

YOU'RE NEXT

How a Wealth Tax Threatens
Investment, Jobs, and Taxpayers



You're Next: How a Wealth Tax Threatens Investment, Jobs, and Taxpayers
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Executive Summary

Proposition 40 on the November 2026 ballot is being marketed as a wealth tax on billionaires. But the economic costs would not stop with billionaires if Prop. 40 or other wealth taxes are adopted.

PRI's analysis finds that Prop. 40, if enacted, would reduce investment in California, slow economic and job growth, reduce income growth for the average family, and leave the state with less revenue for other important priorities. And because the measure relies on a one-time tax to support longer-term spending commitments, it would increase the pressure for future, broad-based tax increases.

Less Investment, Slower Growth, and Fewer Jobs. California's economy depends on entrepreneurship. Over the past five years, around 60 percent of all venture capital investment in the U.S. occurred in California, or around \$158 billion annually. In 2026, amid the AI boom, California attracted approximately \$366 billion—90 percent of total U.S. VC investment!¹

PRI estimates that a wealth tax would reduce venture-capital investment in California by \$65.5 billion. Including the broader economic activity those investments would have generated, our analysis shows California's economy would be 3.4 percent smaller than it otherwise would have been after five years. Growth in the average family's income would be more than \$1,700 lower, and job growth would fall by more than 230,000. The resulting slow growth economy will also raise fewer revenues than expected. Excluding the wealth tax revenues—which are unavailable for general spending—the state will lose access to nearly \$5.0 billion next year growing to over \$7.0 billion by the fifth year.

Less revenue than expected. Wealth tax proponents expect the Prop. 40 wealth tax to raise \$100 billion. Hoover Institution researchers expect the state will raise \$40 billion. But wealth-tax collections tell only part of the story. By encouraging billionaires to leave the state, annual income tax collections will be lower than otherwise. Accounting for these lost annual tax revenues, the Hoover Institution estimates the state will lose \$24.7 billion. That estimate does not include the additional revenue losses resulting from slower economic growth.

Greater pressure for broad-based tax increases. The wealth tax proposal in Prop. 40 pairs a one-time revenue source with longer-term spending commitments. At the same time, PRI's analysis finds that slower economic growth would reduce the money available for all other spending programs. Those pressures are particularly troubling given that California faces multiple years of projected \$10 billion plus deficits.

To illustrate the potential consequences if lawmakers attempted to close these massive structural deficits with broad-based tax increases to close the gap, PRI modeled around a one percentage point across the board increase in all income tax brackets. Combined with the wealth tax, the broad tax increase would reduce the average family's income by nearly \$3,000, shrink the number of jobs created by nearly 400,000, and cause the economy to be 5.8 percent smaller than it would have been after five years.

Introduction

If approved by voters, Prop. 40 would impose a one-time 5 percent tax on the global wealth of every billionaire retroactively imposed on anyone who was living in California as of January 1, 2026. Proponents claim it is a tax on the rich. But taxes change economic behavior, and the consequences do not necessarily stop with the people who write the check.

Prop. 40's wealth tax would create a fundamental fiscal mismatch: funding long-term spending commitments with a one-time revenue source. Once the money runs out, the spending commitments will remain. Meanwhile, reduced investment and slower economic growth would mean less revenue available for other state priorities.

This study examines the consequences that follow from a wealth tax. Prop. 40 may target billionaires, but its economic and fiscal effects would extend further. The potential future impacts for working-class and middle-class Californians are inescapable - you're next.

“ Prop. 40's wealth tax would create a fundamental fiscal mismatch: funding long-term spending commitments with a one-time revenue source.

California's Economy Runs on Investment and Entrepreneurship

California is not simply a place where wealthy people happen to live. It is a place that historically enabled people to attract investment and invent the future. Some of these ventures failed; others—whether it was Steve Jobs in the 1970s or Jensen Huang in the 2020s—transformed the world. California's economy depends on this constant cycle: companies are founded, capital is invested, successful firms expand, jobs are created, and workers spend their earnings throughout the broader economy.

It is because of this entrepreneurial spirit that California became the largest, most prosperous state in the country.

The benefits extend well beyond entrepreneurs and technology workers.

Successful companies employ accountants, lawyers, construction workers, and marketing firms. These workers spend money in their local economy, creating even more jobs in restaurants, transportation, and other service industries. California's entrepreneurial clusters generate economic activity far beyond the industries where they originate.

Most states would be thrilled if just one of California's vibrant clusters flourished in their state. They developed in California because individuals have been able to reap the rewards from taking risks and developing products that often didn't yet exist. Thanks to these historical achievements, the tech sector now accounts for more than 19 percent of California's economy.² Including the positive impact all that spending has on other economic activities, the tech sector directly and indirectly creates 30 percent of the state's annual economic output.³

“ California's disproportionate share of these investment dollars reflects the state's comparative advantage built over decades—an advantage that scores of anti-growth tax and regulatory policies have been eroding.

The clearest measure of California's entrepreneurial advantage is venture capital. Between 2021 and 2025, California attracted approximately 60 percent of the country's venture capital—around \$158 billion annually.⁴ In 2026, California's share of the nation's venture capital investment surged to 90 percent, or around \$366 billion, thanks to the AI boom.⁵

Yet California accounts for only around 14 percent of the national economy. California's disproportionate share of these investment dollars reflects the state's comparative advantage built over decades—an advantage that scores of anti-growth tax and regulatory policies have been eroding. California's economy now depends heavily on industries where today's startup can become tomorrow's major employer. And this is why a wealth tax would be so economically destructive in the Golden State.

Why A Wealth Tax Changes Investment Decisions

Wealth taxes double tax entrepreneurs and investors.⁶ People invest their assets to earn income. Imposing a 5 percent tax on these assets reduces their earnings. Consider a person who earns a 5 percent return on all their assets after paying their income taxes, then having an additional 5 percent tax levied on the value of those assets. The wealth tax would effectively be imposing a 100 percent income tax—a confiscatory anti-growth tax rate that broadly deters investment, entrepreneurship, and the incentives to hold assets in in the Golden State.

The tax may only apply after someone becomes a billionaire, but entrepreneurs and investors make decisions long before reaching that threshold. If creating a company in California risks a future tax liability that would not exist elsewhere, that potential cost becomes part of today's decisions regarding where to locate, where to invest, and where to build the company.

And these are the exact concerns investors are raising with respect to the proposed wealth tax. As *The San Francisco Standard* reported,

“ If creating a company in California risks a future tax liability that would not exist elsewhere, that potential cost becomes part of today's decisions regarding where to locate, where to invest, and where to build the company.

Billionaires aren't the only people second-guessing their California loyalties over the proposed "billionaire tax." Entrepreneurs with fewer commas in their net worth are also considering leaving the state, as the risks of the proposed ballot initiative start to come into focus. Should their contingency plans lead to moving vans, it could threaten Silicon Valley's role as the epicenter of innovation.

"Everyone's in a panic," said Brianne Kimmel, founder of San Francisco-based Worklife Ventures. Kimmel, who has invested in nearly 80 startups, said the majority of her portfolio companies based in California have begun drafting contingency plans to leave the state in the event the ballot measure passes.

*"This affects anyone who has taken a chance on an early-stage company in exchange for equity," Kimmel said, adding that the tax "would be completely detrimental for San Francisco itself."*⁷

According to *Yahoo! Finance*,

[Mark] Cuban admitted he thinks "only idiot startup founders" will remain in the state if the tax ends up passing.

*As someone who has become a household name by investing in budding businesses, the Shark Tank star added that, in that case, "you can bet if I'm investing in a multi-billion dollar startup, I'm asking them to move from California first."*⁸

Speaking on CNBC, Venture capitalist Ben Narasin worried that the wealth tax “will drive innovation” out of California, risking “the preeminent position of Silicon Valley as the innovation hub of the planet.”⁹

Europe provides real-world evidence of what can happen when those incentives change. European countries have repeatedly experimented with wealth taxes, and most eventually abandon them because the tax raises relatively few revenues, imposes a large economic burden, and is costly to administer.

Research compiled by the Mercatus Center¹⁰ finds that fifteen European countries have implemented wealth taxes at some point, but only three still maintain them. As the Mercatus study documented,

- In France, researchers estimated that the wealth tax caused roughly €200 billion in annual capital flight and shaved 0.2 percent off yearly GDP growth.
- In Germany, one study estimated that reinstating its former wealth tax would reduce annual GDP growth by 0.33 percentage points, production by 5 percent, and investment by 10 percent.
- Sweden ultimately abolished its wealth tax after concerns about investment, entrepreneurship, and employment.

Adopting a wealth tax in California would similarly drive investments to other states and countries just as the European wealth taxes did.

The danger is not that every startup will suddenly leave the state or that every entrepreneur will move to Texas, Nevada, or Florida. The risk is more gradual: fewer companies will be founded here, less capital will be invested here, and fewer opportunities will be created here.

California’s greatest strength—its entrepreneurial spirit—will suddenly become a weakness. Over time, those decisions compound. Less investment means slower economic growth, fewer job opportunities and weaker income growth. Prop 40 may be targeting billionaires, but the effects of a wealth tax will be felt by working-class and middle-class Californians as well.

“ European countries have repeatedly experimented with wealth taxes, and most eventually abandon them because the tax raises relatively few revenues, imposes a large economic burden, and is costly to administer.

What The Wealth Tax Could Cost

No state has ever implemented a comprehensive wealth tax, so its precise economic effects cannot be observed directly. To estimate the wealth tax's potential impact, PRI uses changes in venture capital investment in California as a useful proxy for how entrepreneurial investments in the state would be impacted. Relying on the studies that link the responsiveness of wealth and investment to tax changes, we quantify the potential growth consequences from the proposed wealth tax to get a sense of the losses. (Note: the Appendix presents the tax elasticities, economic multipliers, and baseline VC investment assumptions used to generate our results.)

The estimated losses are substantial.

PRI estimates that the wealth tax could reduce total venture-capital investment in California by an estimated \$65.5 billion. Including the broader economic benefits these investments would have otherwise brought, California's economy would be 3.4 percent smaller than expected over five years.

This slower growth translates into more than 230,000 fewer jobs and more than \$1,700 less income growth for the average California family, see Figure 1.

FIGURE 1
CALIFORNIA'S ESTIMATED ECONOMIC LOSSES FROM IMPOSING A WEALTH TAX
(LOSSES ARE RELATIVE TO BASELINE GROWTH OVER FIVE YEARS)



Slower growth would also weaken state finances. Excluding the revenues from a wealth tax, PRI estimates that the reduced economic activity would lower state revenue by around \$5.0 billion initially, which would grow to more than \$7.0 billion annually over five years.

Because the policy has never been implemented in the U.S., there are inherent uncertainties regarding any quantified economic impact. However, these projections are consistent with both Europe's experience with capital flight under wealth taxes, explicit warnings from venture capitalists that they will prefer ventures located outside of California if Prop. 40 were passed and a wealth tax implemented, and basic economic theory that higher taxes disincentivize economic activity.

Wealth Tax Revenues— “Over Promised, Under Delivered”

The economic losses are only half of the problem that a wealth tax would create. The other question is whether the tax would raise anything close to what proponents expect.

Ostensibly, the wealth tax is necessary to backfill lost federal Medi-Cal spending—according to the measure’s proponents \$100 billion in new money is needed.

But because Prop. 40 would apply retroactively to residents as of January 1, 2026, the mere proposal has already affected behavior, driving away a significant amount of the tax base.¹¹ This lost wealth reduces the expected revenues from the wealth tax and costs the state the annual income tax revenues these lost taxpayers would have paid. Hoover Institution economists Joshua Rauh and Benjamin Jaros modeled these impacts.

Hoover estimates that the wealth tax will raise around \$40 billion over five years, less than half what the proponents advertise.¹² Importantly, the authors also found that the migration of billionaires away from California will cost the state significant income tax revenue.

Accounting for those losses over decades, Hoover estimates Prop 40’s net present value at negative \$24.7 billion. And even this revenue loss is optimistic because these estimates do not account for the smaller sales and income tax revenues that the state will raise because the wealth tax reduced the state’s growth potential. Consequently, the revenue losses will be even greater than Hoover estimates.

Nor do the revenue losses account for the costs of administering the wealth tax. As argued by MIT Golub Center for Finance and Policy, “wealth taxes can impose significant appraisal and verification costs. Moreover, tax authorities often lack the information or expertise required to value and track unique assets that are common in billionaires’ portfolios. Tracking certain types of assets, such as art or gold, is particularly difficult. Overall, wealth taxes are not an efficient method of raising revenue: they distort investment incentives, often are based on shaky legal grounds, and are costly to administer.”¹³

In other words, administrative and compliance costs are large because identifying and valuing people’s assets is not an easy task—especially for illiquid assets that include artwork and collectibles but also include founders’ stakes in their private companies.

Compliance costs are also burdensome because the wealth tax tries to capture financial gains that have not been realized. For potential entrepreneurs, this matters.

Paper wealth does not necessarily mean cash in the bank. Wildly successful founders often own large stakes in companies worth billions on paper but rarely have the liquidity to pay a 5 percent tax on that valuation. Paying the tax will require them to sell shares, borrow against the company, or restructure their holdings. These actions create large financial costs.

According to a study on the costs of administering a wealth tax by Burgherr (2021) “a well-designed wealth tax generates costs to taxpayers of 0.1 percent of taxable wealth and costs to the tax authority of 0.05 percent of tax-

able wealth.”¹⁴ Applied to the value of the taxable wealth consistent with the Hoover Institution study, the cost of administering California’s wealth tax (if it is well designed) could be \$400 million while imposing compliance costs of \$800 million on taxpayers.

Of course, what if California’s wealth tax is not “well-designed”? The costs would then be multiples higher. Also increasing the likely administrative costs in California, Prop. 40’s tax base would be especially complex because it includes closely held startup equity, private company stakes, and trust structures. These assets are among the hardest and most expensive to appraise and litigate.

Prop. 40 also faces serious constitutional questions. For instance, the Tax Foundation identifies serious constitutional vulnerabilities in the measure, including its retroactive residency date, its 100 percent apportionment of worldwide wealth, its treatment of trusts and spousal assets, and its conflict with the federal exemption on U.S. Treasury holdings.¹⁵

If courts invalidate significant portions of the measure, California could face an especially costly outcome: taxpayers and entrepreneurs may have already changed their behavior, reducing future income- and sales-tax collections, while the state could be required to refund potentially all wealth tax revenues raised.



Paper wealth does not necessarily mean cash in the bank. Wildly successful founders often own large stakes in companies worth billions on paper but rarely have the liquidity to pay a 5 percent tax on that valuation.

When the One-Time Money Runs Out...You're Next

The Prop. 40 wealth tax glosses over a fundamental flaw: funding long-term spending with a one-time tax. If these programs continue after all the wealth tax money is spent—likely within five years—there will be growing pressure to reduce spending elsewhere, cut these new programs—or raise taxes on Californians. The realized tax revenues falling \$60 billion short of expectations adds immediacy to these potential tax increases.

Meanwhile, the nonpartisan Legislative Analyst's Office (LAO) notes that future budgets are plagued with “operating deficits of roughly \$10 billion annually from 2026–27 through 2029–30.”¹⁶ The wealth tax would not solve California's underlying budget problem. PRI's analysis finds that its economic effects would make that problem more difficult.

While proponents are selling Prop 40 as a source for new spending that only taxes billionaires, when the promised revenue falls short and the structural budget deficit requires addressing, California's tax history indicates the state will look to other tax sources to cover these costs. In other words, passing Prop. 40 increases the pressure to raise broad-based taxes on the average California family.

To illustrate these potential consequences if lawmakers relied on broad-based taxes to close these fiscal gaps, PRI modeled a one percentage point across the board increase in the state's personal income tax rates.

The results illustrate how quickly the economic costs could compound. The wealth tax and higher tax rates combined would shrink the size of the economy by 5.8 percent than it would have been without these policies, reduce the growth in the average household's income by nearly \$3,000, and reduce the growth in jobs by nearly 400,000, see Figure 2.

FIGURE 2
THE COMPOUNDED ECONOMIC LOSSES FROM IMPOSING A WEALTH TAX
AND THE BURDEN FROM FUTURE TAX INCREASES
(LOSSES ARE RELATIVE TO BASELINE GROWTH OVER FIVE YEARS)



Conclusion

A wealth tax like Prop. 40 would impose a one-time tax on California billionaires. But as we've shown in this study, its economic consequences would extend beyond the taxpayers legally responsible for paying for it.

The tax would change incentives to invest, build companies and remain in California. PRI estimates that the resulting decline in venture-capital investment would slow economic growth, reduce job creation, lower household-income growth and leave the state with less revenue for other priorities.

At the same time, it would rely on temporary revenue to support longer-term spending commitments. If these revenues fall short or disappear while new spending continues, lawmakers would face a familiar choice: reduce spending, find new revenue, or raise other taxes.

That is the broader question the wealth tax raises for Californians. It is not simply who writes the check when the wealth tax comes due. It is who bears the economic and fiscal consequences that follow.



PRI estimates that the resulting decline in venture-capital investment would slow economic growth, reduce job creation, lower household-income growth and leave the state with less revenue for other priorities.

Appendix

The wealth tax could reduce the amount of venture capital (VC) investment in California by discouraging (1) limited partners (LP) from supplying venture capital to California-based projects; (2) general partners (GP) from operating in California; and (3) entrepreneurs from locating their ventures in California.

A limitation to the analysis is the lack of historical state-level studies that directly evaluate the impact from a wealth tax on state allocation of venture capital funds. The nonexistence of these studies is expected as no state has ever implemented a wealth tax. There are also interdependencies between these groups—when a GP moves out of California, the ability for the LP to invest in California is impacted. Further, LP's willingness to invest in California matters, as does the preference of entrepreneurs.

However, insights regarding these potential impacts can be gleaned from the literature examining the tax sensitivity of VC investments to capital gains taxes, the sensitivity of investment to after-tax returns, and the responsiveness of wealth to the imposition of wealth taxes. Due to the unknown interdependencies between these different VC channels, we use the estimated changes in GP behavior alone, which is the dominant channel, to estimate the impact.

California's Prop. 40 targets individual global net worth, therefore the tax would impose a direct, massive, and (potentially) recurring penalty on California-based GPs with millions or billions in personal wealth. Consequently, we apply the conservative -8.3 expanded departure semi-elasticity estimated in the Hoover Institution's evaluation of the wealth tax's revenue potential to estimate GPs' incentive to shift their investments towards other states.¹⁷ Applied to the 5 percent wealth tax, this semi-elasticity implies a 41.5 percent decline in investment due to GPs leaving for other states.

To maintain an analytically conservative approach, we utilize the smaller -8.3 semi-elasticity estimated by the Hoover Institution rather than the larger "plausible" semi-elasticity estimates between -12 and -13.¹⁸

We also conservatively assume that, absent the wealth tax, total VC investment in California would maintain its 5-year average through 2025 of \$157.9 billion, which is significantly below the 2026 investment level of \$366.0 billion and assumes no average growth over the next five years. The model estimates the overall percentage decline in VC investment by multiplying the -8.3 semi-elasticity by the absolute change in the wealth tax.

Based on these figures, the imposition of the wealth tax will reduce VC investment in California by 41.5 percent, or \$65.5 billion. Assuming a standard VC economic multiplier of 1.6,¹⁹ the analysis estimates that the wealth tax's impact on entrepreneurship will cause California's economy to contract by around 3.4 percent. The outyear impacts over five years include the average of the estimated declines in annual GDP growth in France and Germany as reported by the Mercatus Center.²⁰

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About the Authors

Wayne Winegarden

Wayne Winegarden, Ph.D., is a senior fellow in business and economics at the Pacific Research Institute.

Recognized as one of the country's leading free market economists, Winegarden writes briefs and commentaries and gives media interviews on the destructive impact of tariffs on American consumers, and the importance of federal and state policymakers embracing fiscal discipline.

Often cited by major national and international media outlets, he has been interviewed by the *New York Times*, *Wall Street Journal*, *Washington Post*, Associated Press, *USA Today*, BBC, CNN, CNBC, and CBS News, to name a few.

As director of PRI's Center for Medical Economics and Innovation, Winegarden spearheads research and advances policies that support the continued viability and vitality of the U.S. biomedical and pharmaceutical industries, such as how to fix America's broken drug pricing system, how price controls threaten innovation and limit access to life saving medications, and the promise shown by biosimilars. He travels the country giving speeches, providing invited testimony, and meeting with policymakers sharing his research and analysis.

Promoting free market environmentalism, Winegarden writes extensively on the negative impact of government green mandates on gas prices and production, electricity rates and grid reliability, and the energy burden of consumers, particularly in minority and low-income communities.

His paper, "Costly Subsidies for the Rich," received national attention for its finding that 79 percent of EV subsidies were claimed by those making more than \$100,000 per year. Citing Winegarden's research, Sen. Deb Fischer (R-Nebraska) in August 2022 led the Senate in passing an amendment on a bipartisan vote to disallow electric vehicle tax credits for the wealthy.

Focusing on California's ongoing challenges brought about by irresponsible state policies, Winegarden writes in his monthly "Wayne's World" column for the Southern California News Group newspapers and PRI "Spending Watch" analyses about the state's ongoing budget problems, unfunded public employee pensions, and unacceptably-high cost of living.

One of the most prolific free market thinkers on the homeless crisis, he is a co-author of the 2021 book on California's homeless crisis, *No Way Home* (Encounter Books, which was an Amazon.com number one new release for mental health law books. He is regularly interviewed by California media outlets, including Capitol Public Radio, *The California Post*, *The Center Square*, and *The San Diego Union-Tribune*, among others.

Winegarden is also the principal of an economic advisory firm that advises Fortune 500 companies, small businesses and trade associations on the economic, business and investment implications of economic trends. Previously, he worked as a business economist in Hong Kong and New York City and a policy economist for policy and trade associations in Washington D.C. Winegarden received his B.A., M.A., and Ph.D. in Economics from George Mason University.

Brandon Winegarden

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About PRI

The Pacific Research Institute (PRI) champions freedom, opportunity, and personal responsibility by advancing free-market policy solutions. It provides practical solutions for the policy issues that impact the daily lives of all Americans, and demonstrates why the free market is more effective than the government at providing the important results we all seek: good schools, quality health care, a clean environment, and a robust economy.

Founded in 1979 and based in San Francisco, PRI is a non-profit, non-partisan organization supported by private contributions. Its activities include publications, public events, media commentary, community leadership, legislative testimony, and academic outreach.

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PRI shows how the entrepreneurial spirit—the engine of economic growth and opportunity—is stifled by onerous taxes, regulations, and lawsuits. It advances policy reforms that promote a robust economy, consumer choice, and innovation.

Center for Education

PRI works to restore to all parents the basic right to choose the best educational opportunities for their children. Through research and grassroots outreach, PRI promotes parental choice in education, high academic standards, teacher quality, charter schools, and school-finance reform.

Center for the Environment

PRI reveals the dramatic and long-term trend toward a cleaner, healthier environment. It also examines and promotes the essential ingredients for abundant resources and environmental quality: property rights, markets, local action, and private initiative.

Center for Health Care

PRI demonstrates why a single-payer Canadian model would be detrimental to the health care of all Americans. It proposes market-based reforms that would improve affordability, access, quality, and consumer choice.

Center for California Reform

The Center for California Reform seeks to reinvigorate California's entrepreneurial self-reliant traditions. It champions solutions in education, business, and the environment that work to advance prosperity and opportunity for all the state's residents.

Center for Medical Economics and Innovation

The Center for Medical Economics and Innovation aims to educate policymakers, regulators, health care professionals, the media, and the public on the critical role that new technologies play in improving health and accelerating economic growth.

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