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The Broader Economic Impact of the Proposed California Wealth Tax: Employment, Wages, Wealth Creation, and Tax Revenue Benefits Beyond Individual Taxpayer Impacts

In October 2025, a ballot initiative titled the "2026 Billionaire Tax Act" was filed with the California Attorney General. Proponents subsequently amended the initiative in November 2025. If successfully qualified, the initiative would appear on the November 2026 ballot for consideration by California voters. This paper provides some estimates on the direct impacts of the proposal on the individual taxpayers impacted, but it also provides a wider view into the economic impacts on California and, in turn, all California taxpayers. Recent research does not provide an overview of the broader impact of the initiative on California's employment base, wage income, wealth creation, or the full range of impacts of state tax revenues that flow from the aforementioned areas. These impacts will take years to unfold beyond the initial behavioral response of impacted taxpayers.

What the Initiative Proposes

The initiative would impose a **one-time** 5% tax on the net worth of California residents with wealth exceeding $1 billion, assessed on billionaires living in California as of January 1, 2026.

Proponents project approximately $100 billion in revenue; independent analyses (Rauh & Jaros) estimate approximately $40 billion after accounting for departures and base erosion. The proceeds would be payable over a multi-year period (up to five years) by impacted taxpayers[1].

Initiative Expenditure of Revenues

Revenues are set aside into a special account versus the State General Fund, which bypasses key constitutional provisions (e.g., Proposition 98 {K-14 spending} and Proposition 2 {Budget Stabilization Act}). The initiative provides that 90% of revenues would be expended on public health care services. The remaining 10% would be spent on the administration of the initiative, education, and food assistance.

[1] It costs taxpayers more to spread out their payments with a charge for interest.

Existing Research: Direct Behavioral Response of Impacted Taxpayers

To date, most research on the impact of the wealth tax has focused on the impact on the approximately 200 taxpayers directly affected by the proposed initiative. We will provide a brief review of that research before turning to our own analysis of both these direct impacts and indirect impacts on California's economy and state government revenues.

The Hoover Institution (Rauh & Jaros, March 2026), California Legislative Analyst's Office (December 2025) have analyzed the direct fiscal effects of the proposed 2026 Billionaire Tax Act — principally, the revenue the tax would collect and the income tax revenue the State would lose as high-net-wealth individuals depart. The National Bureau of Economic Research (Rauh & Shyu, 2024) estimated the impacts of Proposition 30 income tax on the out-migration of high-income taxpayers. Key findings of these research projects include:

A. Rauh & Jaros (Hoover Institution, March 2026)

- CA's ~200 high-net-wealth individuals generate $3.3–$5.8 billion annually in state PIT revenue
- Six confirmed pre-January 2026 departures removed $536 billion (~30% of the tax base)
- 71% of simulations produce a negative Net Present Value for the state, averaging –$24.7 billion
- One-time collection estimated at ~$40 billion, not $100 billion

B. California LAO (December 2025)

- Indicated that the wealth tax "probably would add up to tens of billions of dollars spread over several years."
- Indicated that some high-net-wealth individuals are "likely" to leave; estimated ongoing Personal Income Tax loss of "hundreds of millions of dollars or more per year."
- Characterized the revenue projection as "very hard to predict."

C. Rauh & Shyu (AEJ: Economic Policy, 2024)

- Found that Proposition 30 (2012) caused 53% increase in top-bracket out-migration
- Over 85% of taxable income from departing taxpayers is lost within one calendar year
- We note that the Rauh & Shyu findings are significant because the wealth tax creates departure incentives up to 100 times larger than Prop 30.

Our Estimates of These Direct Impacts

Based on the announcements of departures already made, the unprecedented size of this wealth tax, and extensive research showing strong behavioral responses to wealth taxes imposed in Europe, we believe that this tax would result in the out-migration of 40 or more ultrawealthy taxpayers, accounting for 50 percent of the estimated $2 trillion in wealth held by California billionaires. (Our modeling specifically assumes a three-year ramp-up to the 50 percent behavioral effect - 40 percent in 2027, 45 percent in 2028 and 50 percent in 2029 and thereafter). Based on these assumptions, we estimate that:

- The one-time wealth tax would produce about $55 billion in revenues spread across 5 years (slightly over $50 billion in constant 2026 dollars).
- The flight of billionaires and approximately $1 trillion in wealth would reduce personal income taxes by $177 million in 2027 and $3.1 billion in 2028, with subsequent losses expanding to $13.5 billion by 2046.
- Taking into account the temporary wealth tax revenue gains and the ongoing personal income tax losses, the wealth tax would result in a cumulative net loss of **$49.7 billion** between 2027 and 2046 (in constant 2026 dollars).[2] This estimate takes into account the initial impacts of the wealth tax on out-of-state migration of billionaires, but does not include the more comprehensive economic impacts discussed below.

Our Extended Analysis

In addition to the direct wealth tax gains and associated income tax losses, we cover the cascading impacts associated with high net wealth individual flight: the loss of jobs associated with the relocation of family offices and company headquarter staff; the reduction in consumer consumption and charitable giving; and most importantly (and most difficult to model) the long-term disruption to California's start-up pipeline and the compounding loss of future jobs, wages and tax revenues. The combined annual impacts from these provisions are shown in **Figure 1** and summarized below. They include job losses of over 108,000, annual wage losses of $28 billion, and annual personal income tax losses of $12 billion by 2046.

Cumulative personal income tax losses from both the initial out-migration of billionaires and the subsequent impact on businesses totals $122.4 billion over the next two decades. When combined with the temporary revenue gains from the wealth tax, our extended analysis finds a net revenue loss of **$71.5 billion** over the full period 2027 through 2046 (in constant 2026 dollars).

Figure 1
Combined Impact of Wealth Tax on California Private-Sector Jobs, Wages, and Personal Income Tax ($ in Billions of Constant 2026 Dollars)

Variable	2027	2031	2036	2041	2046	Total*
Jobs	-30,500	-32,082	-38,693	-56,329	-108,153	NA
Wages	-$3.9	-$4.1	-$5.8	-$11.2	-$28.2	-$183.8
Personal Income Tax (PIT)	-$0.5	-$4.1	-$5.4	-$7.6	-$12.1	-$122.4

*Cumulative wage and personal income tax losses, 2027-2046. Personal income tax loss includes impacts from initial flight of wealthy taxpayers and subsequent losses in jobs and wages due the factors described below.

[2] This $49.7 billion cumulative loss is larger than the present value of the future gains and losses from the wealth tax (used in the Rauh and Jaros Hoover Institute study). This is because a present value estimate discounts future impacts to reflect the time value of money and uncertainty associated with future events. If we assume a real (inflation-adjusted) discount factor of 3 percent, the present value of the cumulative $49.7 billion loss would be about $24 billion.

Family Office Relocation

In recent cases of billionaire relocations, the personal "family office" infrastructure that supports that individual has typically followed.[3] The infrastructure typically includes private wealth management, personal staff (household managers, security, private aviation, personal assistants), and the broader professional services ecosystem—tax attorneys, estate planners, investment advisors, accountants, and philanthropic consultants.

The scale of this employment is significant. According to Campden Wealth, a London-based research firm that tracks ultra-wealthy families, family offices serving billionaires typically employ at least 50 people.[4] The Bayshore Global Management office of Google co-founder Sergey Brin employs 50–100 people managing over $100 billion in assets. For purposes of our estimates, we assume the average of each California billionaire's exit will result in a loss of 32 family office employees.

Our estimates. We estimate that the outmigration of billionaires will be followed by the loss of 2,944 jobs in 2027 (**see Figure 2**), with the number growing to 3,557 by 2046. The estimates reflect both the migration of office employees to the billionaires' new home state and the loss of multiplier jobs associated with businesses that provide goods and services to the family offices. The family office jobs are predominantly high-paying professional positions—CIOs at family offices commonly earn over $1 million in base salary (Forbes). As a result, the annual losses in wages and personal income taxes are significant, reaching over $900 million and $80 million, respectively, by 2046.

Figure 2
Impact of Family Office Relocations Due to Wealth Tax
($ in Billions of Constant 2026 Dollars)

Variable	2027	2031	2036	2041	2046
Jobs	-2,944	-3,064	-3,220	-3,384	-3,557
Wages	-$0.7	-$0.7	-$0.8	-$0.8	-$0.9
Personal Income Tax (PIT)	-$0.1	-$0.1	-$0.1	-$0.1	-$0.1

Headquarter Relocation

This modeling reflects the likelihood that at least some existing billionaire-controlled companies will shift headquarters operations—and the associated employment—out of California. Historically, the evidence regarding the impacts of owner/founder relocations on headquarter operations is mixed. While some recent headquarters relocations have coincided with out-migration of founders or owners, most relocations appear to have been driven by business

[3] Examples include: Thiel Capital, Peter Thiel's family office announced its relocation from the Bay Area to Miami in December 2025; Larry Page's family office moved out of California in December 2025; David Sacks opened an Austin office for Craft Ventures upon his relocation; former Starbucks CEO Howard Schultz brought his family office with him when he moved from Seattle to Miami in March 2026; and hedge fund billionaire David Tepper relocated Appaloosa Management from New Jersey to Miami Beach in 2015, a single departure that New Jersey budget analysts estimated cost the state $140 million per year in lost tax revenue.

[4] Inside a Billionaire's Family Office: Navy SEALs, Yacht Captains." *Financial Advisor Magazine*, April 16, 2015. Citing Campden Wealth data.
https://www.fa-mag.com/news/inside-a-billionaire-s-family-office--navy-seals--yacht-captains-21411.html

factors, such as a desire to consolidate operations or concerns about high business costs, labor policies, or the state's regulatory environment. In several highly publicized cases of headquarter relocations, subsequent analysis found the net impacts on jobs in California were relatively minor one or two years after the announcement.

However, the unprecedented magnitude of the wealth tax introduces a new and potentially potent dynamic. If billionaire founders perceive that California has become fundamentally hostile to wealth accumulation, some may use the occasion to pursue a more genuine operational consolidation in their new state of residence over time. This applies especially to young, small, or founder-led companies, where the founder's location heavily influences operations.

Our estimates attempt to strike a middle ground. Specifically, we assume that about 10 percent of billionaire relocations result in a corresponding net reduction in headquarters jobs, and that the average number of employees affected is 250 per relocation. Based on these assumptions, we estimate that total loss to California (direct and multiplier effects) would be 1,950 jobs in 2027, rising to 2,356 jobs by 2046 (see **Figure 3**). The loss in California wages from headquarters relocations would be $780 million in 2027, rising to $890 million by 2046. And the loss in personal income tax revenue would be $80 million in 2027, rising to $91 million by 2046.

Figure 3
Impacts of Headquarters Relocations Due to the Wealth Tax
($ in Billions of Constant 2026 Dollars)

Variable	2027	2031	2036	2041	2046
Jobs	-1,950	-2,029	-2,133	-2,241	-2,356
Wages	-$0.8	-$0.8	-$0.8	-$0.9	-$0.9
Personal Income Tax	-$0.1	-$0.1	-$0.1	-$0.1	-$0.1

Consumption and Charitable Giving

Charitable giving and consumption expenditures are highly concentrated among the ultra-wealthy. Data from Wealth-X/Altrata (2025) indicates that the global ultra-wealthy collectively account for **$290 billion** annually in luxury goods spending and **$207 billio**n in philanthropic donations, representing 36 percent of all individual giving worldwide.[5] The Dallas Federal Reserve (November 2025) found that the top 20 percent of U.S. earners now account for 57 percent of total consumption spending, up from 53 percent three decades ago.[6]

Ultra-wealthy spending and giving primarily occur in their home state. Spending on staffing, transportation, home purchases, and renovations is concentrated where the billionaire is domiciled. Studies also reveal that giving tends to follow the location of the donor. For example, Shekhtman and Barabási, analyzing $36 billion in foundation grants to art institutions from 2010 to 2019, found that over 60 percent of grants and funds go to recipients in the donor's

[5] Altrata. *World Ultra Wealth Report 2025.* September 30, 2025. Data produced by Wealth-X, an Altrata company. https://altrata.com/reports/world-ultra-wealth-report-2025

[6] Fang Yang and Benjamin Hoham. "Consumption Concentration May Be Up, Adding Slightly to Economic Fragility." Federal Reserve Bank of Dallas, Research Department. November 25, 2025. https://www.dallasfed.org/research/economics/2025/1125-yang-consume

state.[7] Clerkin et al., studying the effects of geographic mobility on philanthropic behavior, found that community ties, social networks, and sense of belonging are key drivers of local giving, and that relocations do affect philanthropic engagement.[8]

Our estimates: Based on the assumptions that (1) annual consumption and giving combined averages about 0.3 percent of billionaire wealth, and (2) about 60 percent of combined spending and giving go to recipients in the donor's home state, we estimate that the relocation of approximately 40 billionaires and $1 trillion in wealth would diminish spending and giving in California by approximately **$2 billion**. Taking into account direct and multiplier effects, this would translate into losses of 25,601 jobs in 2027, growing to 30,929 jobs by 2046 (see **Figure 4**). The losses would occur in luxury retail, hospitality, real estate services, nonprofit employment, and other sectors that are directly and indirectly supported by billionaire spending and giving. The associated wage losses would be $2.2 billion in 2027, rising to $2.5 billion by 2046, and personal income tax losses would rise from $180 million in 2027 to $240 million by 2046.

Figure 4
Impacts of Reductions in CA Expenditures and Giving Due to the Wealth Tax ($ in Billions of Constant 2026 Dollars)

Variable	2027	2031	2036	2041	2046
Jobs	-25,601	-26,641	-28,000	-29,248	-30,929
Wages	-$2.2	-$2.3	-$2.3	-$2.4	-$2.5
Personal Income Tax	-$0.2	-$0.2	-$0.2	-$0.2	-$0.2

Startup Company Pipeline Disruption

This is the most consequential channel of long-term economic damage from the wealth tax. While the relocation of family offices, headquarter operations, consumption and giving result in relatively stable annual impacts over time, a disruption in the startup pipeline generates compounding losses that start small but grow to dominate the total employment impact by the end of the projection period.

To appreciate what is at risk, it is necessary to understand the scale of economic activity that the Bay Area's startup ecosystem has built. We identified 19 companies that were Bay Area startups within the past two decades and have since grown into major employers with a combined global workforce exceeding 250,000 and estimated California employment of 55,000–75,000 or more. California's billionaires have been the primary source of this explosive job and income growth by participating in the start-up ecosystem as "angel investors," funding hundreds of early-stage companies, as partners in VC funds, as board members and mentors, and as signal senders.

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[7] Shekhtman & Barabási, "Philanthropy in Art: Locality, Donor Retention, and Prestige," Scientific Reports 13, 12157, 2023. https://www.nature.com/articles/s41598-023-38815-1

[8] Clerkin, Paarlberg, Christensen, Nesbit & Tschirhart, "Place, Time, and Philanthropy: Exploring Geographic Mobility and Philanthropic Engagement," Public Administration Review 73(1), 97–106, 2013). https://onlinelibrary.wiley.com/doi/10.1111/j.1540-6210.2012.02616.x

When prominent billionaires and investors leave, it sends a powerful signal to the next generation of founders about California's business climate. As Founders Fund CMO Mike Solana stated in January 2026: "There is not a founder who comes to San Francisco or California to work in the technology industry who does not think they are going to be creating a billion-plus dollar company. This has spooked a lot of people."[9] Andreessen Horowitz co-founder Ben Horowitz, recently stated on a tech podcast that the proposed wealth tax is "the best strategy I've seen" for breaking the Silicon Valley network effect.[10]

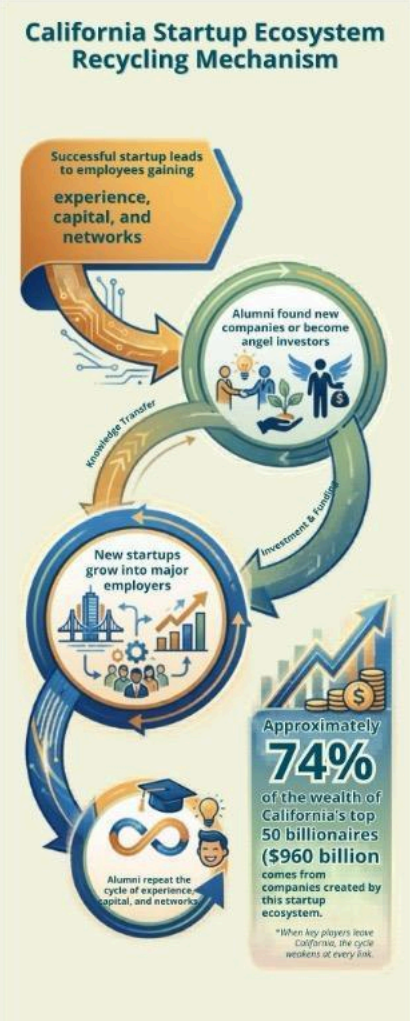
The timing of the proposed wealth tax is particularly consequential because California's Artificial Intelligence (AI) industry is currently in its formative stage—analogous to where the internet was in 2004–2008, when Facebook, Uber, Airbnb, and the other mega-employers of the past decade were in their infancy. Some of the companies that emerge from the current AI wave will likely become a core part of the 75,000-plus California employers of the 2030s and 2040s.

If the wealth tax causes even a modest annual diversion of startup activity out of California—say, 10 percent of startups that would have been founded in the state are instead founded in Texas, Florida, or elsewhere—the damage does not remain small. It compounds, because the startups diverted in year one would themselves have produced the alumni, angel investors, and mentors who seed later startups. Each missing generation weakens the next.

We modeled this compounding effect using a three-component framework.

[9] Cat Zakrzewski, Naomi Nix, and Nitasha Tiku. "How Tech Billionaires Spurred an Exodus from California." *The Washington Post*, January 19, 2026. Available through Detroit News https://eu.detroitnews.com/story/business/2026/01/19/rich-people-are-leaving-california-inspired-by-tech-founders-online-campaign/88253418007/

[10] See https://www.benzinga.com/news/politics/26/01/49831267/andreessen-horowitz-co-founder-warns-california-wealth-tax-could-trigger-silicon-valley-exodus



- The first component is the initial shock: the signal effect of the departure of approximately 40 billionaires (holding nearly 50 percent of billionaire wealth) in 2027 and 2028 reduces the startup ecosystem's intensity by approximately 19 percent (10 percent in each year, compounded).
- The second component is competitive erosion: as Austin, Miami, and other hubs absorb the diverted startup activity, they become incrementally more competitive with the Bay Area each year, modeled as a 5 percent annual reduction in California's share of new startup formation beginning in 2029.
- The third component is the recycling lag: startups diverted from California in the first several years would have produced the alumni, angel investors, and mentors who seed new startups approximately seven years later; their absence weakens each subsequent generation. You can see this cycle disruption in the graphic to the left.

Our estimates. Based on the above framework, we estimate job losses from erosion of the startup pipeline would start slowly but accelerate dramatically. Specifically, we estimate job reductions to be just 348 in 2031, then accelerate to 5,340 by 2036, 21,276 by 2041, and 71,312 by 2046 (see **Figure 5**). Corresponding losses in wages would be just $104 million in 2031, rising to **$1.6 billion** by 2036, **$6.8 billion** by 2041, and **$23.6 billion** by 2046. Personal income tax revenue losses would be just $14 million in 2031, rising to **$230 million** in 2036, **$1.0 billion** in 2041, and **$3.7 billion** in 2046. The personal income tax losses would occur because of reductions in employment and associated taxable wages, as well as a drop in wealth and associated capital gains tied to the liquidation of that wealth. (All numbers reflect both direct and multiplier effects.)

Figure 5 - Impacts of Startup Pipeline Erosion Due to Wealth Tax ($ in Billions of Constant 2026 Dollars)

Variable	2027	2031	2036	2041	2046
Jobs	-5	-348	-5,340	-21,276	-71,312
Wages	-$0.0	-$0.1	-$1.6	-$6.8	-$23.6

Personal Income Tax	-$0.0	-$0.0	-$0.2	-$1.0	-$3.7

The Impact on Individual Californians

To date, much of the research and rhetoric has focused narrowly on the small group of individuals directly impacted by the initiative, along with the gains and losses in revenues that will flow from decisions these targeted taxpayers will make. However, the wealth tax will affect most, if not all, Californians, who will feel the ripple effects of the tax and the subsequent departure of the state's most successful entrepreneurs. Key impacts include:

Loss of Job Opportunities

The cumulative impact of the loss of wages, jobs, and personal income tax will have real and material impacts on all Californians. The most direct impact is likely to be fewer job opportunities, especially in high-wage sectors such as technology. The startup pipeline disruption means that companies employing tens of thousands of Californians in the 2030s and 2040s will instead be founded and grow in other states; these are not just coding jobs — startups employ recruiters, marketers, salespeople, office managers, facilities staff, and other non-technical workers at every stage of growth, AI-era startups that would have scaled in the Bay Area — following the trajectory of Meta, Uber, DoorDash, and OpenAI — will instead create those career ladders in other states. Additionally, there will be indirect impacts on the surrounding industries that serve the technology industry, such as retail, food, real estate, professional services, and other industry sectors.

Loss of Upward Mobility and Wage Growth

High-paying tech and startup jobs exert upward pressure on wages across the regional economy, including for workers in non-tech occupations; fewer such jobs mean slower wage growth for workers at all levels. The startup ecosystem is one of the few remaining engines of rapid upward economic mobility in California — a software engineer or early employee at a successful startup can move from middle-class to upper-middle-class or wealthy within a decade; erosion of this pipeline narrows the path to upward mobility for the next generation of California workers.

Loss of Public Services

With an estimated loss of **$122 billion** in Personal Income Tax (constant 2026 dollars) over the next two decades, the State General Fund, Proposition 2, and Proposition 98 will all receive less funding. The wealth tax (even if collected across fiscal years) is one-time in nature (though there is the possibility it gets extended); however, the needs of health care expenditures are ongoing. The Medi-Cal program is the fastest-growing program in the State Budget. The LAO recently noted, "Over the last decade, spending in Medi-Cal, California's Medicaid program, has more than doubled both on a General Fund and total funds basis—faster than the growth in the overall state budget. Spending continues to grow under the Governor's budget, with estimated Medi-Cal spending reaching an all-time high of $49 billion General Fund ($222 billion total funds) in 2026-27." The one-time nature of these revenues is ill-suited for the ongoing and

growing expense of the State's Medi-Cal program. Given this pressure between the ongoing costs and the one-time revenues, a fiscal cliff is created, likely creating pressure for additional revenues to address the ongoing expenditures.

The State Budget is highly reliant on Personal Income Tax–specifically, the highest earners. In 2023, the top 1% of earners paid roughly 39% of all state personal income tax. Under Proposition 98, roughly 40% of all General Fund revenues are guaranteed for K-14 educational expenses. The proposed initiative circumvents this requirement, resulting in a net loss to K-14 education likely exceeding $45 billion over the next two decades. This reflects a $48 billion drop related to Proposition 98's share of the $122 billion income tax loss from the wealth tax, marginally offset by $3 billion in temporary wealth tax proceeds.

Under Proposition 2, 1.5% of General Fund revenues and "excess capital gains tax'" are deposited into the Budget Stabilization Account. In the simplest calculation, the estimated $122 billion would result in $1.83 billion less in the State's reserve account. This is a conservative estimate, as future reductions in capital would also affect the amount of reserve deposits required in Proposition 2.

At a time when Medi-Cal expenses are growing, and the state is projecting a structural deficit, a robust reserve is important.

Conclusion

The proposed wealth tax would generate a finite pool of one-time revenue — roughly $55 billion spread over five years — while setting in motion permanent economic losses that compound over time. It is difficult to predict in which fiscal year across the five allowed the state would realize these revenues. The direct behavioral effects of billionaire flight, well-documented by the Hoover Institution and discussed in the Legislative Analyst's Office initial estimate of the measure, represents only a portion of the overarching economic impact. As this analysis demonstrates, the cascading consequences — relocated family offices, reduced consumption and charitable giving, and, especially, the compounding erosion of California's startup pipeline — would cost the state an estimated 108,000 high-paying jobs and a significant share of the $122 billion in cumulative personal income tax revenue losses by 2046. Taking into account these factors, along with the temporary gains from the wealth tax, we estimate a net loss in state revenues of $67 billion over the next two decades.

The startup pipeline disruption is particularly consequential: it operates invisibly for the first several years, producing only modest job losses through the early 2030s, but by the time the damage becomes apparent in employment statistics it will be effectively irreversible — the founders, investors, and mentors who would have built California's next generation of major employers will have established themselves and their companies in other states. Taking into account these factors, along with the temporary gains from the wealth tax, we estimate a net loss in state revenues of $67 billion over the next two decades.

For everyday Californians, these are not abstract numbers. They represent fewer career opportunities in the state's most dynamic industries and in the businesses that serve them; slower wage growth across the economy; and diminished public services as $122 billion in cumulative lost income tax revenue reduces funding for schools under Proposition 98, strains the state's already-stretched Medi-Cal program, and weakens budget reserves under Proposition 2. The central irony of the wealth tax is that it would undermine the very economic engine — California's unrivaled startup ecosystem — that generates the jobs, wages, and tax revenues the state needs to fund the public services its residents depend on. A one-time tax that permanently damages California's capacity to create wealth and employment does not solve the state's fiscal challenges; it deepens them.