Taxing Wealth

Lessons From History and International Evidence

By

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April 2026

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TAXING WEALTH:
HISTORICAL PERSPECTIVE AND ANALYSIS

Section 1: Wealth and Income Inequality Trends

This section synthesizes the empirical record on US, California, and global wealth and income inequality, drawing on sources spanning from 1913 to 2025. The picture is consistent across methodologies, data sources, and authors with varying institutional affiliations: wealth and income concentration at the very top of the distribution has increased sharply since the late 1970s, reaching levels not seen since the late 1920s. The direction of this trend is clear and unmistakable; however, the precise estimates differ somewhat across methods.

1.1 The Long-Run U-Shaped Arc of US Wealth Concentration

The longest continuous record of US wealth inequality — covering 1913 to 2012 using the capitalization method — reveals a distinctive U-shaped pattern: high concentration in the Gilded Age, a multi-decade decline through the mid-twentieth century, and a sharp resurgence since the late 1970s (Saez & Zucman 2016). The three phases are documented below.

Period	Wealth Concentration Dynamics
1913–1929	High and rising: top 0.1% share peaked at approximately 25% just before the 1929 crash; capital income dominated top incomes ('rentier capitalism')
1929–1978	Great Compression: top 0.1% wealth share fell from ~25% to 7% over nearly 50 years — driven by Depression-era losses, progressive wartime taxation, the New Deal regulatory framework, and a sustained postwar middle-class expansion underwritten by homeownership and defined-benefit pensions (Saez & Zucman 2016; Piketty, Saez & Zucman 2018)
1978–2016	Great Divergence: top wealth shares tripled from their mid-century troughs; the trend is confirmed across all major data sources, though its magnitude is contested (see Section 1.2 below)
Key policy inflection	The 1986 Tax Reform Act and the broader reduction in top marginal rates from the early 1980s onward coincide with the acceleration of concentration; causal attribution is not established, but the correlation is a central feature of the historical record (Saez & Zucman 2016; Piketty, Saez & Zucman 2018)

Source: Saez & Zucman (2016); Piketty, Saez & Zucman (2018).

1.2 Current Wealth Concentration: The Range of Credible Estimates

Three methodologies produce somewhat different point estimates for top wealth shares, though all show large and rising concentration since the late 1970s: the capitalization method (Saez & Zucman 2016), the heterogeneous-returns correction (Smith, Zidar & Zwick 2023) — which lowers SZ estimates by approximately 6–8 percentage points — and the Distributional National

Accounts framework (Piketty, Saez & Zucman 2018), which anchors estimates to macroeconomic aggregates and includes retained corporate earnings. The table below shows the range.

Wealth Group	SZ 2016 (est. 2012)	SZZ 2023 (est. 2016)	PSZ 2019 (top shares)	Direction of Trend
Top 0.1%	~22%	~15.7%	~20% (2019 est.)	Tripled since late 1970s — direction uncontested
Top 1%	~42%	~33.7%	~35%	Roughly doubled since 1978
Bottom 90%	~23% (2012)	—	~22% (2019 est.)	Fell from ~36% peak in mid-1980s
Forbes 400 share	~3% of HH wealth (2012)	—	~4.1% (2025)	Rose from ~1% in early 1980s

Sources: Saez & Zucman (2016), Table II; Smith, Zidar & Zwick (2023), Table II; Piketty, Saez & Zucman (2019); Balkir et al. (2025). The SZ and SZZ figures are not for identical years — SZ covers through 2012, SZZ through 2016 — but the gap between them holds across all overlapping years. The SZZ correction is likely smaller for CA billionaires specifically, as their wealth is overwhelmingly in publicly traded technology equity where return heterogeneity within the asset class is minimal (Smith, Zidar & Zwick 2023).

1.3 The Income Distribution: The Bottom 50% and Top 1% Since 1980

Wealth concentration is only part of the picture. Income is also highly concentrated — and has become even more so since 1980 — though by somewhat less than wealth. Generally speaking, the top 1% commands roughly twice the share of national income as it does of national wealth, and the bottom 50% owns less than 5% of wealth, while receiving approximately 12% of income. The Distributional National Accounts framework — which allocates 100% of national income to individuals, including retained corporate earnings that never appear in tax returns — provides the most comprehensive picture of how income growth has been distributed since 1980. The central finding is stark: the top 1%'s share of national income nearly doubled between 1980 and 2014, while the bottom 50%'s share collapsed by almost the same amount (Piketty, Saez & Zucman 2018).

Income Group	Pretax Share 1980	Pretax Share 2014	Change
Bottom 50%	~20%	~12%	−8 percentage points
Middle 40% (P50–P90)	~40%	~40%	Roughly stable
Top 10%	~35%	~47%	+12 percentage points
Top 1%	~12%	~20%	+8 percentage points

Source: Piketty, Saez & Zucman (2018), Table I. Pretax income includes retained corporate earnings imputed to shareholders; this is the paper's most contested methodological choice (see Auten & Splinter 2019, who estimate the top 1% share at 13–14% rather than 20% under different imputation assumptions).

Metric	Finding
Avg. pretax national income per adult, 1980–2014	+60% in real terms (from ~$40,300 to ~$64,500 in 2014 dollars)
Avg. pretax income, bottom 50%, 1980–2014	Stagnant at ~$16,000 — zero real growth over 34 years (Piketty, Saez & Zucman 2018)

Avg. pretax income, top 1%, 1980–2014	Rose from ~$420,000 to ~$1.3M — roughly +200% real growth
Post-2000 income composition shift at top	Capital income overtook labor income as the dominant source of top-end income growth; top 1% capital income share rose from ~30% of their total in 1980 to over 50% by 2014 (Piketty, Saez & Zucman 2018)
Government redistribution effect	Taxes and transfers compressed the post-tax gap but offset only a small fraction of the pretax increase — post-tax inequality rose nearly as fast as pretax inequality

Source: Piketty, Saez & Zucman (2018), Tables I–III.

1.4 Billionaire Wealth: Scale and Growth

At the very extreme of the distribution, the trend is even more pronounced. Administrative data matching the Forbes 400 to IRS records shows that top-400 wealth as a share of GDP has roughly doubled in each decade since 1982 (Balkir et al. 2025).

Period	Top 400 Wealth (% of GDP)	Top 400 Wealth (% of Household Wealth)
1982	~2%	~0.9%
2010	~8%	~2.5%
2025	~20%	~4.1%

Source: Balkir, Saez, Yagan & Zucman (2025), Figure 1. Approximately 75% of the 1982–2025 wealth increase for the top 400 is attributable to the top 100 wealthiest individuals.

Total US household net wealth stood at approximately $90 trillion in 2018 — roughly five times national income. At a simplified 1% uniform tax with no evasion, this base would yield approximately $900 billion; in practice, behavioral responses, exemptions, and the narrower target of ultra-high-net-worth households dramatically reduce the effective base (Saez & Zucman 2019). The composition of wealth matters critically for tax design:

Asset Class	Amount / Share (2018 US Household Wealth)
Housing	$32.4T — 37% of total net worth
Pensions and insurance	$30.9T — 35%
Equities (direct holding)	$18.6T — 21%
Fixed income assets	$16.1T — 18%
Business assets	$9.7T — 11%
Total net worth (after $19T liabilities)	~$88.7T

Source: Saez & Zucman (2019), Table 1; Federal Reserve Financial Accounts 2018. The wealth tax base above the 99.9th percentile (top 0.1%) was approximately $12 trillion in 2019, equivalent to 60–70% of national income (Saez & Zucman 2019).

These figures reflect 2018 data. Total US household net wealth has grown substantially since, reaching approximately $145 trillion in 2025 (Federal Reserve Financial Accounts) — a 60% increase in seven years driven primarily by asset price appreciation. At a simplified 1% uniform tax with no evasion, this base would today yield approximately $1.45 trillion.

1.5 Wealth Concentration vs. Income Concentration

A recurring empirical finding across the literature is that wealth is far more concentrated than income — by a factor of roughly 2–3 depending on the country and measurement method. This distinction matters for tax design: the income tax reaches income flows, but much of the growth in top wealth occurs through asset appreciation that generates no taxable income until realization.

Measure	Top 1% Share (US, approx. 2014–2020)	Top 10% Share
Labor income share	<10%	25–50%
Pretax income share (DINA)	~20%	~47%
Wealth share (SZ)	~42%	~75–80%
Wealth share (SZZ)	~34%	~65–70%

Sources: Piketty, Saez & Zucman (2023); Saez & Zucman (2016); Smith, Zidar & Zwick (2023). The bottom 50% owns less than 5% of wealth in every country, including those with active wealth taxes (Piketty, Saez & Zucman 2023).

The gap between income and wealth concentration is the structural foundation for the wealth tax argument: if the wealthy accumulate wealth at rates far in excess of their reported taxable income — through retained corporate earnings, unrealized equity appreciation, and borrowing against appreciated assets without realization — then an income tax is structurally inadequate as the sole instrument for progressive taxation at the top. Top wealth holders reported annual income on their tax returns of less than 4% of their wealth, and given preferential capital gains rates, their effective tax burden was equivalent to paying ordinary income rates on less than 3% of wealth annually — while their total economic return including unrealized gains was likely 8% or higher (Viard 2019).

1.6 International Comparisons

The rise in wealth and income concentration documented for the United States is not an isolated phenomenon. Across virtually all advanced economies, the post-1980 period has seen a reversal of the postwar trend toward greater equality. The United States is, however, an outlier in both the scale of the increase and in the degree to which its tax system fails to offset it.

Indeed, the long-run arc of wealth inequality follows a U-shaped pattern across all countries for which historical data are available. Wealth concentration fell dramatically from the early 1900s through the postwar decades — driven by the stock market crash, high inflation, progressive taxation, and in Europe by wartime destruction of capital, nationalizations, and rent controls. By the 1970s, the richest 10% of households held approximately 70% of total wealth in advanced economies, down from near-total ownership at the start of the century. The reversal began in the early 1980s and has continued, with only a brief interruption during the Global Financial Crisis (OECD 2025).

This rising trend has been observed in most OECD countries with available data, driven by a common set of structural forces: financial deregulation, privatisation of state assets, lower top marginal tax rates, and the compounding advantage of financial asset ownership — since wealthy households invest disproportionately in equities and financial instruments that appreciated sharply after 1980. At the same time, increased homeownership among middle-

income households has partially offset the upward trend in some countries, particularly those with stable housing markets and high ownership rates (OECD 2025).

Three countries are notable exceptions to the rising trend: Denmark, Spain, and Luxembourg, where wealth concentration did not clearly increase over recent decades. In each case, specific institutional features — high pension fund density in Denmark, a broad property tax base, or structural features of the housing market — appear to have moderated the trend (OECD 2025). These exceptions are instructive precisely because they are exceptions: the global trend is otherwise remarkably consistent.

Period	Top 10% Wealth Share (OECD average)	Key Driver	Countries Diverging
Early 1900s	~85–90%	Near-total ownership of financial and productive assets	—
1945–1980	Falling steadily to ~70%	Progressive taxation, inflation eroding capital, wartime destruction (Europe), rising homeownership	All advanced economies converging
1980–2007	Rising: ~70% → ~75%+	Financial deregulation, lower top rates, equity appreciation	Denmark, Spain, Luxembourg show flat or declining trend
2008–2009	Brief decline	Financial crisis reduced asset values	Global
2010–2025	Resumed rise; US accelerating	Asset price recovery, TCJA, QE benefiting asset owners disproportionately	US diverges upward from European peers

Source: OECD (2025), 'Mapping Trends and Gaps in Household Wealth Across OECD Countries'; OECD (2018); Piketty, Saez & Zucman (2018).

Income has also grown more unequal. The rise in top income shares has been widespread across OECD countries since 1980, though its scale has varied considerably. In the early 1980s, the top 1% income share was below 10% in all OECD countries with available data except Germany, and the cross-country variation was modest — Nordic countries already had the lowest concentration, but the gap between them and the United States was far smaller than it is today (OECD 2014).

By 2010, top income shares in the United States and the United Kingdom had more than doubled from their 1980 levels — the two largest increases in the English-speaking world. Other English-speaking countries (Canada, Australia) showed the same directional trend, though less extreme. Continental and Northern European countries moved in the same direction but far more slowly, held back by stronger labor market institutions, higher union density, and more progressive transfer systems (OECD 2014).

Country	Top 1% Income Share (~1980)	Top 1% Income Share (~2010–2015)	Change	Redistribution via Taxes & Transfers
United States	~8%	~20%	+12pp — largest increase in OECD	~20% reduction in Gini; below OECD average
United Kingdom	~6%	~13–14%	+7–8pp	~35% reduction in Gini
Germany	~10–11%	~13%	+2–3pp	~40% reduction in Gini
France	~7%	~11%	+4pp	~40% reduction in Gini
Sweden	~4–5%	~8–9%	+4pp	~45% reduction in Gini; highest in OECD
Denmark	~5%	~7–8%	+2–3pp	~45% reduction in Gini
Norway	~5%	~7–8%	+2–3pp	~40% reduction in Gini

Sources: OECD (2014), 'Trends in Top Incomes and their Taxation in OECD Countries'; Piketty, Saez & Zucman (2018); WID.world.

The OECD's own assessment, based on 18 countries for which data are available from the mid-1980s, is that income inequality has increased in good times and bad — with only modest and temporary declines during recessions, followed by resumed increases in recovery. The long-run trend is not cyclical but structural (OECD 2016).

Against this backdrop of broadly rising concentration, the United States stands apart on multiple dimensions: the scale of the increase in top shares, the level of concentration reached, and the degree to which the tax system fails to offset it.

Scale and Level

Country	Top 1% Wealth Share	Top 1% Income Share	Bottom 50% Income Share	Notes
United States	~34–42% (SZZ/SZ)	~20%	~12%	Highest in OECD on all three measures
United Kingdom	~28%	~14%	~18%	Second highest wealth concentration
Germany	—	~13%	~18%	High top income share; no estate tax since 2006
France	~24%	~11%	~22%	Wealth tax abolished 2018; inheritance tax retained
Sweden	~25%	~9%	~23%	Lowest top income share; no

				wealth or inheritance tax
Denmark	~23%	~8%	—	No clear upward trend in wealth concentration
Norway	~20%	~8%	—	Retains net wealth tax; active redistribution

Sources: Saez & Zucman (2016) and Piketty, Saez & Zucman (2018) for US figures; WID.world and Roine & Waldenström (2015) for European comparisons; Piketty, Saez & Zucman (2023).

The United States is an outlier among developed economies — not merely in having high wealth and income concentration but in the degree to which concentration has increased since 1980, and in the extent to which the tax system fails to offset it.

Country	Top 1% Wealth Share	Top 1% Income Share	Bottom 50% Income Share
United States	~34–42% (SZZ/SZ)	~20%	~12%
France	~24%	~11%	~22%
Germany	—	~13%	~18%
Sweden	~25%	~9%	~23%
United Kingdom	~28%	~14%	~18%
Denmark	~23%	—	—
Norway	~20%	—	—

Sources: Saez & Zucman (2016) and Piketty, Saez & Zucman (2018) for US figures; WID.world and Roine & Waldenström (2015) for European comparisons; Piketty, Saez & Zucman (2023).

Among OECD countries, the nations with the lowest wealth concentration are those that maintained either active wealth taxes (Switzerland, Norway) or high inheritance taxes (France, Belgium) through the postwar period. Switzerland is the most instructive outlier: it retains a broad-base, low-rate wealth tax affecting approximately 30% of all households — conditions structurally different from any proposed US wealth tax, but the longest-running proof that an annual wealth tax can be administratively sustained (OECD 2018; Saez & Zucman 2022).

Two structural features explain why the United States moved further and faster than its European peers. First, the US experienced a far larger surge in top labor incomes — the rise of the 'working rich': high-paid executives, technology founders, and finance professionals who accumulate wealth rapidly from labor income in addition to capital income. This superstar wage premium at the very top is smaller in Europe, where wage compression through collective bargaining remains stronger (Piketty, Saez & Zucman 2018; OECD 2014).

Second, and more directly relevant to the wealth tax debate, the US estate tax was repeatedly weakened over the same period that wealth concentration was rising. The exemption rose from approximately $600,000 in 1987 to $5.5 million by 2017 and $12.9 million by 2023 — effectively removing the tax from all but a few thousand estates per year. No comparable erosion of inheritance and estate taxes occurred in France, Belgium, Japan, or South Korea, all of which maintained progressive inheritance taxes with lower exemptions throughout the period (Saez & Zucman 2016; Hebous et al. 2024).

The third distinguishing feature is the scale of redistribution. Taxes and transfers reduce income inequality (as measured by the Gini coefficient) by approximately 25% on average across OECD countries — but the US reduction is below that average, at approximately 20%, despite having a larger pretax inequality problem than most peers. In Sweden, Denmark, and Norway, the same system reduces inequality by 40–45%. The US tax system is less progressive at the top not because statutory rates are lower at every point, but because the instruments that produce progressivity — estate taxes, wealth taxes, high capital income taxes — have been weakened or do not exist at all (OECD 2016; Piketty, Saez & Zucman 2018).

1.7 California: A State-Level Outlier Within a National Outlier

California's inequality metrics exceed the already-elevated national average on every dimension. The state is home to a disproportionate share of US billionaire wealth, concentrated in the technology sector, and its own income distribution is more concentrated than the national distribution.

Metric	California
Share of US population	12%
Share of US millionaires	17% (2021)
Share of US billionaires	25% (2021) — growing from 21% in 2011 despite the 2012 Prop 30 income tax increase
Top 1% income share	25.5% — exceeds the national 20% figure
CA billionaires' effective ETR (all taxes)	~23% of economic income vs. 28% economy-wide (Galle et al. 2021, citing Balkir et al. methodology)
CA billionaire wealth (January 2021)	$960 billion — 204 billionaires
CA billionaire wealth (October 2025)	$2.19 trillion — a 7x increase from 2011, while average CA incomes grew ~1.5% per year in real terms

Sources: Galle et al. (2021, 2025); Forbes billionaire list; IRS state statistics; Piketty, Saez & Zucman (2018) for national income share comparisons.

The growth of CA billionaire wealth occurred despite rather than because of a favorable tax environment: CA's top marginal income tax rate of 13.3%, established by Prop 30 in 2012, is the highest of any US state.

Section 2: How Much Tax Do the Wealthy Pay?

What share of their economic income do the wealthy actually pay in taxes? The answer, documented across multiple methodologies and now confirmed with administrative data, is that effective tax rates at the very top are substantially below those paid by the rest of the population — and well below those paid by top labor income earners in particular. The gap is not primarily a product of illegal evasion or unusually low statutory rates. It is structural: the income tax is designed around flows of realized income, and the primary vehicle through which billionaires accumulate wealth — equity appreciation that accrues without generating taxable income until a voluntary realization event — largely escapes it. This section documents the size of that gap, its causes, how it has changed over time, and how the United States compares to other advanced economies.

2.1 Effective Tax Rates

The most direct evidence on billionaire effective tax rates comes from the first administrative data match of the Forbes 400 to their complete IRS records — individual income, business, estate, and gift returns (Balkir, Saez, Yagan & Zucman 2025). All taxes included, the top 400 paid 23.8% of economic income in 2018–2020, compared to 30.2% for the full US population and approximately 45% for top labor income earners. The gap between billionaires and wage earners is not a marginal difference — it is roughly 20 percentage points, and reflects the structural advantage of capital income over labor income in the US tax system.

Group	Total ETR	Indiv. Income Tax	Corp. Tax (attr.)	Estate / Gift
Full US population	30.2%	20.5%	1.7%	—
Top 400 (~0.0002%)	23.8%	11.0%	8.9%	0.6%
Top 100 (~0.00005%)	22.0%	8.0%	10.1%	0.6%
Next 300	26.6%	15.6%	7.1%	0.6%
Top labor earners	~45%	~45%	—	—

Source: Balkir et al. (2025), Table 2. Period: 2018–2020 average. All taxes include federal and state income taxes, payroll taxes, corporate income taxes attributed to shareholders in proportion to equity ownership, estate and gift taxes, property taxes, and sales taxes. ETR = effective tax rate as a share of economic income, which includes retained corporate earnings and unrealized appreciation imputed to shareholders.

This picture has deteriorated materially since the Tax Cuts and Jobs Act of December 2017. The top 400 effective rate fell from approximately 30% in 2010–17 — broadly comparable to the population average — to 23.8% in 2018–20, while the full population rate held steady at ~30%.

Period	Top 400 ETR	Full Population ETR	Primary Driver
2010–2013	~30%	~30%	Broadly comparable rates
2014–2017	~30%	~30%	Broadly comparable rates
2018–2020 (post-TCJA)	23.8%	30.2%	TCJA: full expensing drove pass-through income negative; corporate rate cut from 35% to 21%

Source: Balkir et al. (2025), Figure 2(c). The TCJA created a structural wedge between billionaire and population effective rates that did not exist at the same scale in the prior decade. Expressed as a percentage of wealth rather than income, the decline is even sharper: total taxes paid fell from 2.7% of Forbes wealth (2010–13) to 1.3% (2018–20) — a halving within a decade.

2.2 The Fiscal Income Gap: Why So Little Is Taxable

The low effective rates are not primarily a product of low statutory rates or aggressive illegal evasion. They stem from a structural gap between economic income — what the wealthy actually earn— and fiscal income: what appears on a tax return. The top 400 report only 42% of their economic income as taxable individual income, and the top 100 report only 33% (Balkir et al. 2025).

Group	Fiscal Income as Share of Economic Income
Full US population	~70% — broadly effective; rising over time
Top 400	42% — and declining since TCJA
Top 100	33% — only one-third of economic income reported individually

Source: Balkir et al. (2025), Figure 3(a). Economic income includes realized capital gains (at a conservative 50% inclusion rate), retained corporate earnings attributed to shareholders, dividends, interest, pass-through income, and wages. The gap between fiscal and economic income is the primary driver of low effective rates.

Three mechanisms account for most of the gap:

1. **Corporate Profit Retention — The Primary Channel**
    - C-corporations owned by the top 400 distributed only 19% of pretax income as dividends in 2018–20. For privately held C-corporations the rate was just 7.4% — meaning over 90 cents of every dollar of pretax book income was retained inside the corporation, accumulating as shareholder wealth without triggering individual income tax (Balkir et al. 2025). The corporate income tax applies to retained earnings, but at a post-TCJA rate of 21% — and because retained earnings manifest as rising share prices rather than distributions, they generate no individual taxable income until a realization event.
2. **TCJA Full Expensing — The Post-2017 Amplifier**
    - The immediate full expensing of capital investment introduced by the TCJA shifted top-400 pass-through income from slightly positive in 2010–17 to significantly negative in 2018–20, despite underlying book income remaining strongly positive. Full expensing creates paper losses that can offset other income — not because businesses are failing but because investment costs are deducted immediately while associated revenues accrue over years. The result is that the same business activity generating positive economic income generates zero or negative taxable income (Balkir et al. 2025).
3. **Unrealized Gains and the Buy-Borrow-Die Strategy**
    - The dominant wealth accumulation vehicle for US billionaires is equity in publicly traded and privately held companies, the value of which accrues through share price appreciation rather than distributions. Under current law this appreciation generates no taxable income until the asset is sold — creating indefinite deferral. The wealthy compound this through the buy-borrow-die strategy: appreciating assets are held without realization, borrowing against them funds consumption without triggering income tax, and at death heirs receive a stepped-up basis that permanently eliminates all accumulated gain. Top wealth holders reported annual income of less than 4% of their wealth on tax returns, with a tax burden equivalent to paying ordinary income rates on less than 3% of wealth annually — while their total economic return including unrealized gains was likely 8% or higher (Viard 2019; Saez & Zucman 2016).

2.3 Decomposing the Tax Burden by Instrument

For the top 400, the corporate income tax does more work than the individual income tax — reflecting the extent to which their economic income flows through corporate structures. The estate and gift tax, despite a 40% statutory rate, contributes only 0.6% of economic income.

Tax Component	Top 400 Effective Rate (2018–2020, % of Economic Income)
Individual income and payroll taxes	11.0%
Corporate income taxes (attributed to shareholders)	8.9%
of which: US corporate	7.5%
of which: foreign corporate	1.4%
Estate, inheritance, and gift taxes	0.6%
Other (property, sales, excise)	3.4%
Total effective tax rate	23.8%
Memo: charitable giving (not a tax)	11.4% of economic income — if treated as voluntary taxation, total rises to 35.2%

Source: Balkir et al. (2025), Table 2.

The estate tax illustrates most vividly the gap between statutory and effective rates. Despite a nominal estate tax rate of 40%, Forbes 400 decedents reported to the IRS only about 30 cents of every dollar of Forbes-estimated wealth on their estate tax returns — a direct consequence of family limited partnership discounts, charitable deductions, spousal exemptions, and dynasty trust structures. The effective estate tax rate for single decedents is approximately 7% of wealth; for married decedents it falls to roughly 0.8% (Balkir et al. 2025). This Forbes-to-estate-return gap is the most direct empirical evidence for the Sarin & Summers (2019) argument that avoidance mechanisms systematically erode tax burdens on wealth transfers.

2.4 Redistribution: What the Tax and Transfer System Achieves

The Distributional National Accounts framework enables a direct measure of how much the tax-and-transfer system compresses the income distribution, by comparing pre-tax and post-tax income shares.

Income Group	Pretax Share (2014)	Posttax Share (2014)	Redistribution Effect
Bottom 50%	~12%	~18%	+6 percentage points
Middle 40% (P50–P90)	~40%	~40%	Roughly neutral
Top 1%	~20%	~16%	−4 percentage points
Top 0.1%	~12%	~9%	−3 percentage points

Source: Piketty, Saez & Zucman (2018), Figure VII. Posttax income includes all taxes (federal, state, local), all cash and in-kind transfers, and an equal per-capita allocation of collective public expenditures.

The redistribution effect is real but modest relative to the scale of pretax inequality. The system narrowed the gap between top and bottom by approximately 4–6 percentage points of income share between 1980 and 2014 — but the pretax gap between the top 1% and the bottom 50% grew by 8 percentage points over the same period. The system is not keeping pace. State and local taxes further complicate the picture: regressive payroll, sales, and property taxes partially offset federal progressivity, particularly in California where a high state income tax coexists with regressive consumption taxes in the lower half of the distribution (Piketty, Saez & Zucman 2018).

2.5 International Context: How the US Compares

Undertaxation of the ultra-wealthy is not a uniquely American phenomenon — it is a structural feature of all advanced economies whose tax systems rely primarily on realized income flows. What distinguishes the United States is the scale of the gap and its recent deterioration under the TCJA.

Effective Rates on the Ultra-Wealthy Across Countries

Country / Group	Reported Effective Rate	Primary Mechanism
US — top 25 individuals	~3.25% of economic income	Buy-borrow-die; corporate retention; full expensing (ProPublica/IRS data)
US — top 400 families	~9.4%	Broader sample including more pass-through income (Yagan 2023)
US — top 400 (all taxes incl. corporate)	23.8%	All taxes; broader income definition (Balkir et al. 2025)
UK — top earners (GBP 3M+)	~12%	90%+ of remuneration in capital gains; carried interest; non-dom status
France — top 0.001% (ISF era, pre-2018)	~2–3% of true economic income	Business asset exemptions reduced ISF base by ~90%; income cap allowed further avoidance

Sources: Balkir et al. (2025); Hebous et al. (2024); Saez & Zucman (2022); Advani, Hughson & Summers (2023, cited in Hebous et al. 2024). Different studies use different definitions of economic income, so cross-country comparisons are approximate. The consistent finding across all countries: effective rates at the very top are far below statutory rates.

A structural distinction matters here: European billionaires historically paid even lower individual income taxes than US billionaires, because personal holding companies — widely used in Europe — allow near-zero individual tax on retained corporate profits. The US has penalized personal holding company structures since the 1930s, which is part of why US individual income taxes on the wealthy appear relatively higher than some European comparisons — even though the overall effective rate remains below the population average (Piketty, Saez & Zucman 2023).

The Long-Run Decline in Capital Taxation Across the OECD

The undertaxation of the wealthy reflects a multi-decade trend of declining capital tax rates across all advanced economies, driven by international tax competition and political economy pressures (Hebous et al. 2024).

Capital Tax Instrument	1980s (approx.)	2022 (approx.)	Trend
Average corporate income tax (OECD advanced)	~40–45%	~23%	Steep decline

Top dividend tax rate (OECD average)	~55%	~40%	Significant decline
Top interest income tax (OECD average)	~50%	~35%	Significant decline
Active OECD net wealth taxes	12 countries	3 countries	Most repealed
US estate tax — top 0.1% annual burden	~0.7% of wealth (1976)	~0.13% of wealth (2017)	Exemption rose from $600K to $12.9M

Sources: Hebous et al. (2024), Figures 1–2; OECD (2018); Balkir et al. (2025).

Section 3: Historical Experience with Wealth Taxes

The international record on wealth taxes is both the most instructive and the most contested starting point for evaluating the proposed CA wealth tax. Proponents point to Switzerland's century of successful operation and argue that past failures reflect correctable design flaws. Critics point to the near-universal repeal across OECD countries since 1990 as evidence of an instrument that is unworkable in practice regardless of design. Both readings find genuine support in the evidence. This section synthesizes the full historical record: which countries adopted wealth taxes, which kept them, which abolished them and why, what the failures had in common, and what the survivors reveal about the conditions under which a wealth tax can function.

The most honest reading of the evidence is that the historical record is genuinely informative about what not to do, but provides limited direct guidance on whether a well-designed, no-exemption, high-threshold, one-off wealth tax can achieve its revenue objectives.

3.1 The Rise and Fall of Wealth Taxes in the OECD

At their postwar peak, net wealth taxes were a standard feature of the tax systems of northern and central European countries. Twelve OECD countries operated net wealth taxes as recently as 1990. By 2019, only three remained: Norway, Spain, and Switzerland. The collapse of the wealth tax as a tax instrument is one of the most striking structural shifts in OECD tax policy of the past half-century — and it occurred precisely during the period when wealth concentration was rising most sharply (OECD 2018).

The OECD documents what it calls a 'growth paradox': household net wealth increased substantially in most OECD countries over the five decades between 1970 and 2020 — the average ratio of household wealth to national income rose by roughly 80% between 1970 and 2010 — yet wealth tax revenues remained flat or declined in most countries over the same period. The paradox is explained by a common pattern: as wealth grew, exemptions expanded, valuation rules were not updated, and avoidance increased. The tax base eroded faster than the underlying wealth grew (OECD 2018).

Period	Countries with Active Net Wealth Tax	Trend

1965–1980	~12 OECD countries	Wealth taxes widespread in northern and central Europe; seen as normal component of capital taxation
1980–1995	~10–11 countries	Ireland (1978), Austria (1994) repeal; early signs of revenue underperformance
1995–2005	~7–8 countries	Germany (1997), Denmark (1997), Netherlands (2001) repeal; constitutional and avoidance concerns mount
2005–2015	~4–5 countries	Finland (2006), Iceland (2006), Luxembourg (2006), Sweden (2007) repeal; tax competition cited
2018–present	3 countries	France abolishes ISF (2018); Norway, Spain, Switzerland remain

Source: OECD (2018), Chapter 2; Viard (2019).

3.2 The Full Abolition Record: Country by Country

The OECD (2018) provides the most comprehensive country-by-country abolition history available, drawing on the administrative records of all member countries. Nine of the twelve countries that had wealth taxes ultimately repealed them, across three distinct waves driven by different primary failure modes.

Country	Year Repealed	Top Rate at Repeal	Primary Official Reason	Secondary Factors
Ireland	1978	1.0%	Administrative burden; revenue disappointing	One of first to repeal; set a precedent
Austria	1994	1.0%	Revenue too low to justify compliance costs	Capital flight concerns emerging
Germany	1997	1.0%	Constitutional court: unequal asset valuation violated tax equality	Real estate valued at outdated cadastral values; financial assets at market — ruled discriminatory
Denmark	1997	~1.0%	Income ceiling mechanism gutted revenue;	Business asset exemptions had expanded significantly

			avoidance widespread	
Netherlands	2001	~0.8%	Replaced with presumptive capital income tax (Box 3 system)	Not a failure-driven repeal — a deliberate tax reform substitution
Finland	2006	0.8%	Tax competition; capital flight; investment effects	EU integration increased mobility of capital and persons
Iceland	2006	1.5%	Tax competition	Reintroduced 2010–14 as emergency measure; expired under political pressure
Luxembourg	2006	0.5%	Low revenue; administrative costs	Competition with neighboring countries
Sweden	2007	~1.0%	Capital flight; emigration of entrepreneurs	Wealth tax reached 4% in early 1980s before being reduced; business equity exempt, housing taxed — regressive in effect
France	2018	1.5%	Emigration of wealthy; Macron reform package	ISF replaced with IFI (real estate only); business exemptions had reduced top ETR to 0.15% vs. 1.5% statutory

Sources: OECD (2018), Table 2.1; Viard (2019); Saez & Zucman (2022).

3.3 Wealth Tax Revenues by Country

Country	Revenue (% GDP)	Revenue (% Total Tax)	Status	Notes
Switzerland	1.1%	3.9%	Active	Highest in OECD; broad base (~25–30% of households liable); low rates (0.1–1.0%); no business exemption; no income cap; in operation for over a century
Norway	0.4%	1.1%	Active	Below potential; primary residences valued at 25% of market value; recent rate increases to 1.1% (1.3% above NOK 20M) generating documented emigration
Spain	0.2%	0.5%	Active (reinstated 2011)	Reinstated after 2008 suspension; regional variation 0–3.75%; income cap responsible for 92.6% of revenue losses (Mas-Montserrat et al. 2025); collects ~19% of theoretical potential
France (pre-2018 ISF)	0.22%	~0.5%	Abolished 2018	Business asset exemptions left top 0.001% at ETR of only ~0.15% vs. 1.5% statutory; collected ~27% of theoretical potential; replaced by IFI (real estate only)
Sweden (pre-2007)	~0.2–0.4%	Declining	Abolished 2007	Declining before repeal; business equity exempt while housing taxed — produced regressive outcome; entrepreneurs cited in repeal
Germany (pre-1997)	~0.4–0.6%	Declining	Abolished 1997	Constitutional court ruled unequal asset valuation violated equal treatment; declining revenues before repeal
Netherlands (pre-2001)	~0.2%	Stable	Replaced 2001	Not a failure-driven repeal — deliberately replaced with Box 3 presumptive capital income tax
Denmark (pre-1997)	~0.2–0.3%	Declining	Abolished 1997	Income ceiling mechanism gutted revenue; avoidance widespread; declining before repeal
Finland (pre-2006)	~0.2%	Declining	Abolished 2006	Tax competition and capital flight cited; EU integration increased mobility
Austria (pre-1994)	~0.1–0.2%	Declining	Abolished 1994	Revenue too low to justify compliance costs; one of earliest to repeal
Luxembourg (pre-2006)	~0.1%	Declining	Abolished 2006	Low revenue; administrative costs; competition with neighboring countries

Iceland (pre-2006 / 2010–14)	~0.3–0.5%	Varies	Abolished 2006; emergency revival 2010–14	Emergency revival under capital controls raised ~0.5% of GDP/year; expired under political pressure after extension
Ireland (pre-1978)	~0.1%	Low	Abolished 1978	First OECD country to repeal; administrative burden and limited revenue

Sources: OECD (2018), Chapter 1 and Figure 4; OECD Revenue Statistics Database; Mas-Montserrat, Durán-Cabré & Esteller-Moré (2025); Saez & Zucman (2022). Revenue figures are approximate period averages near peak operation.

3.4 Three Categories of Failure

Across the nine abolitions, three distinct failure modes recur — often in combination. Understanding which failure mode drove each repeal matters for evaluating whether the CA proposal's design avoids them.

Failure Mode	Countries Primarily Affected	Mechanism
1. Base erosion through exemptions	France, Spain, Denmark, Sweden	Business equity, primary residences, agricultural land progressively exempted — often through sympathetic cases (pensioners in appreciated homes) that were then exploited by the wealthy. Spain's business exemption share rose from 15% to 77% of filings over time (Mas-Montserrat et al. 2025). France's top 0.001% paid an effective rate of 0.15% against a 1.5% statutory rate (Saez & Zucman 2022).
2. Tax competition and emigration	Sweden, Finland, Denmark, Luxembourg, France	Residency-based taxation (unlike US citizenship-based taxation) meant moving to a neighboring country eliminated liability immediately. Swedish wealth tax reached 4% in early 1980s; entrepreneurs and capital flight followed. Until 2017-18, no automatic cross-border bank information exchange existed — moving from Paris to London extinguished French wealth tax liability on the same day (Saez & Zucman 2019; Jakobsen et al. 2024).
3. Valuation inequities and	Germany, Ireland, Austria	Outdated property valuations created horizontal inequity: two

constitutional challenges		taxpayers with equal economic wealth paid different taxes depending on asset composition. Germany's constitutional court ruled this violated the equal treatment principle in 1997 — the most legally significant wealth tax decision in any OECD jurisdiction. Similar valuation discrepancies emerged in Austria and Ireland before repeal (OECD 2018; Viard 2019).

Source: OECD (2018); Viard (2019); Saez & Zucman (2022); Jakobsen et al. (2024). The three failure modes are not mutually exclusive — most repeals involved elements of all three. The German constitutional ruling is particularly relevant to any US proposal: the equal protection argument maps directly onto the 14th Amendment, and inconsistent valuation across asset types is the most likely trigger for a constitutional challenge.

3.5 The Three Survivors: Norway, Spain, Switzerland

The three OECD countries that retained net wealth taxes after France's 2018 abolition offer instructive contrasts in design, performance, and political sustainability.

Switzerland — The Benchmark Case

Switzerland is the longest-running and most revenue-productive wealth tax in the OECD, in continuous operation for over a century. It is administered at the cantonal level, with rates varying by canton but typically ranging from 0.1% to 1.0%. Approximately 25–30% of all Swiss households are liable — making it a broad-based tax on the middle and upper-middle class as well as the wealthy, not a targeted ultra-wealth tax. This breadth is the primary reason it works: the political economy of a tax that reaches 30% of households is fundamentally different from one targeting the top 0.1%.

Feature	Switzerland	Norway	Spain
Coverage	~25–30% of all households	Top wealth holders; ~0.5% GDP threshold	Individuals above EUR 700K net wealth
Top rate	0.1–1.0% (cantonal)	1.1% (0.3% above NOK 20M from 2023)	3.5% (from 2023; varies by region)
Revenue (% GDP)	~1.1% — highest in OECD	~0.4%	~0.2%
Revenue as % of theoretical potential	~76%	~50%	~19%
Business asset exemption	None — broad base	Partial	Extensive — drove avoidance
Income cap	None	None	Yes — major avoidance channel (92.6% of revenue loss; Mas-Montserrat et al. 2025)

Capital gains tax	None — wealth tax partly substitutes	Yes	Yes
Key vulnerability	—	Primary residence at 25% of market value; rate increases drawing political resistance	Income cap + business exemption produced 19% revenue efficiency; largely dysfunctional as designed

Sources: OECD (2018); Mas-Montserrat, Durán-Cabré & Esteller-Moré (2025); Saez & Zucman (2022).

Norway — Moderate Performance with Growing Tensions

Norway has retained its wealth tax through a combination of strong redistributive political culture and oil-fund fiscal capacity that reduces dependence on the revenue. The tax applies to net wealth above approximately NOK 1.7 million at a rate of 1.0% (raised to 1.1% for wealth above NOK 20 million in 2023). Primary residences are valued at 25% of market value — a significant concession that reduces the effective base but has helped maintain political sustainability by shielding the housing-wealth middle class. Revenue efficiency is approximately 50% of theoretical potential (OECD 2018). Recent rate increases have generated documented emigration of wealthy individuals, providing the cleanest post-2020 evidence on migration responses to wealth tax rate changes (Jakobsen et al. 2024).

Spain — A Cautionary Design Failure

Spain's wealth tax was abolished in 2008, reintroduced as an emergency measure in 2011, and has been retained in modified form since — but its performance illustrates almost every design failure documented in the literature. The income cap — which limits total wealth and income tax liability to a percentage of income — allowed wealthy taxpayers whose income was low relative to their wealth to sharply reduce their wealth tax liability. Mas-Montserrat, Durán-Cabré & Esteller-Moré (2025) find, using administrative data from the surprise 2011 reintroduction, that 92.6% of all revenue losses under the Spanish wealth tax were attributable to income cap exploitation alone. Business asset exemptions further eroded the base. Spain collects only approximately 19% of its theoretical wealth tax potential — the worst performance among surviving OECD wealth taxes.

3.6 What Made Switzerland Work: The Design Features Behind 76% Efficiency

Switzerland's revenue efficiency — collecting approximately 76% of theoretical potential against France's 27% and Spain's 19% — is not attributable to any special feature of Swiss society or politics. It is a design outcome, driven by four specific features that distinguished the Swiss tax from its failed European counterparts.

Design Feature	Why It Matters for Revenue Efficiency
No business asset exemption	The primary channel through which Spain and France lost their tax bases. Switzerland taxes business equity at full value — eliminating the dominant avoidance mechanism documented in every other European wealth tax. Spain's business exemption share rose from 15% to 77% of filings over time; Switzerland never created this incentive (OECD 2018; Mas-Montserrat et al. 2025).

No income cap	The single most damaging design feature in the European evidence. Spain's income cap alone accounted for 92.6% of its revenue losses. Switzerland has no income cap, meaning wealthy taxpayers cannot reduce their wealth tax liability by suppressing reported income (Mas-Montserrat et al. 2025).
Broad base — ~30% of households liable	Political sustainability and administrative efficiency. When 30% of households are liable, the administrative infrastructure is routine and well-tested. The sympathy cases (pensioners in appreciated homes) that drove European exemption expansion have less political salience when the tax is broad rather than targeted (OECD 2018).
Annual third-party reporting	Compliance approaches 99% where third-party reporting exists and falls sharply where it does not. Swiss cantonal wealth tax returns are cross-checked against employment income, bank account statements, and property records. Self-assessment without third-party verification — the design used by most failed European wealth taxes — enabled the evasion documented by Alstadsaeter, Johannesen & Zucman (2018/2019) (Sarin & Summers 2019).
Low rates on a broad base	Rates of 0.1–1.0% are low enough that the marginal cost of avoidance often exceeds the tax itself for most taxpayers. European taxes that reached 1.5–4% created much stronger avoidance incentives. Switzerland's design reflects the classic public finance principle: low rates on a broad base outperform high rates on a narrow base in both revenue yield and behavioral response (OECD 2018).
Substitutes for — rather than supplements — other capital taxes	Switzerland has no capital gains tax and low property taxes. The wealth tax partially substitutes for instruments that other countries use separately. This reduces the total capital tax burden at any given wealth level and mitigates the compounding effect that pushed METRs above 100% in France and Spain for some asset types (OECD 2018; Viard 2019).

Sources: OECD (2018); Mas-Montserrat et al. (2025); Sarin & Summers (2019).

3.7 Inheritance and Estate Taxes: The Transfer Tax Alternative

The estate and inheritance tax — levied at the point of wealth transfer rather than annually — is the primary alternative to a net wealth tax for reaching accumulated wealth. Its cross-country record illustrates the same pattern of high statutory rates and low effective collections, but through different mechanisms.

Country	Type	Top Statutory Rate	Revenue Effectiveness

Japan	Inheritance tax (recipient-based)	55%	Highest-yielding in OECD; progressive; harder to avoid because tax falls on multiple recipients
South Korea	Inheritance tax	50%	High revenue yield; progressive structure
France	Inheritance tax	45%	Progressive; lifetime giving allowances reduce but do not eliminate
United Kingdom	Estate tax	40% flat	Business and agricultural asset relief significantly reduces base; ~£7B/year
United States	Estate tax	40% flat	$12.9M exemption (2023); estates report ~30% of Forbes wealth; raises <0.1% of GDP
Germany	Inheritance tax	30–50%	Business asset exemptions extensive; effective rate far below statutory
Sweden, Norway, Australia, Canada	None	—	Abolished; some substitute capital gains tax at death

Sources: Hebous et al. (2024), Figure 9 and Table 3; Balkir et al. (2025). The US estate tax — despite a 40% statutory rate, it raises less than one-tenth of Japan's revenue relative to GDP, demonstrating how far exemptions, valuation discounts, and avoidance structures can erode a nominally progressive tax on wealth. The Forbes 400 estate-to-wealth ratio (30%) is the most direct evidence of this erosion.

The recipient-based inheritance tax structure used by Japan and South Korea is notably harder to avoid than the US estate tax, because the tax falls on each recipient in proportion to their inheritance — making it difficult to dilute liability by distributing to multiple heirs. The US donor-based estate tax can be avoided by simply distributing to many beneficiaries or using dynasty trusts that skip generations. This structural difference helps explain why Japan and South Korea achieve far higher effective rates despite comparable statutory rates (Hebous et al. 2024).

3.8 Offshore Evasion: A Changed but Not Closed Landscape

Offshore tax evasion was one of the primary drivers of European wealth tax failure. Before the implementation of automatic exchange of information (AEOI) between tax authorities, moving assets to Swiss or Luxembourg accounts — and in some countries simply moving residency — extinguished wealth tax liability entirely. The enforcement environment has changed materially since then, and that change is directly relevant to assessing the feasibility of a new wealth tax today.

Measure	Estimate
Global offshore hidden wealth — pre-AEOI (before 2016)	~9–10% of global GDP; ~$150 billion/year in evaded income tax (Zucman 2013; Alstadsaeter et al. 2018)
Global offshore hidden wealth — post-AEOI (2022)	~3.2% of GDP — a roughly 65% reduction (EU Tax Observatory 2023, cited in Hebous et al. 2024)
Scandinavia — top 0.01% offshore evasion pre-AEOI	~25% of taxes owed evaded via offshore structures (Alstadsaeter, Johannesen & Zucman 2018/2019)
US top 1% income underreporting	~20% of true income unreported vs. ~7% at bottom of distribution (Guyton et al. 2021, cited in Hebous et al. 2024)
Remaining gaps post-AEOI (2024)	Crypto assets, citizenship-by-investment programs, certain real estate and trust structures not yet covered (Hebous et al. 2024)

Sources: Hebous et al. (2024); Zucman (2013); Alstadsaeter et al. (2018/2019). The pre/post-AEOI comparison — the single most important structural change in the enforcement environment since European wealth taxes failed. The 65% reduction in offshore hidden wealth is the strongest evidence that the feasibility calculus is materially different today than in the 1990s and 2000s when most European wealth taxes collapsed.

The AEOI improvement does not eliminate offshore evasion risk, but it fundamentally changes its character. Before AEOI, a French or Swedish taxpayer could hold undeclared assets in a Geneva bank account with near-zero detection risk. Post-AEOI, financial institutions in 110+ jurisdictions automatically report account information to the taxpayer's home country. For US persons specifically, FATCA (the Foreign Account Tax Compliance Act, in effect since 2014) requires foreign financial institutions to report US account holders to the IRS under threat of 30% withholding on US-source payments — creating near-universal coverage for US billionaires' offshore financial assets. The primary remaining evasion risk for a CA wealth tax is not offshore financial accounts but domestic undervaluation of private business assets — a structurally different problem that requires different enforcement tools (Hebous et al. 2024; Galle et al. 2021).

3.9 One-Off and Emergency Wealth Taxes: A Different Instrument

So far, the focus has been almost entirely on recurring annual wealth taxes. The CA 2026 Billionaire Tax Act is structured as a one-time levy — which places it in a distinct analytical category with different theoretical properties, different historical precedents, and a different behavioral incentive structure.

Theoretical Advantage: Approaching a Lump-Sum Tax

A perfectly unheralded, credible one-off wealth tax approaches a lump-sum tax in its economic properties. Because the tax liability is fixed on past wealth and taxpayers cannot change their pre-announcement decisions, it cannot distort prior behavior. And if taxpayers credibly believe it

is a genuine one-off, their future savings, investment, and location decisions are also unaffected — a dollar paid today is a sunk cost that does not alter the marginal return to future savings. This theoretical elegance has attracted endorsement from economists across the political spectrum, from Schumpeter, Pigou, and Keynes in the early twentieth century to IMF economists post-2008 (O'Donovan 2021).

By contrast, a recurring annual wealth tax distorts behavior continuously. Every behavioral response documented in the literature — migration, portfolio restructuring, business asset reclassification, income cap exploitation — applies to recurring taxes but should theoretically not apply to a credible one-off. The CA proposal's fixed assessment date of December 31, 2026, with payments spread over five years, is designed to capture this theoretical advantage (O'Donovan 2021).

Credibility

The theoretical advantage depends entirely on taxpayers believing the tax is a genuine one-off. O'Donovan (2021) identifies the credibility problem as the central practical challenge: governments have incentives to tax whenever revenue is needed, and rational taxpayers may anticipate repetition and adjust behavior accordingly. The institutional commitment mechanism problem is real. A constitutional amendment is the closest analog, though future supermajorities can amend constitutions. O'Donovan (2021) finds empirically that credibility is substantially enhanced when the circumstances are clearly exceptional and broadly perceived as non-recurring — wartime reconstruction, a specific financial crisis — rather than ordinary fiscal needs (O'Donovan 2021).

Historical Precedents

Case	Design	Revenue Outcome	Key Features / Lessons
West Germany — Lastenausgleich (1952)	One-off 50% levy on all real property and productive assets as of June 21, 1948 (currency reform date); paid in quarterly installments over 30 years	Raised approximately 2% of GDP/year over repayment period; substantial revenue without major capital flight	Most successful historical capital levy. Retrospective assessment date prevented anticipatory avoidance; installment payments prevented forced liquidation; tied to extraordinary non-recurring purpose (postwar reconstruction); operated under Bretton Woods capital controls
Iceland (2010–2014)	Revival of 1% wealth tax abolished in 2006; net assets above ISK 75M	~0.5% of GDP/year at peak	Capital controls prevented flight; extended 2 years beyond plan; expired

	(individuals) / 100M (couples); annual reassessment		under political pressure — credibility as one-off was lost when extended
Ireland (2011–2015)	0.6% annual levy on private pension assets only; pension funds passed charges to members	~0.5% of GDP/year (~EUR 2.4B over 5 years)	Narrowly targeted — pensions illiquid by design; minimal behavioral response; expired with political backlash
Cyprus (2013)	Bank deposit haircut (restructured to exempt small depositors after initial announcement triggered bank run); large depositors lost up to 47.5%	Resolved specific bank recapitalization need	Extreme case — triggered immediate bank run when announced; revised design after panic; serves as a cautionary example of announcement effects for asset-specific one-off levies

Sources: O'Donovan (2021); Hebous et al. (2024).

The West German Lastenausgleich is the most important historical precedent for the CA proposal. Its key design features — retrospective assessment, installment payments spread over many years, a dedicated extraordinary purpose (postwar reconstruction), and broad political consensus — are the conditions O'Donovan identifies as necessary for a one-off levy to succeed. The CA proposal shares the first two: a fixed retrospective assessment date and a five-year payment schedule. The extraordinary-circumstances framing is more ambiguous: the OBBBA-induced fiscal emergency is real, the literature cautions that credibility requires circumstances that are clearly non-recurring — wartime reconstruction differs from a federal budget shortfall that could recur. Two further differences limit the analogy: the Lastenausgleich operated under Bretton Woods capital controls that prevented asset flight, and postwar West Germany faced none of the constitutional constraints on asset seizure that apply in the US context (O'Donovan 2021).

The Rauh, Jaros et al. (2026) finding that approximately 30% of the CA billionaire wealth tax base departed before the initiative qualified for the ballot is directly relevant here. It suggests that the credibility problem O'Donovan identifies is acute in the CA context: the multi-year ballot initiative process effectively announced the tax well in advance of the assessment date, creating exactly the anticipatory avoidance window that a truly unheralded one-off tax would theoretically eliminate. Whether the remaining 70% of the base is sufficient for the revenue projections to hold is the central empirical question the historical record cannot fully answer, because no comparable announced one-off wealth tax has been implemented in an open economy without capital controls.

Section 4: The Case For a Wealth Tax

The case for a wealth tax rests on four distinct arguments. The first is structural: the income tax is not an appropriate instrument for billionaire wealth. The second is distributional: wealth concentration has reached a scale and persistence that existing instruments are currently unable to address. The third is historical: the European reflect correctable design flaws, not inherent infeasibility. The fourth is specific to the CA proposal's one-off structure: a one-time levy has theoretical efficiency properties that annual wealth taxes lack. The empirical evidence underlying the first two arguments is developed in Sections 1 and 2; this section states the arguments and their policy implications.

4.1 The Structural Case: The Income Tax Cannot Reach Billionaire Wealth

The foundational argument for a wealth tax is not that the wealthy pay too little under the current income tax — though they do — but that the income tax is structurally incapable of reaching the primary mechanism through which billionaires accumulate wealth. This is the argument made most forcefully by Saez & Zucman (2019) and confirmed empirically by Balkir et al. (2025), and it is the argument that most directly motivates the CA proposal.

The income tax is designed around realized income flows: wages, dividends, interest, capital gains upon sale. Billionaire wealth accumulation operates primarily through a different channel — equity appreciation in companies they own or control, which accrues as rising net worth without generating any taxable income until a voluntary realization event. As long as appreciation is unrealized, it is invisible to the income tax. The buy-borrow-die strategy converts this structural feature into a permanent tax elimination: appreciate without realizing, borrow against appreciated assets for consumption, die with a stepped-up basis that wipes out all accumulated gain. No income tax reform short of mandatory mark-to-market taxation of unrealized gains — a politically and administratively radical step — can close this gap (Saez & Zucman 2016; Saez & Zucman 2019).

The administrative data confirm the scale of the gap. The top 400 report only 42% of their economic income on individual tax returns; the top 100 report only 33%. Individual income tax accounts for just 11% of the top 400's effective tax rate — less than the corporate income tax. C-corporations owned by the top 400 distributed only 19% of pretax income as dividends; privately held C-corporations distributed only 7.4%. The remaining 80–92% compounded inside corporate structures, untaxed at the individual level, generating wealth without generating taxable income (Balkir et al. 2025).

A wealth tax addresses this structurally rather than incrementally. By taxing the stock of net worth annually — or in the CA case, at a single point in time — it reaches the accumulated result of years of untaxed appreciation directly, without requiring realization. For the CA proposal specifically, 72% of CA billionaire wealth is in publicly traded equity with observable SEC-reported valuations, making the administrative case for feasibility strongest precisely where the income tax gap is widest (Galle et al. 2021; Piketty, Saez & Zucman 2023).

A broader structural argument strengthens the case for capital taxation generally: the labor share of GDP in advanced economies fell from approximately 67% in 1970 to roughly 57% by 2019, and AI adoption is expected to accelerate this decline. Relying primarily on labor income

taxes will generate declining revenue relative to GDP unless capital income is also effectively taxed.

4.2 The Distributional Case

The second argument is distributional. Sections 1 and 2 establish the scale of the problem: the top 0.1% wealth share has tripled since 1978; Forbes 400 wealth as a share of GDP has roughly doubled in each decade since 1982; the effective tax rate on the top 400 fell from approximately 30% to 23.8% between 2010–13 and 2018–20; and the tax-and-transfer system reduced the top 1% income share by only 4 percentage points — while the pretax gap grew by 8 points over the same period. The system is not keeping pace (Piketty, Saez & Zucman 2018; Balkir et al. 2025).

Two features of wealth concentration give the distributional argument particular heft. First, differential savings rates: if top wealth holders consistently save a larger share of income than the rest of the population — which the evidence confirms — then wealth concentration will increase even without any change in pretax income inequality, simply through compounding. An income tax that misses two-thirds of billionaire economic income does nothing to arrest this dynamic. A wealth tax that directly reduces the stock of accumulated wealth each year does (Saez & Zucman 2016).

Second, the rate of return advantage: the evidence suggests that wealthier households earn systematically higher returns on their wealth than middle-income households — through access to private equity, venture capital, and other high-return instruments unavailable to ordinary savers. This means wealth concentration self-reinforces even among those with the same income: the already-wealthy accumulate faster. A labor income tax is blind to this dynamic; a wealth tax is not (Piketty, Saez & Zucman 2023; Scheuer & Slemrod 2021).

4.3 European Failures Are Correctable, Not Inherent

The near-universal repeal of European wealth taxes is the central empirical exhibit for the case against a wealth tax. Proponents of the tax argue that the failures reflect specific, identifiable design choices rather than any inherent property of wealth taxes as an instrument.

European Failure	Fixes in the CA Proposal
Income cap: combined income and wealth tax liability capped as % of reported income — exploited by suppressing reported income	CA proposal has no income cap. Spain's income cap alone accounted for 92.6% of all revenue losses under its wealth tax (Mas-Montserrat et al. 2025). Eliminating it closes the dominant avoidance channel.
Business asset exemptions: progressively expanded under lobbying pressure, ultimately exempting the primary component of top wealth	CA proposal has no business asset exemption — entire net worth is taxable. Spain's business exemption share rose from 15% to 77% of filings over time. The CA proposal's no-exemption architecture prevents this erosion (OECD 2018; Viard 2019).

Self-assessment without third-party reporting: relied on taxpayers to report their own wealth with minimal verification	CA proposal uses SEC-reported equity ownership data covering ~72% of billionaire wealth as primary verification. Same third-party reporting principle that produces 99% compliance for wage income (Galle et al. 2021; Sarin & Summers 2019).
Residency-based enforcement: moving to a neighboring country immediately extinguished liability	The CA proposal is a one-time tax assessed on a fixed date — January 1, 2026. Residency as of that date determines liability; moving to another state after January 1, 2026 does not eliminate it. Post-assessment departure is irrelevant to the one-time tax; it is only relevant if future annual wealth taxes follow (Galle et al. 2025; Rauh et al. 2026). However, the migration window that matters is the period before the assessment date. In the case of CA approximately 30% of the billionaire wealth base departed before the initiative qualified for the ballot — exploiting exactly this pre-assessment window (Rauh et al. 2026)).
Offshore evasion: pre-AEOI bank secrecy allowed unlimited offshore concealment	Post-FATCA enforcement substantially closes this channel for US persons. Offshore hidden wealth fell ~65% post-AEOI globally. Primary remaining evasion risk is domestic private business undervaluation, not offshore concealment (Hebous et al. 2024).
Low exemption thresholds: taxed the upper-middle class, generating sympathy cases used to lobby for exemptions	CA proposal's $1B threshold eliminates the sympathetic asset-rich cash-poor cases that drove European exemption expansion (Saez & Zucman 2019).

Sources: Saez & Zucman (2019, 2022); Mas-Montserrat et al. (2025); OECD (2018); Galle et al. (2021); Hebous et al. (2024). Highlighted rows: the three failure modes for which the CA design provides the most direct architectural response. The Switzerland counterexample — collecting 76% of theoretical potential with no income cap, no business exemption, and broad third-party reporting — confirms that these design features produce materially better outcomes (OECD 2018).

The proponents' argument is not that a wealth tax is easy to administer or that all risks are resolved. It is the narrower claim that the specific mechanisms through which European wealth taxes failed are addressable by design, and that the CA proposal's architecture specifically addresses them. Whether new avoidance channels — OUTCA/LOUTCA deferral, dual-class share restructuring, going-private transactions — generate comparable erosion remains an open empirical question that the historical record cannot answer, because no comparable high-threshold, no-exemption wealth tax has been implemented (Saez & Zucman 2022; Scheuer & Slemrod 2021).

4.4 The One-Off Advantage

The CA proposal's one-off structure gives it a theoretical efficiency advantage over annual wealth taxes that is largely absent from the standard debate. A perfectly credible one-off wealth tax approaches a lump-sum tax: because the liability is fixed on past wealth, taxpayers cannot

change their prior decisions to avoid it, and if they believe it is genuinely non-recurring, their future savings and investment decisions are unaffected. The continuous behavioral responses that undermine annual wealth taxes — migration, portfolio restructuring, income cap exploitation, business asset reclassification — apply to recurring taxes but theoretically should not apply to a credible one-off (O'Donovan 2021).

Two additional structural advantages follow from the one-off design. First, valuation costs are incurred once rather than annually — substantially reducing the administrative burden relative to a recurring tax. Second, the fixed-liability design is resistant to the political economy of exemption expansion: once the tax liability is established on a specific assessment date, future legislatures cannot retroactively reduce it through exemption changes, removing the primary mechanism through which European annual wealth taxes were progressively gutted (O'Donovan 2021).

The one-off advantage depends on credibility — taxpayers must believe the tax will not be repeated. The literature finds that credibility is strongest when tied to clearly exceptional, non-recurring circumstances (O'Donovan 2021). The West German Lastenausgleich is the most successful historical precedent: it raised approximately 2% of GDP annually over its repayment period without major capital flight, under conditions of extraordinary postwar reconstruction need and broad political consensus. The CA proposal's OBBBA framing — a specific federal spending cut creating a time-limited fiscal emergency — is more ambiguous than postwar reconstruction as an exceptional circumstance (O'Donovan 2021).

4.5 Political Economy Grounds

A final argument could be made on political economy grounds. Highly concentrated wealth is self-reinforcing through political channels in ways that justify intervention on democratic grounds, independent of standard efficiency-equity trade-offs.

The ideas is that concentrated wealth generates concentrated political influence — through lobbying, campaign finance, media ownership, and the revolving door between private wealth and public policy. This influence is used, among other things, to shape tax policy in ways that further reduce the tax burden on concentrated wealth — a self-reinforcing cycle documented across the OECD through the progressive weakening of estate taxes, capital income taxes, and wealth taxes over the past four decades. The TCJA, which reduced the top 400 effective tax rate from ~30% to 23.8% primarily through changes that benefited concentrated capital ownership, is the most recent domestic example (Balkir et al. 2025; Scheuer & Slemrod 2021). A number of studies acknowledge the political economy argument as a legitimate reason for taxing capital, while stopping short of endorsing it as sufficient on its own to justify a wealth tax over better-designed capital income or inheritance taxes (Hebous et al. 2024, OECD (2018)).

Section 5: The Case Against a Wealth Tax

This section draws on seven distinct lines of argument: tax avoidance and base erosion; tax evasion and underreporting; migration and capital flight; valuation challenges; economic effects on savings, investment, and entrepreneurship; administrative and compliance costs; and constitutional and legal risks.

5.1 Tax Avoidance and Base Erosion

Avoidance — legal restructuring to reduce taxable wealth — is the most thoroughly documented argument against wealth taxes and the one the literature treats as most serious. The European record is unambiguous: every wealth tax that was not designed with a comprehensive base and no income cap suffered severe base erosion, typically within a few years of enactment.

The European Record

Spain's business asset exemption share rose from 15% to 77% of filings within a few years of exemption introduction. France's ISF reduced the top 0.001%'s effective rate from its 1.5% statutory rate to approximately 0.15% — a 90% reduction — primarily through the combination of business asset exemptions and income cap exploitation. Sweden's wealth tax became effectively regressive: business equity was exempt while housing was taxed, which meant that the wealthiest taxpayers bore the lightest burden. In every case the political economy was the same: exemptions were introduced under sympathetic framing — liquidity for farmers, heritage protection for art, protection for family businesses — and then exploited at scale by the wealthy (OECD 2018; Saez & Zucman 2022; Viard 2019).

An avoidance channel that is novel in the specific US context is the incentive to take companies private or restructure equity to obscure valuation (Scheuer & Slemrod 2021; OECD 2018).. The concern about shifting toward harder-to-value assets is standard in the wealth tax literature, but the US context gives it unusual prominence. Unlike European billionaires, whose wealth was historically spread across real estate, private businesses, and diversified financial assets, US billionaires hold an unusually high share in publicly traded equity — approximately 72% for CA billionaires. This is the strongest argument for administrative feasibility, but it also creates a specific incentive that European wealth taxes never faced at scale: converting observable public equity into less observable private equity would directly reduce the wealth tax base without any illegal act. Spain's experience — where the exempt share of closely held firms rose from 15% to 77% of filings after a business exemption was introduced — illustrates how rapidly restructuring can occur once the incentive exists.

Intensive Margin Is Larger Than Migration

Intensive margin avoidance — restructuring by taxpayers who stay — costs $0.54 per dollar raised, compared to $0.22 per dollar lost through migration (Jakobsen et al. (2024). Avoidance by stayers is 2.5 times more costly than departure. Mas-Montserrat et al. (2025) find that Spain's avoidance elasticity was 0.64 — meaning a 10% increase in the wealth tax rate reduced reported taxable wealth by 6.4% — and that this response grew steadily over four years, with cumulative revenue losses of 2.75 times the first-year projection. The time-pattern finding is directly relevant to the CA proposal: even a one-time tax with a five-year payment window gives taxpayers years to challenge valuations and exploit design ambiguities (Mas-Montserrat et al. 2025).

The CA-Specific Avoidance Channels

The CA proposal eliminates the two primary Spanish avoidance channels — no income cap, no business asset exemption. But it creates its own pressure points. The OUTCA/LOUTCA deferral mechanism allows taxpayers with illiquid assets to defer payment indefinitely, subject to a 7.5% annual charge — an architecture that may itself generate restructuring incentives to maximize

deferral eligibility. The dual-class share valuation rule produces extremely high effective rates on certain equity structures.

5.2 Tax Evasion and Underreporting

Evasion — illegal concealment of wealth — is analytically distinct from avoidance, though the two interact. The European evidence is severe in historical terms but substantially less applicable today than it was in the 1990s and 2000s when most wealth taxes failed.

Evasion Channel	Historical Evidence	Current Applicability to CA
Offshore account concealment	Top 0.01% in Scandinavia evaded ~25% of taxes via offshore accounts pre-AEOI; ~95% of European offshore account holders did not report to domestic tax authorities (HSBC Switzerland leak data) (Alstadsaeter et al. 2018/2019)	Substantially reduced for US persons post-FATCA. Offshore hidden wealth fell ~65% globally post-AEOI. Not eliminated — crypto, citizenship-by-investment, certain trust structures remain outside AEOI coverage (Hebous et al. 2024)
Private asset undervaluation	Forbes 400 estate returns averaged only ~30% of Forbes wealth estimates — a direct measure of appraisal-driven underreporting under the existing estate tax (Balkir et al. 2025)	The primary remaining evasion risk for the CA proposal. The Swiss formula, retroactive adjustment mechanism, and appraiser confidence declarations are specifically designed to address this — but private business valuation disputes are inherently difficult to resolve and the IRS routinely loses them (Sarin & Summers 2019; Galle et al. 2021)
Portfolio shifting toward hard-to-value assets	Taxpayers shift portfolios toward art, collectibles, private equity, crypto — assets that are systematically harder to value — reducing effective wealth tax base without illegal intent (Viard 2019; Scheuer & Slemrod 2021)	A genuine risk for the CA proposal. The no-exemption architecture removes the business asset exemption channel but does not prevent shifting toward illiquid assets. Harder to distinguish from legitimate investment decisions (Viard 2019)
IRS enforcement degradation	Estate tax audit rate fell from 65% in 1975 to 8.6% in 2018; IRS enforcement capacity has declined substantially (Sarin & Summers 2019)	A state-level wealth tax would require building entirely new FTB enforcement capacity for a novel and complex tax base — at a point when federal

		enforcement is also under pressure (Sarin & Summers 2019; Scheuer & Slemrod 2021)

Sources: as cited in each row. The Forbes-to-estate-return gap (30% of Forbes wealth reported on estate returns) is the most direct empirical evidence of what appraisal-driven evasion looks like in practice.

Evasion risks and revenue projections are captured by estate tax data (Sarin & Summers 2019). The same legal tools that reduce estate tax collections to a small fraction of statutory potential — valuation discounts, charitable vehicles, entity structures — apply directly to a wealth tax, applied annually rather than once at death. The counterargument is that third-party reporting changes the evasion calculus fundamentally — but the IRS currently devotes less than 5% of audit activity to high-wealth individuals, and building the enforcement capacity required for a wealth tax is itself an administrative and political challenge (Sarin & Summers 2019).

5.3 Migration and Capital Flight

Migration is the argument that dominates the public debate around the CA proposal, and some have argued that approximately 30% of the CA billionaire wealth tax base departed before the initiative qualified for the ballot has given it empirical force (Rauh, Jaros et al. (2026). The academic literature provides a more nuanced picture.

What the Evidence Shows

The Nordic countries experience with this issue is informative (Jakobsen et al. 2024). The Swedish repeal reduced out-migration propensity by 30% — a large and precisely estimated effect confirming that migration responds to wealth taxes. However, the aggregate economic consequences were modest: approximately $0.22 in migration-driven revenue loss per dollar raised, 0.02% employment effect per percentage point of rate increase, and 0.10% value-added effect. Jakobsen et al. (2024) states that migration 'takes center stage in the public debate' but is 'far less important for welfare and policy design than intensive margin responses.'

Migration Finding	Source and Implication
Swedish repeal reduced out-migration propensity by 30%	Jakobsen et al. (2024) — confirms migration is real and statistically significant; cannot be dismissed
$0.22 revenue lost per dollar raised through migration	Jakobsen et al. (2024) — well below the level that would make a wealth tax fiscally self-defeating, but non-trivial
Intensive margin avoidance costs $0.54 per dollar raised — 2.5x more than migration	Jakobsen et al. (2024) — migration is not the primary behavioral cost; avoidance by stayers is larger
~30% of CA billionaire wealth tax base departed before ballot qualification	Rauh, Jaros et al. (2026) — the most direct CA-specific evidence; contested by proponents as pre-dating announcement and reflecting ordinary mobility
45% of firms closed by departing wealthy owners were absorbed by other	Jakobsen et al. (2024) — mitigates the job-loss narrative; economic disruption from departure is partially offset

companies; displaced workers found comparable employment	
Five-year residency rule significantly reduced migration incentive in Sweden	Jakobsen et al. (2024) — supports the CA proposal's four-year exit phase-out as an effective deterrent design
Swedish wealth tax rates (~0.5% effective) are roughly one-tenth the CA 5% one-time burden; elasticity may be non-linear	Jakobsen et al. (2024) — extrapolating Swedish elasticities to a much higher one-time rate is not straightforward; response may be disproportionate

Sources: Jakobsen et al. (2024); Rauh, Jaros et al. (2026).

The CA-specific migration context differs from Sweden in two important respects. First, California cannot impose an exit tax or continued multi-year liability on departing residents — a fundamental asymmetry with federal proposals. Moving to another state requires no international travel, no language change, and no visa. Second, the CA billionaire population is unusually concentrated in technology equity, making it particularly mobile: founders and venture capitalists can establish residency in a different state0 while maintaining their California business presence, given that their primary asset is equity rather than a physical business they must manage on-site (Saez & Zucman 2019; Scheuer & Slemrod 2021).

5.4 Valuation Challenges

Valuation is the technical argument against wealth taxes that has the most direct operational consequence. Unlike avoidance or migration — which are behavioral responses that may or may not materialize — valuation challenges are inherent to taxing a base that includes illiquid and non-market assets. The argument has two distinct components.

Illiquid Private Assets

Approximately 28% of CA billionaire wealth is in private companies and other illiquid assets without observable market prices (Galle et al. 2025). Valuing these assets requires either formula-based methods (income multiples, book value adjustments) or case-by-case appraisals — both of which are contestable. The IRS routinely loses estate tax valuation disputes on private business assets, with family limited partnership discounts alone reducing reported values by 20–35% relative to arm's length estimates. The German constitutional court's 1997 ruling — that unequal asset valuation across classes violated the equal treatment principle — is the most legally significant precedent: if publicly traded equity is taxed at market value while private equity is taxed at a 30% discount, the equal treatment objection is live under US constitutional law as well (OECD 2018; Viard 2019; Scheuer & Slemrod 2021).

Going-Private Incentive

A wealth tax creates a direct incentive to take companies private, restructure equity, or issue non-standard stock to obscure valuation (Scheuer & Slemrod 2021). Currently, publicly traded equity is straightforwardly observable — the strongest feature of the CA proposal's enforcement

case. But this advantage is not permanent if the tax creates incentives to eliminate it. A shift from public to private equity structures in response to wealth taxation has no historical precedent to quantify, but Spain's 15-to-77% business exemption exploitation illustrates how rapidly restructuring can occur once incentives are created.

The Bill's Features to Address Valuation Issues

The CA proposal's Swiss-based formula — which values private businesses using revenue multiples and asset-based approaches calibrated to comparable public company valuations — combined with retroactive adjustment if an asset is subsequently sold at a higher price, provides a workable solution (Galle et al. (2021, 2025)). The False Claims Act extension creates a whistleblower incentive for insiders with knowledge of deliberate undervaluation. Wealth is actually more observable for billionaires than income precisely because large equity stakes must be reported to the SEC — and that payment-in-kind (shares rather than cash) eliminates the valuation dispute for the most important asset class entirely (Piketty, Saez & Zucman 2023). The counterargument is that none of these solutions has been tested at scale in the US legal and administrative environment (Galle et al. 2021; Scheuer & Slemrod 2021).

5.5 Economic Effects: Savings, Investment, and Entrepreneurship

The economic efficiency argument against wealth taxes is that taxing the stock of wealth reduces the after-tax return to saving and investment, discouraging capital accumulation and potentially reducing long-run growth. The literature finds that evidence for large effects is limited but not absent.

Savings and Capital Accumulation

The evidence on savings and capital accumulation is mixed. The Spanish wealth tax reintroduction did not reduce total savings — if anything, total wealth increased slightly among affected taxpayers, consistent with income effects dominating substitution effects. The tax made wealthy taxpayers restructure their portfolios without making them poorer (Mas-Montserrat et al. 2025). However, evidence from Denmark finds meaningful effects on wealth accumulation through the savings channel — with the wealthy accumulating less wealth under higher tax rates than they would have otherwise. The difference likely reflects design: the Spanish tax's income cap and exemptions limited its effective burden, while Denmark's broader base created a more genuine savings disincentive (Jakobsen et al. 2024)

Investment and Entrepreneurship

The entrepreneurship concern — that a wealth tax on illiquid startup equity forces founders to sell equity to meet tax obligations before they can realize returns — is theoretically real but empirically untested at the scale of the CA proposal. The CA proposal's $1B threshold means the tax applies only after substantial wealth creation, and payment-in-kind options address liquidity for those without cash. The OUTCA/LOUTCA deferral mechanism is specifically designed to address startup liquidity (Saez & Zucman 2019). However, the liquidity concern is genuine even at high thresholds: a founder with $2B in illiquid pre-IPO equity faces a $100M tax liability with no obvious cash source, and the deferral mechanisms involve complexity and cost that may themselves discourage the most valuable entrepreneurial activity (Viard 2019). The European wealth taxes provide no useful evidence here — they were not applied to economies with comparable concentrations of venture-backed startup equity, and their design failures had nothing to do with entrepreneurship effects.

5.6 Administrative and Compliance Costs

Administrative burden was a primary driver of wealth tax repeal in several OECD countries — cited as the main justification in Ireland, Austria, and Luxembourg — and underpins the OECD's own bottom-line recommendation that well-designed capital income and inheritance taxes are preferable to a net wealth tax. The core problem is that wealth taxes are costly to administer relative to their revenue yield, and in poorly performing designs those costs can approach or exceed the revenue collected (OECD 2018).

Cost Component	Assessment
Annual valuation of illiquid assets	The most expensive component. Private business valuation requires appraisals that are costly, contested, and produce systematically biased outcomes under adversarial conditions. Annual recurrence multiplies these costs. The CA one-time structure reduces but does not eliminate this — five-year payment schedules with potential retroactive adjustment require ongoing FTB engagement (OECD 2018; Viard 2019).
Taxpayer compliance costs	High-net-worth taxpayers facing a novel tax with complex valuation rules will incur substantial legal and accounting fees. These are real resource costs even if they do not appear in government revenue statistics. Compliance costs for a comprehensive wealth tax could equal tax revenue for some taxpayers — particularly those with concentrated illiquid holdings (Scheuer & Slemrod 2021).
Enforcement infrastructure	The CA FTB has no existing infrastructure for administering a wealth tax. Unlike enforcing the income tax — where the legal framework, audit procedures, and institutional expertise already exist — a wealth tax requires building entirely new capacity: appraisers who can value private businesses and illiquid assets, legal frameworks for handling valuation disputes, and audit protocols for a novel tax base. This is a substantial one-time investment that does not appear in revenue projections but is a real cost of implementation.
One-off advantage	The CA one-time structure materially reduces administrative costs relative to annual wealth taxes: valuation costs are incurred once, and no ongoing annual compliance infrastructure is needed. This as a genuine administrative advantage of the one-off design — potentially the most operationally significant advantage relative to European annual wealth taxes (O'Donovan 2021).

Sources: OECD (2018); Viard (2019); Scheuer & Slemrod (2021); Sarin & Summers (2019); O'Donovan (2021).

5.7 Constitutional and Legal Challenges

The constitutional argument against a federal wealth tax — that it constitutes a 'direct tax' requiring apportionment among states by population under Article I of the US Constitution — does not apply to a California state-level proposal. California is not bound by the federal apportionment requirement. However, the CA proposal faces its own set of constitutional risks.

Equal Protection and Valuation Inequity

Germany's constitutional court ruled in 1997 that unequal asset valuation across asset classes violated the constitutional equal treatment principle — because real estate was valued at outdated cadastral values while financial assets were marked to market, creating horizontal inequity between taxpayers with equal economic wealth but different asset compositions. The same objection is available under the US 14th Amendment's equal protection clause: if the CA proposal values publicly traded equity at market value but applies formula-based discounts to private business equity, two billionaires with equal economic net worth pay different taxes solely based on asset structure (OECD 2018; Viard 2019).

Dormant Commerce Clause

The CA proposal taxes worldwide net worth of California residents. To the extent it reaches out-of-state assets and business interests, it may face dormant Commerce Clause challenges — that California is imposing a burden on interstate commerce by taxing assets with no specific California nexus. This is a less-developed area of law for wealth taxes than the direct tax clause, but raises real litigation risk that could delay or reduce collections (Scheuer & Slemrod 2021).

Retroactivity

A wealth tax assessed on the value of assets as of a specific past date — December 31, 2026 in the CA proposal — is retrospective. US courts have generally tolerated retrospective taxation for limited periods, but a tax on accumulated past wealth raises the question of whether it effectively penalizes past transactions and arrangements made without the tax in contemplation. The five-year payment schedule and the ballot initiative's public announcement well before the assessment date complicate this argument in both directions (Viard 2019).

5.8 Alternatives to Wealth Tax

Several papers in this review accept the underlying premise — that the wealthy are undertaxed relative to their economic income — but argue that better instruments exist to address it than a wealth tax (Sarin & Summers 2019; OECD 2018; Hebous et al. 2024).

Alternative Instrument	Argument for Preference over Wealth Tax
Mark-to-market taxation of unrealized gains (constructive realization)	Directly addresses the realization gap that is the primary mechanism of billionaire undertaxation. Taxes income as it accrues rather than stock of wealth. Avoids valuation and apportionment issues. Technically complex but administratively more familiar than a novel wealth tax (Sarin & Summers (2019), Piketty, Saez & Zucman (2023).
Elimination of stepped-up basis at death	Closes the buy-borrow-die strategy's terminal step — the permanent forgiveness of accumulated gains at death. Low administrative cost; uses existing capital gains infrastructure; raises substantial revenue from the most

	egregious tax preference for wealth accumulation. Broadly supported across the political spectrum as an alternative to a wealth tax (Sarin & Summers 2019; Scheuer & Slemrod 2021).
Strengthened estate and inheritance taxes	Closer to existing law; inheritance taxes (recipient-based) are harder to avoid than estate taxes (donor-based). Japan's 55% inheritance tax raises more revenue relative to GDP than any other OECD estate or wealth tax. Avoids annual valuation burden (OECD 2018; Hebous et al. 2024).
Income tax gap enforcement	$750B–$1.1T over 10 years available through enforcement of existing law, concentrated among high-income earners. No new legal or administrative infrastructure required (Sarin & Summers (2019)).
Well-designed capital income tax reform (dividend, interest, capital gains)	A broad-based, low-rate capital income tax — with reduced arbitrage between income types and no novel valuation requirements — would address the same undertaxation problem with lower efficiency costs and using existing administrative infrastructure (OECD 2018; Hebous et al. 2024)

Sources: Sarin & Summers (2019); OECD (2018); Hebous et al. (2024); Scheuer & Slemrod (2021).

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