, this means founders may be required to liquidate all publicly traded holdings before illiquid assets qualify for deferral treatment, forcing exactly the kind of concentrated share sales that the deferral mechanism was designed to prevent (Tax Foundation 2025).

4.4 Pre-Passage Restructuring: The Announcement Effect as Avoidance

A specific form of pre-passage avoidance is documented in the window between the initiative's public filing (fall 2025) and the January 1, 2026 residency and valuation snapshot date (Rauh et al. 2026). The 30% base erosion is primarily a migration finding, but it is also consistent with pre-passage portfolio restructuring — moving assets out of publicly traded stock (easy to tax) and into structures that are harder to value or harder to attribute to a California resident.

This pre-passage behavioral response is particularly difficult for any tax design to prevent, because it occurs before the tax has legal force. The one-time structure is argued to limit this to a single window of opportunity (Galle et al. 2025). However, the constitutional amendment component permanently removes the 0.4% intangible property cap, which signals ongoing future taxation risk and therefore creates a restructuring incentive that extends beyond the single 2026 window (Rauh et al. 2026)

SECTION 5: VALUATION

Valuation is the operational foundation of any wealth tax: if asset values cannot be established reliably, neither revenue projections nor enforcement are credible. Unlike migration and avoidance — which are primarily behavioral questions — valuation is a technical and legal question with a more definitive answer: some assets are straightforward to value, others are genuinely difficult. The proposed legislation provides specific methodologies for each asset category, though critics argue that several of these methodologies systematically overstate values and that the penalty structure creates perverse incentives that compound the problem.

5.1 Publicly Traded Securities

There is broad agreement that publicly traded securities present no meaningful valuation challenge. Approximately 72% of California billionaire wealth is held in publicly traded stock with daily market prices and SEC-reported ownership stakes — valuation is a matter of reading a year-end brokerage statement (Galle et al. 2025). The entire valuation debate therefore concerns the remaining 28% of billionaire wealth held in private businesses, illiquid equity, trusts, and other hard-to-value assets.

5.2 Private Businesses: The Swiss Formula and Its Limitations

The core valuation methodology for privately held businesses draws on the Swiss cantonal wealth tax — the longest-running wealth tax in the OECD, in continuous operation across Swiss cantons for over a century. The formula establishes a presumptive value equal to the GAAP book value of the business's net assets plus 7.5 times its average annual GAAP profits over the most recent three years.

Formula Component	Detail
Base method	Book value of net assets + (7.5 x average annual GAAP profits, 3-year average)
Transaction anchor	Value cannot fall below any arm's-length transaction in the past 10 years, inflated by FTB's market rate of return
Retroactive adjustment	Transaction within 4 years implying undervaluation triggers back-tax plus interest
Appraisal option	Taxpayer may submit certified appraisal; if higher than formula, appraisal controls; if lower, clear-and-convincing evidence required

Source: Galle et al. (2021). Highlighted row: the appraisal cuts both ways — taxpayers can argue downward, but subsequent transactions above reported values trigger retroactive tax adjustments, making aggressive undervaluation a deferred liability rather than a permanent saving.

The retroactive adjustment is the key anti-gaming mechanism: a founder who undervalues a private company and sells it at a higher price within four years owes back taxes plus interest, converting undervaluation from a risk-free gain into a recoverable deferred cost.

Several substantive critiques of the formula have been raised (Tax Foundation 2025). First, it ignores standard discounts that would apply in any open-market sale: illiquidity discounts, minority ownership discounts, and risk premiums specific to closely held firms. Second, the measure treats losses as zero rather than as negative values — meaning a business experiencing declining performance is nonetheless taxed on an inflated base. Third, recent funding rounds serve as valuation floors even though a company's value can fall substantially in the years following a financing. Taken together, these features mean that closely held businesses could systematically be taxed at values that exceed what the market would support in an actual sale.

Certain anti-avoidance drafting language also appears broader than intended (Tax Foundation 2025). Trust-related provisions could, under some interpretations, sweep in the full value of a trust rather than only the portion transferred. Rules addressing below-market transfers may add back the entire value of a transferred asset rather than merely the discount amount. These provisions create both potential over-taxation and legal uncertainty, particularly where retroactive elements are involved.

5.3 Silicon Valley Equity Structures: The Dual-Class Share Problem

California's technology economy generates a specific valuation challenge absent from most European wealth tax contexts: dual-class share structures in which founders hold shares with 10x or higher voting power relative to their economic ownership. This is the norm among major California technology companies — Alphabet, Meta, Snap, and Lyft all use such structures.

The proposed legislation introduces a CA-specific rule: founders holding super-voting shares are valued at their voting power percentage rather than their economic ownership percentage, unless they can rebut this presumption through a certified appraisal (Galle et al. 2025). The rationale is that control rights carry real economic value. However, this rule creates effective tax rates that can dramatically exceed the headline 5% rate when capital gains taxes triggered by the required asset sales are included. The table below illustrates the effect for six prominent California technology founders, based on analysis using January 2026 market data (Tax Foundation 2025):

Founder	Company	Voting	Owned	Value ($B)	Total Tax ($B)	Tax / Value
Tony Xu	DoorDash	57.6%	2.6%	$2.41	$4.17	**173%**
David Baszucki	Roblox	60.9%	8.2%	$4.78	$2.81	59%
Sergey Brin	Alphabet	25.2%	5.8%	$234.16	$80.53	37%
Larry Page	Alphabet	27.1%	5.4%	$218.34	$86.60	37%
Mark Zuckerberg	Meta	61.0%	13.6%	$215.11	$76.61	36%
Jensen Huang	NVIDIA	3.8%	3.8%	$170.03	$13.52	8%

Source: Tax Foundation (2025). Total Tax includes federal and California capital gains tax on shares liquidated to pay wealth tax. Value and tax share are based on estimated ownership in the founder's company only. Estimates assume super-voting shares are not treated as publicly traded assets. Yellow row = most extreme case (173% effective rate); green row = founder without super-voting premium (8% — closest to headline rate).

The Tony Xu case illustrates the extreme end: holding 57.6% of DoorDash's voting rights but only 2.6% of economic ownership, his wealth tax liability of $2.62 billion would exceed the market value of his ownership stake ($2.41 billion) before capital gains taxes are even considered. Once capital gains are included, total liability reaches $4.17 billion — 173% of the value of his holdings. The Alphabet founders and Zuckerberg face effective rates of approximately 36-37% of their stake value. Only Jensen Huang, whose voting share equals his economic ownership, faces a rate close to the headline 5%.

The practical consequence for founders with controlling interests is not merely high tax bills but potential loss of voting control. Converting Class B super-voting shares to Class A to raise cash would surrender the founder's control of the company. Anti-avoidance rules in the proposed legislation would likely prevent pre-emptive conversions intended to reduce valuation, making the dilemma difficult to resolve without significant dilution of governance rights (Tax Foundation 2025). Such forced divestitures could carry corporate governance implications beyond the individual taxpayer, and concentrated simultaneous sales across multiple large technology companies could affect broader market stability.

5.4 Illiquid Assets: The OUTCA and LOUTCA Deferral Mechanisms

The proposed legislation provides deferral mechanisms for assets that are both hard to value and illiquid: the OUTCA, which applies when valuation confidence is low, and the LOUTCA, which applies when illiquid assets represent at least 80% of a taxpayer's net worth. Payment may be made in a lump sum or in annual installments subject to a 7.5% annual deferral charge — raising the effective rate on deferred amounts to 5.75% rather than the headline 5%. The deferred obligation runs indefinitely until triggered by a sale, IPO, dividend payment, or voluntary early payment, and binds heirs and successors.

Several complications arise. First, because tax liability is fixed on a snapshot valuation at December 31, 2026, taxpayers could owe substantial tax even if asset values subsequently decline — there is no downward adjustment if a private company loses value after the measurement date. Second, deferral account eligibility requires that a taxpayer's wealth tax liability exceed the combined value of their publicly traded assets — meaning some founders may be required to liquidate all publicly traded holdings before illiquid assets qualify for deferral, forcing exactly the kind of concentrated share sales the deferral mechanism was designed to prevent. Third, the arrangement is asymmetric: the state shares in upside appreciation through its growing percentage claim on eventual sale proceeds, but taxpayers bear the full downside risk of valuation volatility (Tax Foundation 2025).

5.5 Appraisal Safeguards — and Their Unintended Consequences

Three mechanisms in the proposed legislation address the historical weakness of appraisal-based valuation, which in the estate tax context routinely produces discounts of 20-40% through compliant appraiser relationships (Galle et al. 2021):

- Confidence declarations: appraisers must certify high, medium, or low confidence that the true value does not exceed 150% of their estimate. High-confidence appraisers face personal financial penalties if subsequently shown to be more than 150% understated, scaled to their fee — creating direct financial liability for the appraiser, not just the taxpayer.
- FLP blocking rule: intentional efforts to reduce asset values through ownership restructuring — family limited partnerships, minority interest discounts, marketability discounts — do not reduce taxable wealth. Partial interests cannot be valued below pro-rata ownership share.
- False Claims Act extension: private citizens may bring whistleblower suits for wealth tax underreporting, with triple damages above $200K, creating a private enforcement network beyond the FTB's own audit capacity.

However, the appraiser penalty structure creates a significant unintended consequence (Tax Foundation 2025). Because appraisers face personal financial ruin if their valuations are deemed too low — penalties of 2-4% of the understatement of tax can be ruinous relative to their fees — the incentive is to err systematically on the side of higher valuations to avoid dispute with the FTB. The result may be a regime that inflates reported wealth above what a neutral market assessment would support, increasing tax liability beyond the intended level. This is the inverse of the European experience, where appraiser complicity produced systematic undervaluation; here the penalty structure may produce systematic overvaluation instead.

5.6 Marital Property Complications

The tax applies at the household level and uses aggressive residency rules that can, in some circumstances, include a nonresident spouse's wealth in the net worth of a California-resident taxpayer (Tax Foundation 2025). Because debts to related persons incurred after October 15, 2025 are added back to net worth, a divorce settlement reached in 2026 could result in a taxpayer being taxed on assets legally transferred to an ex-spouse. Whether the FTB would treat such transfers as genuine dispositions or as avoidance strategies is unclear, creating meaningful uncertainty for affected taxpayers.

SECTION 6: EVASION AND ADMINISTRATIVE COSTS

Evasion — illegal concealment of assets or income — is distinct from avoidance (legal restructuring) and migration (physical departure). Administrative costs refer to the burden on both the government (FTB enforcement) and taxpayers (compliance costs) of operating the wealth tax system.

6.1 Offshore Evasion: The FATCA and AEOI Backstop

The primary evasion mechanism for wealth taxes historically has been the offshore concealment of assets — holding wealth in foreign financial institutions that do not report to domestic tax authorities. The literature argues that this channel is substantially closed for California residents by two federal enforcement systems that did not exist when most European wealth taxes were operating: FATCA (Foreign Account Tax Compliance Act, 2010), which requires foreign financial institutions to report US persons' accounts to the IRS, and AEOI (Automatic Exchange of Information), the OECD multilateral framework under which financial account information is automatically shared across 94+ jurisdictions (Galle et al. 2021).

Under FATCA and AEOI, offshore financial wealth held by California residents is already reported to the IRS by foreign institutions. The wealth tax proposal requires taxpayers to include worldwide assets — consistent with California's existing worldwide income tax practice — and the same reporting infrastructure that currently captures offshore income would capture offshore wealth. Subsequent asset sales at prices above those reported on wealth tax returns would generate automatic retroactive adjustments, creating an additional incentive for accurate offshore reporting (Galle et al. 2021).

6.2 Enforcement Architecture: FTB Resources and the False Claims Act

The bill proposes a dedicated enforcement architecture that goes beyond standard FTB audit procedures, with three core components:

- Dedicated enforcement budget: 1.5% of projected wealth tax revenues in the first two years is reserved for building new enforcement capacity at the FTB and Attorney

General's office, covering dedicated audit staff, specialist valuation expertise, and IT infrastructure for wealth tax reporting.

- High-net-worth specialist task force: a standing task force reviews and assures ongoing resource adequacy, with particular focus on maintaining a high audit rate among affected taxpayers. With only approximately 200 billionaires subject to the 2026 one-time tax, comprehensive individual-level auditing of every taxpayer is argued to be feasible.
- False Claims Act extension: the California False Claims Act is extended to wealth tax filings, allowing private citizens to bring suits for underreporting with triple damages above $200K — effectively crowdsourcing detection of evasion beyond what the FTB can accomplish through direct audits alone.

The enforcement architecture has not been directly challenged on its merits. A separate concern, however, is that publicly announced departures cannot by themselves verify the underlying legal determination of California residency — some announced departures may ultimately be found to be CA residents as of January 1, 2026 under California's subjective and objective residency standard (Rauh et al. 2026). This implies the FTB will face a significant caseload of residency disputes for the 2026 one-time tax, an administrative burden the bill does not fully address.

6.3 The Evasion Assumption in Revenue Projections

How much the tax ultimately raises depends heavily on the assumed evasion and avoidance rate. The 2026 one-time billionaire tax assumes a 10% rate, justified primarily by the small taxpayer population and the prevalence of publicly traded assets in billionaire portfolios (Galle et al. 2025). The earlier annual wealth tax proposal used a more conservative 20% assumption, reflecting the broader and more complex asset base of the 15,000 affected taxpayers (Galle et al. 2021). Estimates in the broader academic literature range from 15-25% for well-designed taxes with strong enforcement (OECD 2018; IMF 2024) to 62-87% under more pessimistic assumptions derived from estate tax evasion patterns (Sarin & Summers 2019). These assumptions are summarized below:

Source	Assumed Rate	Basis	Implication for Revenue
Galle et al. (2021) Annual Wealth Tax	20%	Slightly above IRS income tax estimate of 15%; reflects greater difficulty of valuing private assets across a broad 15,000-taxpayer base	$22.3B/year from $27.9B gross
Galle et al. (2025) CA Bill	10%	Small population (~200 billionaires); 72% of wealth in publicly traded stock with SEC-reported ownership; comprehensive individual-level auditing feasible	~$100B from $109.5B gross
Rauh et al. (2026) CA Bill	Implicitly much higher than 10% — 30% base erosion documented before passage	Person-by-person Forbes data combined with public departure announcements and real estate records; wealth tax base elasticity literature applied to unannounced departures	Collections ~$40B, not $100B; once future income tax losses are capitalized, estimated NPV of the 2026 Billionaire Tax Act is -$24.7B

OECD (2018)	15-25% for well-designed taxes; much higher for poorly designed	European wealth tax experience across 12 OECD countries; exemption-driven base erosion drove some countries to near-zero effective collection	Revenue highly sensitive to base design — the CA proposal's no-exemption architecture is the single most important design feature for keeping avoidance low
IMF (2024)	10-15% post-AEOI for financial assets; higher for private business assets	Post-2017 Automatic Exchange of Information (AEOI) substantially closed the offshore concealment channel that drove European failures; private assets remain harder to value and observe	Evasion environment is materially better than when European wealth taxes failed, but gaps remain for real estate, crypto, and closely held businesses
Sarin & Summers (2019)	62-87% (implied)	Derived from estate tax evasion patterns applied to wealth tax base; argues revenue from a wealth tax would be one-eighth to three-eighths of Saez-Zucman projections	Warren federal wealth tax raises only one-eighth to three-eighths of projected revenues once avoidance is accounted for — the most pessimistic estimate in the literature
Rauh & Shyu (2024)	Not modeled directly — but Prop 30 behavioral responses eroded 45-61% of projected revenues	Complete universe of CA FTB administrative data; income tax behavioral response; income elasticity 2.5-3.2 for high CA earners — among the highest in the international literature	Intensive-margin avoidance alone could erode nearly half of projected wealth tax revenues — the only estimate grounded in actual California taxpayer data

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