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IN FOCUS
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California considers one-time tax on billionaires

California voters may face a 2026 ballot initiative imposing a one-time 5% wealth tax on billionaires. Despite significant attention, the proposal faces substantial legal and constitutional obstacles. Even if implemented, Nuveen believes impact on California's credit profile would be minimal.

KEY TAKEAWAYS

- Legal and procedural hurdles make implementation highly uncertain despite media attention surrounding the proposal.
- Even if enacted and all those affected leave the state, the impact represents less than 1% of California's total personal income tax revenue.
- Strong reserves and economic diversification help protect California's creditworthiness regardless of outcome.

WHAT DOES THE INITIATIVE PROPOSE?

The billionaire tax initiative, filed in November 2025 by SEIU United Healthcare Workers West, responds directly to federal cuts in Medicaid and food assistance programs. The proposal would impose a one-time 5% tax on the net worth (excluding real estate, pensions and retirement accounts) of approximately 200 California taxpayers with net worth exceeding $1 billion as of 01 January 2026. If enacted, tax payments would be due in 2027, with an option to spread payments over five years at additional cost. The measure allocates 90% of revenue to public health care services, with the remaining 10% split among tax administration, education and food assistance programs.

CAN THIS MEASURE REACH THE BALLOT?

The initiative faces a challenging path forward. Proponents must collect 870,000 valid signatures by 25 June 2026 – a significant organizational undertaking. More critically, five competing ballot initiatives were filed on 08 December 2025, all designed to hinder or conflict with the wealth tax. This competition reflects California's complex ballot initiative landscape, where competing measures can invalidate one another.

WOULD VOTER APPROVAL GUARANTEE IMPLEMENTATION?

Even with ballot qualification and voter approval, substantial legal obstacles remain. California's constitution contains provisions that could render this initiative invalid. The measure may conflict with Article 13, Section 2, which addresses taxation of financial assets like stocks and bonds. Additionally, it appears to circumvent Proposition 98's education funding process, which mandates that approximately 40% of general fund revenue be allocated to K-14 education before any other use. By diverting billionaire tax revenue to offset Medicaid reduction impacts, the initiative likely violates Article 16, Section 8, which requires that “money for education shall be set apart first.”

Beyond state constitutional issues, the initiative faces potential federal legal challenges including interstate commerce restrictions. California’s ballot initiative history demonstrates that legal challenges frequently prevent even voter-approved measures from taking effect – most recently when the California Supreme Court struck down a 2024 tax initiative.

WHAT ARE THE FISCAL CONSEQUENCES?

According to the nonpartisan Legislative Analyst’s Office (LAO), if implemented, California would essentially trade future income tax revenue for a lump-sum payment today, assuming the tax incentivizes billionaires to leave the state. The measure could generate approximately $100 billion over five years, or $20 billion annually.

However, this one-time gain comes with ongoing costs. The LAO estimates California would experience ongoing revenue losses of hundreds of millions annually from reduced income tax collections if wealthy individuals relocate to avoid the tax. The worst-case scenario projects $900 million in lost annual income tax collections if all 200 billionaires moved out of state.

While this sounds substantial, context is critical: based on fiscal year 2024 personal income tax collections of $116.3 billion, this potential loss represents a minimal 0.8% of total personal income tax revenue. Additionally, the state would incur tens of millions of dollars per year in implementation costs to administer this complex wealth tax on difficult-to-value assets including private businesses, stocks, bonds, art, collectibles and intellectual property.

HOW WOULD THIS AFFECT CALIFORNIA’S CREDIT PROFILE?

California currently maintains strong credit ratings of Aa2/AA-/AA from Moody’s, S&P and Fitch, respectively, reflecting a solid credit profile built on the nation’s largest state economy, diverse revenue base and improved fiscal management.

Our analysis suggests the billionaire tax – whether enacted or not – poses minimal risk to the state’s credit quality and municipal bond portfolios.

Historically, tax changes have rarely triggered significant population shifts among high-net-worth individuals. Massachusetts provides a recent example. When Massachusetts imposed a 4% surtax on income over $1 million, critics predicted an exodus of wealthy residents. Instead, the tax has raised $5.7 billion since enactment in 2023 – more than twice the budgeted amount – with no meaningful out-migration. The deep roots, business connections, family ties and quality of life factors that keep billionaires in California are unlikely to be overcome by a one-time tax, particularly when weighed against the substantial costs and disruptions of relocation.

California maintains robust budget reserves and cash flow management tools. Combined reserves are projected to reach $23 billion by fiscal year 2026-27, representing 9.3% of general fund expenditures. This substantial cushion provides flexibility to address revenue volatility without impacting debt service or core obligations. The state’s improved fiscal discipline following the lessons of the Great Recession has resulted in multiple tools for managing budget pressures, including the Budget Stabilization Account (rainy day fund), the Safety Net Reserve and other special funds.

Constitutional requirements mandate balanced budgets. Unlike the federal government, California cannot engage in deficit financing. This legal constraint means that even if the worst-case revenue loss scenario materializes, the state must address any gaps through expenditure reductions or revenue enhancements. While this might create difficult political choices, it ensures fiscal sustainability and protects bondholders’ interests.

California’s economic scale provides inherent diversification. The state’s $3.4 trillion GDP – the fourth largest economy in the world – does not depend on 200 individuals. The state’s revenue base draws from diverse sectors including technology, entertainment, agriculture, trade, tourism and professional services. This economic breadth provides resilience against sector-specific shocks or the departure of high-net-worth individuals.

CALIFORNIA’S CREDIT STRENGTH REMAINS INTACT

While the billionaire tax initiative has generated media attention and political debate, Nuveen foresees limited implications for California municipal bond portfolios. The measure faces formidable procedural, legal and constitutional hurdles that make implementation uncertain. Even if obstacles are overcome, we think the impact on the state's credit quality would be minimal, and historical evidence suggests feared taxpayer flight is unlikely to materialize on a meaningful scale.

California’s strong credit ratings reflect fundamental economic strengths, improved fiscal management, substantial reserves, and legal requirements for balanced budgets. These factors provide significant protection for municipal bondholders regardless of outcome.

For more information, please visit us at nuveen.com.

Endnotes

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