

TEXT OF PROPOSITION 40

**SUBJECT TO COURT
ORDERED CHANGES**

PROPOSITION 40

This initiative measure is submitted to the people in accordance with the provisions of Section 8 of Article II of the California Constitution.

This initiative measure adds a section to the California Constitution and amends and adds sections to the Government Code and Revenue and Taxation Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SUBJECT TO COURT
ORDERED CHANGES

1

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The 2026 Billionaire Tax Act [centered]

THE 2026 BILLIONAIRE TAX ACT:

The People of California do enact as follows:

SECTION 1. Title.

This Act shall be known, and may be cited, as the 2026 Billionaire Tax Act.

SEC. 2. Findings.

- (a) The People recognize that access to adequate health care, quality public education, and nourishing food is essential to human dignity and to the prosperity and resilience of the entire state. The cascading impacts of looming federal funding cuts for health care, education, and food programs now threaten these foundations and place the welfare of all Californians at risk.
- (b) California's health care safety net is under extraordinary threat, as Medi-Cal—the backbone of coverage for nearly 15 million low-income Californians, including more than half of the state's children, 2.2 million seniors and people with disabilities, and one in five of all working adults—faces billions in federal funding cuts which will only exacerbate existing challenges.
- (c) Medi-Cal is projected to lose up to \$19 billion in annual federal funding due to the implementation of the most recent federal budget legislation and administrative action, shifting costs to the state General Fund and local governments or forcing reductions in needed services. Over the next ten years, federal cuts to Medi-Cal alone are projected to total approximately \$190 billion.
- (d) The loss of billions in federal funding further stresses California's already underfunded health care safety net. The 2025-26 state budget included several new restrictions, including cuts to providers and significant reductions in benefits and services for Medi-Cal enrollees. State cuts to Medi-Cal are estimated to reach \$7 billion in 2027-28, rising to \$8.6 billion each year from 2028-29 onward. en dash
- (e) Even before these federal and state cuts, Medi-Cal funding was too low for many health care providers to maintain current levels of service because Medi-Cal typically reimburses hospitals and clinics at rates significantly below the actual cost of providing care.
- (f) Hospitals and primary care clinics, particularly in rural areas, have faced extreme financial pressure, operating losses, and staffing cutbacks as a result of these chronic underpayments. Medi-Cal is the source of health coverage for half of all births statewide. Recent years have seen closures of vital maternity en dash

wards and emergency departments, all attributed in large part to low Medi-Cal reimbursement rates.

- (g) Investment in Medi-Cal is an investment in every family's health security. It keeps primary care clinics and community health centers open across towns and cities, allowing people to manage chronic conditions, prevent costly complications, and live longer, healthier lives. Every dollar cut from these programs reverberates: clinics close, families lose doctors, and patients suffer needlessly from conditions that could have been prevented or managed.
- (h) Access to affordable, high-quality care saves lives, shields families from crushing medical debt, and strengthens communities. When coverage is lost or diluted, hospitals and clinics are forced to make impossible choices—cutting back on staff, restricting services, or closing entire units—leaving whole populations without a safety net and undermining the health of all Californians.
- (i) As Medi-Cal funding is threatened by reduced federal funding and state appropriations, Californians also face soaring private health insurance premiums. These twin pressures only increase the number of uninsured and underinsured, as employers scale back benefits and disrupt dependent coverage, and as individuals drop unaffordable health coverage.
- (j) Every child in California deserves access to high quality education. Today California public schools face unprecedented uncertainty caused in part by cuts to Medi-Cal and the Supplemental Nutrition Assistance Program (SNAP).
- (k) In addition, current federal budget proposals for 2026 would impose deep cuts on overall funding to public schools, particularly for high-need students, rural schools, and disadvantaged communities.
- (l) These federal disruptions arrive as California's schools are still reeling from recent state budget shortfalls and looming payment deferrals. On top of this, declining enrollment and enrollment-related funding, rising costs, and increasing student needs are putting school districts under mounting budgetary pressure.
- (m) More than 5 million Californians—among them, children, families, seniors, and people with disabilities—depend on the lifeline of CalFresh, California's Supplemental Nutrition Assistance Program (SNAP), to put food on the table in a state where one in five experience hunger due to food insecurity.
- (n) The historic federal cuts to SNAP in recent federal budget legislation will strip away billions of dollars in vital food assistance from our most vulnerable neighbors, translating into the loss of millions of meals and deepening hunger across communities already struggling to make ends meet.

- (o) Robust evidence shows that SNAP and CalFresh not only alleviate hunger, but also dramatically improve health and educational outcomes for California's children, break cycles of poverty, and build stronger futures for entire families.
- (p) These cuts will further pressure already strained state efforts and the limited resources of food banks and local agencies such as CalFood and the California Food Assistance Program.
- (q) Collectively, these reductions in federal funding and state appropriations impose compounding risks for low- and moderate-income Californians seeking access to essential healthcare, education and nutrition. They also threaten California's ability to plan for its future, which requires continued investments in its critical state programs.
- (r) California has around 200 billionaires who collectively possess an astonishing \$2 trillion in wealth. These billionaires pay less than 1.5% of their total wealth in annual taxes, including federal, state, and local taxes, according to leading economic estimates—a small fraction of what ordinary Californians pay.
- (s) There are more than 19 million taxpayers in California who are not billionaires. They include working-class individuals such as nurses, teachers and firefighters, as well as wealthier taxpayers like highly compensated professionals, entrepreneurs, and tech industry workers. All of these Californians pay tax on a much larger portion of their true economic income than the state's billionaires do. According to economic analysis and including all taxes at all levels of government, billionaires pay 24% of their income in taxes while the average taxpayer pays 30%. This means that the average taxpayer pays a 25% larger share of their economic income, taking into account all state and federal taxes, than the average billionaire. See Akcan Balkir, Emmanuel Saez, Danny Yagan, and Gabriel Zucman, How Much Tax Do US Billionaires Pay? Evidence from Administrative Data, National Bureau of Economic Research Working Paper No. 34170 (2025).
- (t) A wealth tax is not a new concept under California law; narrower and less progressive wealth taxes are already paid by wealthy and low-income Californians alike. These taxes include the annual Vehicle License Fee, a tax based on 0.65% of the value of a vehicle, and the annual property tax on housing of about 1% on the assessed value of a house.
- (u) The immense and growing fortunes of billionaires bring privileges inaccessible to most. Whereas nurses, teachers, firefighters, and tech workers alike pay taxes on nearly all of their earned income, billionaires can shield enormous sums from taxation. Their primary assets—stocks, businesses, real estate—grow in value year after year, but because this growth is taxed only at sale and billionaires often need not sell, they pay no tax on their rising fortunes.

Moreover, when these types of assets are passed to heirs, current laws enable billions of dollars in untaxed wealth to be inherited without ever triggering an income tax bill. Many also employ complex financial strategies to relocate wealth "on paper" while, in reality, continuing to benefit from California's economy and infrastructure.

- (v) Scholars have shown that closing these billionaire loopholes is possible, practical and fair. They demonstrate that carefully crafted policy can preserve entrepreneurial success while safeguarding the state economy and avoiding undue burden on administrators or the broader taxpayer base. See Brian Galle, David Gamage, and Darien Shanske, Money Moves: Taxing the Wealthy at the State Level, 113 California Law Review 635 (2025).
- (w) Since the 1980s, the wealth of billionaires has grown by an average 7% each year, vastly outpacing the growth in wages and savings for ordinary Californians. The collective wealth of California billionaires has surged from \$300 billion in 2011 to \$700 billion in 2019 to over \$2 trillion in 2025. The wealth tax imposed by this Act would only modestly slow this explosive growth, collecting less than the billionaires typically gain in just a single year. California billionaires, even after paying the tax, will continue to amass ever-rising fortunes.
- (x) According to leading economists, billionaire wealth is more concentrated in California than in the United States overall. As a result, the State is uniquely positioned to address both the well-documented crisis of wealth inequality in the United States and the emerging and interrelated crises the state faces with respect to health care, education and hunger-relief programs.
- (y) Billionaires have built their extraordinary fortunes with the help of California resources and were the largest beneficiaries of the federal legislation that contributed to the current state budget crisis. It therefore is both necessary and equitable to ask those who have benefitted most from California's resources to contribute proportionately to support health care, education, and nutrition in California through a one-time 5% tax on billionaire wealth.
- (z) In light of the emergency funding situation, to ensure that revenues collected can be spent without unnecessary delay, and to remove uncertainty created from any legal challenges, the People have provided for expedited judicial review of this Act.

SEC.

Sec. 3. Purpose and Intent.

- (a) The purpose of the 2026 Billionaire Tax Act, referred to herein as the "Act," is to protect access to high quality, equitable health care, and to support funding

for kindergarten through grade fourteen public education and food assistance programs, by raising revenue from a one-time tax on billionaire wealth.

- (b) Revenues from the ~~Act~~ are intended to respond to urgent, existing health care, education, and nutrition needs that are being worsened by reductions in federal and state funding and by broader fiscal uncertainty facing the state.
- (c) By designating billionaire wealth the source of this critical revenue, the ~~Act~~ confronts the fundamental unfairness that arises because a large percentage of billionaire wealth is never taxed by the ~~State~~ due to billionaires' unique ability to control the timing, location, and amount of income tax that they pay.
- (d) The ~~Act~~ raises funding for health care, education, and food assistance by imposing a narrowly applicable, one-time tax that is administratively feasible and efficient to enforce against all billionaires in the ~~State~~.
- (e) The ~~Act~~ is intended to treat similarly situated taxpayers and assets similarly, except to the extent that sound tax policy requires otherwise.

SEC.

Sec. 4. Section 37 is added to Article XIII of the California Constitution, to read:

Sec. 37.

- (a) This Section authorizes and enables a one-time tax on the accumulated wealth of California billionaires, imposed on those individuals who are California residents within the meaning of Sections 17014 and 17015.5 of the Revenue and Taxation Code as of the tax obligation date as defined in the 2026 Billionaire Tax Act.
- (b) The following definitions apply to this Section:
 - (1) "Act" refers to the 2026 Billionaire Tax Act.
 - (2) "Reserve Fund" refers to the 2026 Billionaire Tax Reserve Fund, created by this Act.
- (c) Notwithstanding any other provision of the Constitution, the ~~Act~~ provides for taxation on all forms of personal property and wealth, whether tangible or intangible, and allows for the classification of personal property and wealth for differential taxation or for exemption, for the purpose of imposing the one-time tax on the wealth of California billionaires. Personal property and wealth that is so taxed includes, but is not limited to, shares of capital stock, bonds or other evidences of indebtedness, and any legal or equitable interest therein.
- (d) The 2026 Billionaire Tax Reserve Fund is hereby created in the State Treasury. All revenues from the ~~Act~~ including taxes, interest, and penalties, and less

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refunds,

refunds shall be deposited in the State Treasury by the State Controller to the credit of the Reserve Fund. After accounting for administrative expenses as provided by law, the Controller shall allocate and transfer the remaining moneys in the Reserve Fund to the following subaccounts, which are hereby created: 90% to the Billionaire Tax Health Account and 10% to the Billionaire Tax Education and Food Assistance Account. The moneys in the Billionaire Tax Health Account and the Billionaire Tax Education and Food Assistance Account shall be allocated as provided by law.

[Thin space between Roman numeral and "A"]

- (e) Notwithstanding any other law, the Reserve Fund is a special fund, permanently separate and apart from the General Fund or any other state fund or account. The taxes and the moneys resulting from the Act shall not be considered to be part of the General Fund, as that term is used in Chapter 1 (commencing with Section 16300) of Part 2 of Division 4 of Title 2 of the Government Code; and shall not be considered "General Fund revenues," "state revenues," "moneys," or "proceeds of taxes" under Section 8 of Article XIII B for the purposes of any section of Article XIII B, or Sections 8 or 8.5 of Article XVI. Any revenue raised through the Act shall also not be considered "personal income taxes paid on net capital gains" for purposes of Section 20 of Article XVI. The taxes levied by this Act are not "ad valorem taxes on real property" for purposes of Section 1 of Article XIII A. To the extent any provision of Article XIII A would otherwise be construed to limit, restrict, or apply to the rate, base, valuation, or imposition of the tax authorized by this Section, that provision shall not apply to, and is superseded by, this Section. Notwithstanding Section 16305.7 of the Government Code, any interest or dividends earned on moneys in the Reserve Fund shall be retained in the Reserve Fund and used solely for the specific purposes set forth in this subdivision and as provided by the Act.

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Section

[Thin space between Roman numeral and "B"]

- (f) "Appropriations subject to limitation" of each entity of government and the state under Article XIII B shall not include appropriations of revenue from the Reserve Fund. No adjustment in the appropriations limit of any entity of government shall be required pursuant to Section 3 of Article XIII B as a result of revenue being deposited in or appropriated from the Reserve Fund.
- (g) Except as provided in Sections 16310 and 16381 of the Government Code as those sections read on January 1, 2025, and except as otherwise provided in this Act, moneys in the Reserve Fund shall not be borrowed, loaned, or otherwise transferred to the General Fund or any other state or local fund or account. Moneys deposited into the Reserve Fund shall only be used for the specific purposes provided by law. Action shall not be taken that permanently or temporarily changes the status of the Reserve Fund or borrows, diverts, or appropriates the moneys in the Reserve Fund in a manner inconsistent with this subdivision.

(commencing with
Section 16355)

Section 50314
of the Revenue
and Taxation
Code

The 2026 Billionaire Tax Act

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- (h) Notwithstanding Section 32 or any other provision of law, a facial challenge to the 2026 Billionaire Tax Act is authorized to be adjudicated through a validation action under Chapter 6 of Part 27 of the Revenue and Taxation Code, Section 50314, without requiring the payment of the tax claimed to be facially invalid. This subdivision is adopted without implication as to current authority or the development of law other than this Act. Nothing in this subdivision limits any taxpayer's right to pay a tax imposed under this Act and seek a refund or judicial review, or to bring any other action that is otherwise authorized by law and not inconsistent with this subdivision.

italic

SEC.
C.

Sec. 5. Article 1.1 is added to Chapter 2 of Part 2 of Division 4 of Title 2 of the Government Code, to read:

Art. 1.1. 2026 Billionaire Tax Reserve Fund

[Centered]

16355.

Article

- (a) Section 37 of Article XIII of the California Constitution provides for the creation of the 2026 Billionaire Tax Reserve Fund, into which all revenues from the 2026 Billionaire Tax Act shall be deposited.
- (b) After accounting for administrative expenses as provided in subdivision (e), the Controller shall allocate and transfer the remaining moneys in the Reserve Fund as follows:
- (1) Ninety percent shall be allocated to the Billionaire Tax Health Account for health care funding, (which may include) expenditures to restore or address any reductions in federal funding or state appropriations; investments to protect or enhance Medi-Cal and other health coverage programs for low- and moderate-income individuals; support for safety net health care providers serving vulnerable populations; preventing or mitigating facility closures or reductions in service levels; and other investments to support health care access, coverage, benefits, funding, services, and payments to providers.
 - (2) Ten percent shall be allocated to the Billionaire Tax Education and Food Assistance Account for education-related and food assistance expenditures, (which may include) — including both of the following:
 - (A) Education-related expenditures to restore or address any reductions in federal funding or state appropriations, or to make investments to protect or enhance the kindergarten through grade fourteen public education system.

*including, but not
limited to,*

14

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(B) Food assistance expenditures to restore or address any reductions in federal funding or state appropriations, or further investments in programs such as CalFresh, CalFAP, CalFood, or California's Universal Meals Program for school meals.

CFAP,

programs

(c) The Legislature shall have the authority to appropriate up to \$22.5 billion each fiscal year from the Billionaire Tax Health Account and up to \$2.5 billion each year from the Billionaire Tax Education and Food Assistance Account. The Legislature may appropriate lower amounts if it determines that retaining funds in reserve is needed to further the purposes of the measure.

(d) The appropriation of moneys from the Reserve Fund shall not be used as justification for reducing, eliminating, or failing to increase other state appropriations for health care, education, or food assistance programs. The appropriation of funds from this measure shall not be used to supplant existing state funds for health care, education, or food assistance programs.

(e) The Director of Finance shall transfer to the Franchise Tax Board, as a start-up loan from the Reserve Fund or General Fund, up to \$50 million for the first year following passage of this Act for actual and necessary costs in administering its duties under this Act and for evaluating their efficacy. Any loan made pursuant to this paragraph shall be repaid with taxes collected pursuant to the 2026 Billionaire Tax Act and prior to making any expenditures or appropriations from the Reserve Fund. In subsequent years, the Franchise Tax Board shall be annually reimbursed from the Reserve Fund for actual and necessary costs in administering its duties under this Act and for evaluating their efficacy. Any interagency agreements entered into by the Board for administration of this Act shall be covered by the amounts provided in this paragraph.

subdivision

(f) Upon enactment of the 2026 Billionaire Tax Act and each fiscal year thereafter that the Reserve Fund is in existence, the Department of Finance, in consultation with relevant state agencies, shall provide to the Legislature all the following information:

- (1) The current balance in the Reserve Fund as of the reporting date;
- (2) The estimated revenue to be generated for the Reserve Fund for the current fiscal year, and for the period for which the 2026 Billionaire Tax Act is anticipated to generate revenues for the Reserve Fund;
- (3) The estimated and, where reasonably determinable, actual amounts required to restore reductions in federal funding and state appropriations, as defined in subdivision (h).

twenty-two billion five hundred million dollars (\$22,500,000,000)
two billion five hundred million dollars (\$2,500,000,000)

Franchise Tax Board

programs, including

fifty million dollars (\$50,000,000)

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- (4) Proposed expenditures from the Reserve Fund for the coming fiscal year intended to restore reductions in federal funding and state appropriations as defined in subdivision (h) ¹⁰
 - (5) Past expenditures, if any, from the Reserve Fund, and their allocations ¹⁰
 - (6) The amount, if any, recommended to be held in reserve for subsequent fiscal years based on anticipated future reductions in federal funding and state appropriations ¹⁰ and ¹⁰
 - (7) A certification that moneys from the Reserve Fund are not being used to supplant or replace state funding that would otherwise be appropriated.
- (g) Upon a determination by the Director of the Department of Finance that all revenues from the 2026 Billionaire Tax Act have been collected and spent, the Legislature shall have the authority to abolish the Reserve Fund.
- (h) For purposes of this section ¹⁰:

- (1) "Reductions in federal funding" and other references to reductions or cuts in federal funding mean any decrease in federal financial participation, grants, payments, reimbursements, or other federal funding provided to California for health care, education, or food assistance programs, when compared to state fiscal year 2024/25 levels, adjusted for inflation and population growth, including, but not limited to: ^(A)
 - ^(D) ~~Reductions in~~ ^(B)
 - ~~Medicaid's Federal Medical Assistance Percentages (FMAP);~~ ^(C)
 - ~~(ii) Changes in federal eligibility rules that reduce covered populations;~~ ^(E)
 - ~~(iii) Reductions in federal discretionary appropriations;~~ ^(F)
 - ~~(iv) Caps or limitations on federal provider taxes or directed payments;~~ ^(H)
 - ~~(v) Work requirements or other administrative conditions that reduce enrollment;~~
 - ~~(vi) Reductions in retroactive coverage periods;~~
 - ~~(vii) Implementation of H.R. 1, 119th Cong. (2025), Pub. L. No. 119-21, 139 Stat. 72 (2025);~~
 - ~~or (viii) Other reductions in federal funding that threaten or cause reductions in Medi-Cal or other health care coverage, access, benefits, funding, programs, services, and payments to providers that affect low- and moderate-income individuals, or to statewide education or food assistance funding, or to the health care safety net more generally.~~

- (2) "Reductions in state appropriations" or other references to reductions or cuts in state appropriations mean a decrease in appropriations for any and all statewide health care, education, or food assistance programs below state fiscal year 2024/25 levels that result in reductions to Medi-Cal or other health care coverage, access, benefits, funding, programs, services, and payments to providers that affect low- and moderate-income individuals, unless these reductions are caused by documented caseload,

enrollment, or population declines that are independent of federal funding reductions; or reductions in state appropriations for public kindergarten through grade ¹⁴ ~~fourteen~~ education programs or food assistance programs.

(3) "Reserve Fund" refers to the 2026 Billionaire Tax Reserve Fund.

Sec. 6. Part 27 is added to Division 2 of the Revenue and Taxation Code, to read:

Part 27. 2026 Billionaire Tax Act [All caps and centered]

Chapter 1. Imposition of Tax on Personal Wealth in Excess of \$1 Billion in Net Worth [Large and small caps, centered]

50300.

This part shall be known, and may be cited, as the 2026 Billionaire Tax Act.

50301.

(a) An excise tax is imposed for tax year 2026 on the activity of sustaining excessive accumulations of wealth by applicable individuals with net worth of ^{one} ~~\$1~~ billion dollars (\$1,000,000,000) or more, and on applicable trusts. For purposes of this Part, whether an individual or trust is an applicable individual or applicable trust is determined as of the tax obligation date, and the amount of net worth subject to tax is measured as of the valuation date. For purposes of this Section and for subdivision (c) of Section 50301 respecting the filing of returns, a married couple shall be considered as one individual.

(b) For individuals and trusts on whom tax is imposed under subdivision (a), the tax imposed is 5 percent of the net worth of such individual or trust. In the case of an individual (other than a trust) having net worth less than \$1.1 billion (\$1,100,000,000), the tax imposed by this Section shall be reduced by 0.1 percentage point (but not below zero) for each \$2 million (\$2,000,000) by which such person's net worth falls below \$1.1 billion (\$1,100,000,000). In the case of an individual (other than a trust) who opts to initiate an Optional Deferral Account ("ODA") (pursuant to Section 50304), assets attached to the ODA are not subject to tax under this Section until specified by Section 50304.

(c) Except as provided in subdivision (b), any additional tax payable as a result of this Section or Section 50304 for any tax year shall be reported with, and is due at the same time as, the annual income taxes of a taxpayer under Part 10 (commencing with Section 17001). A taxpayer owing any additional tax imposed under this Section shall have the option either to (1) pay any tax due under this Part along with any income tax owed for the 2026 tax year; or (2) pay annually in five equal installments commencing in the year the tax is due,

Insert A

SEC. 6. Section 17220 of the Revenue and Taxation Code is amended to read:

17220. (a) Section 164(a)(3) of the Internal Revenue Code, relating to the deductibility of state, local, and foreign income, war profits, and excess profits taxes, shall not apply.

(b) Section 164(b)(5) of the Internal Revenue Code, relating to general sales taxes, shall not apply.

(c) Section 164(b)(6) of the Internal Revenue Code, relating to the limitation on individual deductions for taxable years 2018 to 2025, shall not apply.

(d) In addition to the provisions of Section 164(c) of the Internal Revenue Code, relating to deduction denied in case of certain taxes, no deduction shall be allowed for any tax imposed under Chapter 10.5 (commencing with Section 17935), Chapter 10.6 (commencing with Section 17941), or Chapter 10.7 (commencing with Section 17948) of this part or under Part 11 (commencing with Section 23001).

(e) No deduction shall be allowed for any tax imposed by the state on net worth, including the 2026 Billionaire Tax Act (Part 27 (commencing with Section 50300)) notwithstanding any other provision of law, including Section 164(a)(2) of the Internal Revenue Code, relating to the deductibility of taxes on personal property.

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with each subsequent annual installment payment also being subject to an annual nondeductible deferral charge of 7.5 percent of the remaining unpaid balance.

return,

- (d) At the time a return is filed pursuant to Section 18501 (relating to the filing of an income tax return) for the 2026 tax year, every California resident individual required to file (shall) *shall do either of the following:*

18501, relating
one billion dollars

- (1) Declare that the individual's net assets were worth less than or equal to \$1 (billion) (\$1,000,000,000) as of the valuation (date; or) *date.*

that

- (2) Submit a declaration of the amount of any additional tax that is owed under this Part, together with any forms created by the Franchise Tax Board for calculating any additional tax owed under this Part, along with any required appraisals or other evidence of fair market value. In the case of an applicable individual who is not required to make a return under Section 18501, (such) individual shall submit, at the time and in the manner for filing otherwise required for the making of an income tax return, the declaration, forms, appraisals, or evidence described in this paragraph.

- (e) (Franchise Tax) Board audit responsibility.

- (1) The Board shall examine all returns submitted in accordance with this Part and shall determine the correct amount of the tax under this Part. The Board shall also examine all certifications or returns of taxpayers when the Board reasonably believes the taxpayers should have paid the tax imposed by this Part. Without limiting any other powers of the Board, in examining the returns made by taxpayers and examining whether returns should have been made by taxpayers but were not, the Board has all powers provided in Section 19504.
- (2) Notwithstanding the previous paragraph, the Board retains the authority to use its sound discretion as to the length and nature of the examination that is appropriate under the circumstances.

Chapter 2. Computation of Net Worth

[Large and small caps, centered]

50302.

Genuine debts and other liabilities owed by the taxpayer shall be taken into account for purposes of determining the taxpayer's net worth. In addition, debts and liabilities shall be taken into account subject to the following limitations:

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(a) Recourse debts for which the taxpayer is fully personally liable, without any limitations other than those arising from bankruptcy law, shall be fully taken into account.

(b) In the case of debts other than recourse debts described in subdivision (a), for each ~~(such)~~ debt or liability, the amount that may be taken into account shall not exceed the amounts included in the taxpayer's net worth on account of the assets serving as collateral for the debt or liability.

(c) Debts and other liabilities of a taxpayer's sole proprietorship shall reduce net worth as if they were debts or other liabilities of the taxpayer. The taxpayer's net worth shall not be reduced by the amount of debts or other liabilities of a partnership, limited liability company, or other business ~~entity (other than a sole proprietorship)~~ which are allocated to the taxpayer for purposes of computing tax, except to the extent that the taxpayer is personally liable for ~~(such)~~ debt or other liability.

proprietorship,
that

entity,
other

(d) A taxpayer's net worth shall not be reduced by the taxpayer's guarantee of another's debts or other liabilities.

(e) No debt or liability, including recourse debts described in subdivision (a), shall reduce net worth if the debt or liability is owed to a related person or persons; ~~or~~ if the existence or amount of the liability is contingent on future events that are substantially uncertain to occur or that are substantially uncertain to occur within the subsequent five years; or if the debt or liability was not negotiated for at arm's length. Additionally, no amounts shall be taken into account for any ~~(such)~~ debt or liability unless market rates of interest are being charged to the taxpayer.

(f) A pledge to make a subsequent contribution to a charitable or philanthropic organization shall not reduce net worth unless ~~(such)~~ pledge is legally enforceable by the organization to which ~~(such)~~ contribution is pledged, and in any event no ~~(such)~~ pledge may reduce net worth if ~~(such)~~ pledge is entered into after October 15, 2025.

that

(g) Any debts or liabilities of a taxpayer in exchange for which the taxpayer is entitled to receive future benefits or future ownership rights, ~~such as a~~ contractual obligation to contribute to an entity at a future date, shall only reduce net worth to the extent that:

including

(1) The value of those future benefits or ownerships rights is included in the taxpayer's net ~~(assets; or)~~ assets.

(2) The taxpayer can demonstrate, through clear and convincing evidence, that the amount owed under the debt or liability is in excess of any future

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benefits or ownership rights that are not included in the taxpayer's net assets.

- (3) In the case of a legally enforceable pledge to make a subsequent contribution to a charitable or philanthropic organization, the value of any future benefits received in exchange shall be zero, except to the extent that *those* ~~such~~ benefits would constitute a substantial benefit for purposes of determining the contributor's charitable contribution deduction.

50303.

(a) Unless otherwise specified by the Board, and except as otherwise specified in this Section, the fair market value of each asset owned by a taxpayer is the price at which the asset would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell, and both having reasonable knowledge of relevant facts. The location of an asset shall be taken into account wherever appropriate. For an asset that is generally obtained by the public in the retail market, the fair market value of the asset is the price at which the item or a comparable item would be sold at retail. The fair market value of an asset shall not ~~be~~ *be either of the following:*

- (1) The price that a forced sale of the property would ~~produce; or~~ *produce.*
- (2) The sales price in a market other than that in which the property is most commonly sold to the public, if the price in ~~such~~ *that* market would result in a lower fair market value, except in the case of property subject to Section 423, relating to the valuation of restricted open-space land.
- (b) Any feature of an asset, ~~such as~~ *including* a shareholder rights plan, shall not be taken into account in determining the asset's value where a significant purpose and effect of adding the feature is to reduce the appraised value of the asset. No valuation or other discount shall be taken into account if ~~such~~ *that* discount would have the effect of reducing the value of a partial interest in an asset below the taxpayer's pro rata portion of the value of the entire asset.
- (c) The following valuation methods, exclusions, and reporting requirements shall apply to the following specific asset types:
 - (1) For all publicly traded assets, the fair market value of the asset shall be presumed to be the asset's market trading value on the valuation date, as defined in subdivision (o) of Section 50308.
 - (2) For all sole proprietorships, all assets owned by or held through a sole proprietorship shall be reported and valued as though they were directly owned and held by the taxpayer and not through a sole proprietorship.

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- (3) Except assets and entities governed by paragraphs (1) and (2), for all interests in any business entities, including all equity and ownership interests, all debt interests, and all other contractual or noncontractual interests, valuation shall be conducted as follows:
- (A) The taxpayer shall report the following at the time when forms are filed pursuant to this Chapter:
- (i) The percentage of the business entity owned by the taxpayer ^{2/10}
 - (ii) The book value of the business entity as of the end of the tax year, determined according to generally accepted accounting principles, and ^{1/10}
 - (iii) The book profits of the business entity in the tax year according to generally accepted accounting principles. For purposes of this paragraph, "the tax year" of the business entity means the latest tax year of the business entity ending within or with the tax year of the taxpayer.
- (B) If the reporting required under subparagraph (A) is impossible because the taxpayer lacks information on the book value or the book profits of the business entity and also lacks the right to obtain that information, the taxpayer must submit a certified appraisal of all of the taxpayer's interests in the business entity.
- (C) For any interests that confer voting or other direct control rights, the percentage of the business entity owned by the taxpayer shall be presumed to be not less than the taxpayer's percentage of the overall voting or other direct control rights.
- (D) For any profits interests in a business entity, the percentage of the entity owned by the taxpayer shall be presumed to be not less than the maximum (such) percentage interest of the entity's profits the taxpayer may earn, without respect to whether (such) profits interest is subject to that a condition precedent that has not yet been met.
- (E) Except for assets and entities governed by paragraphs (1) and (2), for all other interests in any business entities, including all equity and other ownership interests, all debt interests, and all other contractual or noncontractual interests, the fair market value of those interests at the end of any tax year shall be presumed to be the sum of the book value of the business entity according to generally accepted accounting principles as of the end of the tax year plus a present-value multiplier of 7.5 times the annual book profits of the business [^]

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entity, ~~entity~~ as averaged over the current tax year and the preceding two
available, ~~tax years, if available~~ according to generally accepted accounting
principles, with this entire sum then multiplied by the percentage of
the business entity owned by the taxpayer as of the end of the tax
year. In the case of a private equity entity, this value shall not be less
value as ~~than the sum of the value (as determined under this subdivision)~~ of subdivisions
other ~~(other than profits (interests) of the private equity entity. For purposes~~ interests,
of this subparagraph, if the average book profits over the relevant
period are less than zero, they shall be treated as zero. The Board may
permit a taxpayer to compute book value and book profits using an
accounting method other than generally accepted accounting
principles if the business to be valued consistently maintains its
books and records and reports income and expenses using ~~(such) other~~ that
method.

(F) If the taxpayer or the Board can demonstrate with clear and
convincing evidence that the presumed value under subparagraphs
(C), (D), or (E) would substantially overstate or understate the actual
value of the business entity owned by the taxpayer or the percentage
owned by the taxpayer, the taxpayer or the Board may instead submit
a certified appraisal of the percentage of the business entity owned by
the taxpayer and then use the certified appraisal value in place of the
presumed percentage method.

(4) All interests in any real property held directly by a taxpayer or held via a
revocable trust shall not be included in net worth. To the extent valuation
of real property is required, the value used for calculating the property
factor of the Corporate Income Tax, under Section 25129, is to be used.

(5) Tangible personal property located outside California is excluded if
located outside California for at least 270 days during 2026, except that an
asset shall not be so excluded if relocated temporarily with a substantial
purpose of avoiding tax.

(6) For all interests in trusts, net worth shall be determined as follows:

(A) An individual's net worth includes the net worth of any grantor trust
of that individual.

(B) For purposes of determining whether an individual's net worth is in
excess of ~~\$1 billion (\$1,000,000,000) or \$1.1 billion~~
(\$1,100,000,000) under subdivision (a) of Section 50301, net worth
shall include the value of property held by any ~~trust (other than a~~
grantor trust or tax-exempt ~~(trust)~~ to which the individual transfers or

one billion
dollars

one billion one
hundred million
dollars

trust, other

trust,

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has transferred property. To the extent consistent with the United States and California Constitutions, net worth shall for all purposes include the value of property held by any ~~trust (other than a grantor trust or tax-exempt trust)~~ to which the individual transfers property in 2026, and ~~seventy-five percent~~ of the value of ~~such~~ property transferred in 2025. If more than one individual has transferred property to any such trust, the contributing individual's net worth, for whatever purpose considered, shall be increased by a proportion of the value of the trust property, where that proportion is equal to the share of the value of all property transferred to the trust that was transferred by that individual.

trust,
75

trust, other
that

- (C) In the case of the beneficiary of a trust, whether or not the trust is resident in California, the beneficiary shall be deemed the owner of the trust's assets to the extent that the assets are distributable to the beneficiary, whether distributed or not. However, a trust beneficiary shall not be deemed the owner of any trust asset if the trust is an applicable trust.

- (7) The following categories of assets shall be exempt from all taxation under this part and also from the reporting requirements of this Section:

- (A) Except as described in subparagraph (B), qualified pensions and individual retirement arrangements, including those described by Section 219(g)(5) of the Internal Revenue Code, or foreign pension arrangements similar in nature to those described in that Section and exempted from U.S. taxation by a treaty obligation of the United States.

United States

- (B) Amounts held in Roth IRA or other Roth-type retirement arrangements or any substantially similar accounts, except to the extent that the aggregate value in all such accounts in which the taxpayer holds a beneficial interest, either directly or indirectly, exceeds \$10 million (\$10,000,000) in present value.

ten million dollars

of those

compensation, other
interest,

- (C) Nonqualified deferred compensation (other than a contingent profits interest), and any other promises of future payments specified by the Board, except that any pension, deferred compensation amount, or other payment for goods or services, not described in subparagraphs (A) and (B), shall be treated as a taxable asset of the taxpayer if:

- (i) Under the terms of a compensation arrangement, plan, contract, or other arrangement providing for payment, the taxpayer has a legally binding right as of the end of the tax year to such payment.

payments
that

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- (ii) The compensation has not been actually or constructively received on or before the end of the year, ^{and} ~~and~~ ¹⁰
- (iii) Pursuant to the compensation arrangement, the payment is payable to, or on behalf of, the taxpayer on or after the end of the year.

(D) Except assets exempted or excluded, a taxpayer must treat assets described in this paragraph as though they were held directly, and not in a tax-favored account.

(E) In the case of a defined benefit plan not otherwise exempt under this section, an amount equal to the present value of the taxpayer's accrued benefit on the last day of the tax year is treated as included by the taxpayer in the taxpayer's net worth.

(8) The ~~Board~~ shall adopt regulations regarding the taxability of receivables and similar assets under this ~~Part~~. Subject to the requirements of this subdivision, the ~~Board~~ may exempt certain receivables and similar assets from all taxation under this ~~Part~~ and from the reporting requirements of this ~~Section~~. In adopting such regulations, the ~~Board~~ shall consider whether a taxpayer is reasonably likely to receive payment from a particular type of receivable. All receivables shall be included in net worth under this ~~Part~~ until the ~~Board~~ has adopted regulations. *those*

(9) For all other assets, including art and collectibles, financial instruments other than those that are publicly traded, intellectual property rights, debts and other liabilities owed to the ~~taxpayer~~ (other than those that are ~~publicly traded~~), and vehicles and other personal property, the taxpayer may exclude up to \$5 million (\$5,000,000) of total asset value of those combined assets, regardless of type, from net worth and from the reporting requirements of this ~~Section~~. With the exception of assets so excluded, a taxpayer must report the fair market value of those assets, and for each asset or group of substantially interchangeable assets (such as derivative contracts relating to the same underlying security) worth in excess of \$1 million (\$1,000,000), the taxpayer shall submit a certified appraisal. *traded, taxpayer, other assets, including security,*

(10) In no case shall the value of an asset be determined to be less than the amount for which such asset is insured. In the case of a business entity, in no case shall the value of such entity be less than the valuation reflected in any funding round or other sale of equity occurring within two years of the valuation date, unless the taxpayer can show by clear and convincing evidence that such valuation would significantly overstate the value of the entity. *that*

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transferred, other (11) Net worth shall include the value of any property the individual transferred (other than property transferred to a trust described above) for less than fair market value after October 15, 2025, if such property either considered alone or together with other substantially interchangeable transferred items has a fair market value in excess of \$1 million that one million dollars. An asset included in the net worth of the transferor as a result of this subparagraph shall not be included in the net worth of the transferee. paragraph

(12) Any assets of a person who can be claimed as a dependent that are in excess of fifty thousand dollars (\$50,000) in aggregate shall be deemed to be assets of the taxpayer who can claim them as a dependent.

Chapter 3. Optional Deferral Accounts for Qualifying Liquidity Constrained Taxpayers

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50304.

ODA₃

(a) The Board shall develop an optional deferral account contract and related forms for an optional deferral account, also referred to herein as an "ODA," in order to create a binding contractual agreement between a taxpayer and the State. A qualifying taxpayer may opt to sign the contract to initiate an ODA under this Part. To be a qualifying taxpayer, an individual must file a declaration that the amount of additional tax that would be owed as a result of this Part (without the use of an ODA) would exceed the sum of the combined value of all of the taxpayers' assets which are subject to the valuation rules of paragraph (1) of subdivision (c) of Section 50303; that is, only individuals who would owe additional tax as a result of this Part in excess of the combined total value of all of the individual's publicly traded assets shall be qualifying taxpayers. As part of this contract, the qualifying taxpayer opting to initiate an ODA shall agree to: to all of the following:

part, without

- (1) File all annual informational returns and forms as described and specified in this Section;
- (2) Reconcile and pay all tax liabilities that may arise as a result of the ODA; and to
- (3) Be subject to personal jurisdiction in this State for purposes of the collection of any tax imposed by this Part and of satisfying any reporting requirements imposed by this Part, together with any related interest or penalties imposed on the taxpayer by this State, with respect to the ODA.

(b) The contract shall be legally binding on the taxpayer, and also on the taxpayer's estate and assigns, until such time as either the taxpayer or the

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taxpayer's estate or assigns reconciles and appropriately closes the ODA by fully liquidating the accumulated tax claims and then paying all tax due on the liquidated tax claims.

- 50301, without
- (c) A taxpayer may maintain only one ODA. A taxpayer may only attach assets or groups of assets to an ODA to the extent that the amount of additional tax that would be owed as a result of Section 50301 (without) the use of an ODA would exceed the sum of the combined value of all of the taxpayers' assets subject to the valuation rules of paragraph (1) of subdivision (c) of Section 50303. In order to attach any assets or groups of assets to an ODA, a taxpayer shall report: *report both of the following:*
- ODA,

(1) The year in which the ODA was initiated; and *initiated.*

(2) A list of all assets or groups of assets to which the ODA is to be attached for the current year.

- those
- (d) If a taxpayer has initiated an ODA, until that ODA has been reconciled and closed, the taxpayer shall annually report any material distribution transactions made with regard to the ODA, and shall complete and file any forms provided by the Board for that purpose. The taxpayer shall continue to annually make *paying* ~~such~~ reports until the taxpayer has reconciled the ODA *so as to fully liquidate* the accumulated tax claims and *the* ~~to then pay~~ all tax owed on *fully liquidating* ~~such~~ liquidated tax claims. As a component of the legal contract signed by the taxpayer upon initiating an ODA, *those* ~~such~~ reporting requirements shall continue even if and after the taxpayer is no longer a resident of California, within the meaning of Sections 17014 and 17015.5, and shall then be enforced as a legally binding contract with the State. Failure to make annual reports and file any required forms shall be treated as a breach of contract and shall also be subject to the same penalties as a failure to file income tax forms for California residents who are required to file income tax forms. Upon the death of any taxpayer who has initiated an ODA that has not been fully reconciled and closed, that taxpayer's estate and assigns shall be required to reconcile the ODA *so as to fully* liquidate the accumulated tax claims and to then pay all tax owed on *those* ~~such~~ liquidated tax claims, treating these claims as an unpaid tax liability of the taxpayer owed to the State.

- 5
- (e) The taxpayer's accumulated unliquidated tax withholding percentage shall be equal to *5* ~~five~~ percent.

- (f) The following withdrawals and transactions shall be deemed to be material distribution transactions that the taxpayer must report annually:

- (1) A withdrawal of money, property, or other value from any assets to which the ODA is *attached.* ~~attached; and~~

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- (2) A transaction with the taxpayer, or a related person to the taxpayer, that has the effect of transferring any assets or value of assets to which an ODA is attached without also transferring the ODA obligations.
- (g) Notwithstanding subdivision (f), a material distribution transaction shall not include ordinary and necessary transactions for maintaining or increasing the value of assets to which an ODA is attached and that would not have the effect of distributing any profits, dividends, or other payments to owners for the use of capital, or similar transfers.
- (h) The Board shall provide guidance for specifying what sorts of transactions are to be treated as material distribution transactions and for specifying that transfers made in the ordinary course of a trade or business and exchanges of non-readily tradable assets shall not be treated as material distribution transactions. For any (such) material distribution transactions, the taxpayer shall report the fair market value withdrawn from the assets to which the ODA is attached or otherwise transferred or used for the benefit of the taxpayer or of a related person.
- (i) The taxpayer shall multiply the taxpayer's accumulated unliquidated tax withholding percentage by the fair market value, as determined under Section 50303, of all material distribution transactions for the tax year. There shall be a tax imposed on the taxpayer in the amount of the resulting product. Any additional tax payable as a result of this Section for any tax year shall be payable along with any income tax owed for that tax year.
- (j) Any taxpayer maintaining an ODA who has had any material distribution transactions either in the current year or in any prior year shall annually report all of the following:
- (1) The year in which the ODA was initiated; to
 - (2) A list of all assets or groups of assets to which the ODA is currently attached or to which the ODA has ever been attached; and to
 - (3) The taxpayer's running total of the aggregate fair market value of all material distribution transactions made with respect to the ODA.
- (k) If, in any year, a taxpayer who has previously initiated an ODA sells, disposes of, or otherwise terminates all of the taxpayer's interests in the ODA and in all assets to which the ODA is attached, then after paying any tax owed as a result of any such transactions that are material distribution transactions, as specified in subdivision (f), the ODA is fully liquidated. At the end of any tax year, a taxpayer who has previously initiated an ODA may elect to close that ODA by
- those

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filing a form provided by the Board. The taxpayer shall then reconcile the ODA pursuant to subdivision (l).

- (l) Prior to closing an ODA, a taxpayer shall withdraw any assets to which the ODA is attached and treat those withdrawals as material distribution transactions pursuant to this Section. Section 50303 shall govern the determination of the fair market value of any assets withdrawn from an ODA. As used in this Section, the term "taxpayer" shall also include any estate or assigns of a taxpayer made liable under this provision for satisfaction of the taxpayer's ODA.

Chapter 4. Certified Appraisals [Large and small caps, centered]

50305.

- (a) Any appraiser making a certified appraisal for the purposes of this Part shall send a copy of that certified appraisal to the Board, along with information sufficient for identifying the taxpayer for whom the certified appraisal was prepared, and shall follow any applicable rules or other relevant instructions adopted by the Board.
- (b) The Board shall adopt regulations, or publish guidance, further detailing the requirements for certified appraisals and for appraisers qualified to make certified appraisals for purposes of this Chapter. Rules and guidance shall be based on the qualified appraisal and qualified appraiser rules of Section 1.170A-17 of Title 26 of the Code of Federal Regulations.
- (c) In the case of any underpayment of tax attributable to a substantial or gross overstatement or understatement of valuation in a certified appraisal, the Board may at its discretion impose a penalty on the appraiser, as if such appraiser were "the taxpayer" for purposes of Section 50312, but no such penalty shall exceed 2 percent of the understatement of tax (in the case of substantial overstatement or understatement of valuation) or 4 percent of the understatement of tax (in the case of gross overstatement or understatement of valuation). *that tax, in valuation,*

Chapter 5. Apportionment and Credits

[Large and small caps, centered]

50306.

- (a) Standard apportionment. As for apportionment of the tax imposed by this Part between multiple jurisdictions, the rules of this Section shall apply. The rules in this Chapter supersede other rules, including the rules concerning the division of income for purposes of part-year residence. One hundred percent of any tax imposed under Sections 50301 and 50304 is apportioned to California for all

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applicable individuals and applicable trusts, without reduction or multiplier based on residency history, including whether an individual was a California resident before the tax obligation date described in subdivision (n) of Section 50308. For purposes of this Section, residency is determined under Sections 17014 and 17015.5 as of the tax obligation date.

(b) Alternative apportionment.

- (1) Standard method. The standard apportionment method under this Section is the method specified in subdivision (a).
- (2) When alternative apportionment may be used. If the standard apportionment method does not fairly represent the extent to which the taxpayer's excessive wealth was accumulated in, or substantially sustained by, California, the taxpayer may petition for or the Board may require in a notice of proposed assessment, use of an alternative apportionment method for all or any part of the taxpayer's wealth. Any alternative method adopted under this subdivision shall be applied before the calculation of any credit under Section 50307.

Petitions,

- (3) ~~Petitions~~ showing required. A petition shall be granted only if the petitioning party proves by clear and convincing evidence that both of the following are true:

(A) The excessive wealth did not substantially accumulate in California; *and*

(B) The excessive wealth was not substantially sustained in California for at least 365 days in the aggregate during the 48 month period ending on the valuation *date, as* ~~(date as)~~ defined in ~~Section 50308(o)~~.

*subdivision (o) of
Section 50308.*

- (4) Constitutional alternative. Alternatively, a petitioning party may prevail by establishing that the United States Constitution, the California Constitution, or federal law prohibits application of the standard method to all or a portion of the taxpayer's wealth.
- (5) Burden and proposed method. The petitioning party bears the burden to show the standard method is unfair or invalid and to propose a more fair and reasonable method that is practicable to administer. When the Board requires an alternative method in a notice of proposed assessment, the Board is the moving party before the Office of Tax Appeals and bears this burden with respect to the alternative method, and the notice shall state with specificity the reasons the standard method is unfair and describe the proposed alternative method.

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Appeals, or

25

- (6) Minimum percentage; constitutional safety valve. Relief under this subdivision shall not reduce the apportionment percentage below 25 percent, unless the Office of Tax ~~(Appeals (or) a court on (review))~~ ^{review,} finds on the record that a lower percentage is required to avoid grossly disproportionate taxation in violation of the United States or California Constitutions or governing federal law. In determining whether a tax is grossly disproportionate, the Office of Tax Appeals, and the courts shall consider whether the taxpayer's net worth has a meaningful connection to California, and shall reduce the apportionment percentage, including below ~~(twenty-five)~~ percent and, where appropriate, to zero, to the extent necessary to avoid taxation that is arbitrary or out of all appropriate proportion to the taxpayer's contacts with this State.
- (7) Regulations. The Board may adopt regulations providing nonexclusive examples of acceptable alternative methods and evidentiary showings, consistent with paragraph (2).
- (8) To the extent that any provision or application of this Section that determines apportionment by reference to residency is held invalid, unconstitutional, or otherwise unenforceable, residency shall then be determined with respect to such provision or application pursuant to the rules governing the personal income tax in Part 10 (commencing with Section 17001), including Sections 17014 and 17015.5.

50307.

- (a) There shall be allowed as a credit against the tax imposed by this Part an amount equal to the taxpayer's pro rata share of any taxes paid on a tax on net wealth that is also taxed under this Part, where the pro rata share shall be the ratio in which the numerator shall be the total number of days the taxpayer resided within the other taxing state or jurisdiction during the 2026 tax year and the denominator shall be 365. For removal of doubt, because directly-held real property is not taxed under this Part, no credits are allowed under this subdivision for taxes on directly-held real property. ^{directly held}
- (b) A credit shall additionally be allowed against taxes paid in other jurisdictions to the extent required by the United States Constitution.

Chapter 6. General Provisions and Definitions

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50308.

For purposes of this Part, the following definitions shall apply.

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(a) "Applicable individual" means, for the 2026 tax year, any individual who is a resident of this State, within the meaning of Sections 17014 and 17015.5, as of the tax obligation date specified in subdivision (n).

(b) "Applicable trust" means any ^{trust, other} trust (other than a grantor trust or tax-exempt trust), whether or not ^{that} such trust is a California resident, if an applicable individual still living with net worth of ~~\$1 billion~~ (\$1,000,000,000) or more (or ^{more, or} any entity that would constitute a related person with respect to ^{the} such individual) has transferred property to ^{the} such trust. If more than one individual has transferred property to ^{the} such trust, a portion of the trust shall be treated as an applicable trust, where the portion so treated shall be the same as the proportion of the value of assets transferred to the trust by ^{individual, or} such applicable individual (or ^{that} any entity that would constitute a related person with respect to ^{the} such individual) holds to the total value of assets transferred to the trust. In addition, any trust may elect to be an applicable trust by notifying the Board of ^{that} such election by any method the Board may designate. An individual with net worth of ~~\$1 billion~~ (\$1,000,000,000) or more who has transferred property to an applicable trust may elect to treat ^{the} such trust as part of the net worth of ^{that} such individual by notifying the Board of ^{that} such election by any method the Board may designate. In the case of ^{that} such an election, the trust shall not be separately subject to tax under Section 50301.

(c) "Board" means the Franchise Tax Board.

(d) "Dependent" shall have the same meaning as that term is defined in Section 152 of the Internal Revenue Code.

(e) "Grantor trust" means any trust ^{that} which would be a grantor trust for purposes of the income tax, and also any trust the assets of which would be included in the estate of the grantor for purposes of federal transfer tax.

(f) "Net worth" means the total value of all assets and property interests taken into account for the taxpayer and their spouse worldwide under Section 50303 and other applicable provisions of this Part as of the valuation date specified in subdivision (o), where ^{that} such spouse is resident, reduced by the total value of all debts and other liabilities, to the extent ^{the} such reductions are permitted under Section 50302. For the avoidance of doubt, assets taken into account under Section 50303 as of the valuation date are included in net worth even if acquired after the tax obligation date, and interests disposed of before the valuation date are excluded from net worth, except to the extent this Part, including but not limited to Sections 50303 and 50312, requires transferred, recharacterized, or trust-held assets or other property interests to be included in the taxpayer's net worth.

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- (g) "Optional deferral account" or "ODA" means an unliquidated tax reserve account governed by Section 50304.
- (h) "Person" shall have the same meaning as that term is defined in Section 17007.
- (i) "Private equity entity" means a business entity, other than a publicly traded entity, mutual fund, or exchange-traded fund, that engages primarily in the business of investing in other businesses.
- (j) "Publicly traded asset" means an asset that is traded on an exchange; traded on a secondary market in which sales prices for such asset are frequently updated; available on an online or electronic platform that regularly matches buyers and sellers; or any other asset that the Board determines has a value that is readily ascertainable through similar means. *that*
- (k) "Related person" means any person that is related to the taxpayer under Sections 267 or 318 of the Internal Revenue Code as of January 1, 2026, as well as any other person so specified by regulations adopted by the Board. *Section*
- (l) "Substantial benefit" has the meaning given to that term by the United States Supreme Court in the case of *United States v. American Bar Endowment*, 477 U.S. 105 (1986). *Endowment (1986) 477 U.S. 105.*
- (m) "Tax-exempt trust" means a trust that is exempt from federal income tax under Section 501 of the Internal Revenue Code.
- (n) "Tax obligation date" means January 1, 2026.
- (o) "Valuation date" means December 31, 2026.

50309.

- (a) The collection and administration of the tax described in this Part shall be governed by Part 10.2 (commencing with Section 18401) unless expressly superseded by this Part. *may*
- (b) The Board shall have the authority to adopt regulations to implement, interpret, make specific, or otherwise carry out any provision of this Part.

The (1) Such regulations may include, but are not limited to:

- (A) Identifying abusive transactions whose aim is to change the nature of an asset from public to nonpublic or vice versa.
- (B) Identifying abusive transactions whose aim is to artificially reduce the assessed value of a taxpayer's assets.

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- (2) Until January 1, 2028, the rulemaking provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code) shall not apply to any regulation, standard, criterion, procedure, determination, rule, notice, guideline, or any other guidance established or issued by the Board pursuant to this Part.
- (3) Notwithstanding Section 19057 or any other law, every notice of a proposed deficiency assessment under this part in regards to taxable years beginning on or after January 1, 2026, and before January 1, 2027, shall be mailed to the taxpayer within ten years after the return was filed.
- (c) Within six months after passage, the Board shall promulgate the forms required for taxpayers to pay the tax imposed by this Part. Those forms may provide for taxpayer attachments demonstrating compliance. The Board shall amend the Personal Income Tax Forms, and amend or create other forms as necessary, for the reporting of assets or other information useful for the implementation of this Part.
- (d) To the extent not inconsistent with this Chapter, the provisions for the administration, assessment, collection, enforcement, and appeals of the income tax shall apply to the taxation of net worth imposed by this Part.

50310. Legislative Authority

The Legislature may amend the 2026 Billionaire Tax Act, by statute passed in each house of the Legislature by rollcall vote entered in the journal, two-thirds of the membership concurring, if the statute is consistent with and furthers the purposes of the 2026 Billionaire Tax Act.

50311. Severability

- (a) The provisions of the 2026 Billionaire Tax Act, also referred to as "the Act," are severable. While the Act has been carefully designed to comply with existing law, if any provision of the Act or its application is held invalid, unconstitutional, or otherwise unenforceable, that finding shall not affect the enforceability of other provisions or applications.
- (b) In applying the Act, a court shall, to the maximum extent consistent with the United States and California Constitutions, preserve the imposition of the tax authorized, including by reforming dates or periods specified, using the most limited adjustment possible to cure any constitutional or other legal defect, while allowing the remaining provisions to operate. If a court determines that imposing liability under this Act by reference to the tax obligation date specified in subdivision (n) of Section 50308 or the valuation date specified in

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of the
California
"Constitution"

that

subdivision (o) of Section 50308, in whole or in part, is contrary to the United States Constitution, the California Constitution, or other governing federal law, then, to the extent of that determination, all references in the Act and in Section 37 of Article XIII to the "tax obligation date" and "valuation date" shall instead be construed to refer to the earliest date or dates subsequent to the tax obligation date or valuation date, as applicable, on which liability may be imposed consistently with such law. In reforming any dates or periods specified in the Act, a court shall, to the maximum extent permitted by law, preserve the imposition of the tax for the 2026 tax year, or if that is not permissible then for 2027 or the earliest permissible subsequent year, while otherwise preserving the overall structure and purposes of this Act.

50312. Enforcement and Penalties

- (a) A taxpayer subject to the tax imposed under this Part with a substantial or gross understatement of tax for any taxable year shall be subject to the penalty imposed under this Section. An understatement is substantial if that understatement exceeds the greater of the following:
 - (1) One million dollars (\$1,000,000).
 - (2) Twenty percent of the tax shown on an original return or shown on an amended return filed on or before the original or extended due date of the return for the taxable year.
- (b) An understatement is a gross understatement if that understatement exceeds the greater of the following:
 - (1) Ten million dollars (\$10,000,000).
 - (2) Forty percent of the tax shown on an original return or shown on an amended return filed on or before the original or extended due date of the return for the taxable year.
- (c) The penalties are as follows:
 - (1) The penalty for a substantial understatement under this Section shall be an amount equal to 20 percent of any understatement of tax. For purposes of this Section, "understatement of tax" means the amount by which the tax imposed by this part exceeds the amount of tax shown on an original return or shown on an amended return filed on or before the original or extended due date of the return for the taxable year.
 - (2) The penalty under this Section for a gross understatement of tax shall be an amount equal to 40 percent of any understatement of tax.

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- (d) The penalty imposed by this ~~Section~~ shall be in addition to any other penalty imposed under Part 10.2 (commencing with Section 18401), or any other law.
- (e) A refund or credit for any amounts paid to satisfy a penalty imposed under this ~~Section~~ may be allowed only on the grounds that the amount of the penalty is not properly computed by the ~~Franchise Tax Board~~ *board*.
- (f) No penalty shall be imposed under this ~~Section~~ on any understatement to the extent that the understatement is attributable to any of the following:
- (1) A change in law that is enacted, adopted, issued, or becomes final after the earlier of either of the following dates:
 - (A) The date the taxpayer files the return for the taxable year for which the change is operative.
 - (B) The extended due date for the return of the taxpayer for the taxable year for which the change is operative.
 - (2) For purposes of this subdivision, a "change of law" means a statutory change or an interpretation of law or rule of law by regulation or legal ruling of counsel, within the meaning of subdivision (b) of Section 11340.9 of the Government Code, or a published federal or California court decision.
 - (3) The ~~Board~~ shall implement this subdivision in a reasonable manner.
- (g) No penalty shall be imposed under this ~~Section~~ to the extent that a taxpayer's understatement is attributable to the taxpayer's reasonable reliance on written advice of the ~~Board~~, but only if the written advice was a legal ruling by the chief counsel, within the meaning of paragraph (1) of subdivision (a) of Section 21012.
- (h) The amount of the understatement under subdivision (a) shall be reduced by that portion of the understatement ~~which~~ *that* is attributable ~~(to)~~ *to either of the following:*
- (1) The tax treatment of any item by the taxpayer if there is or was substantial authority for ~~such treatment, or~~ *that treatment*.
 - (2) Any item ~~(if)~~ *if* the following apply:
 - (A) The relevant facts affecting the item's tax treatment are adequately disclosed in the return or in a statement attached to the ~~(return, and)~~ *return*.
 - (B) There is a reasonable basis for the tax treatment of ~~(such)~~ *that* item by the taxpayer.

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Section 16355 of the
Government Code

- (i) Notwithstanding subdivision (a) of Section 18567, the Board shall grant extensions to file tax for six months for tax year 2026 only. Notwithstanding subdivision (b) of Section 18567, the penalties imposed by this Section shall not apply to estimated payments required to be made by April 2027. The penalties imposed under this Section do apply to final payments for the 2026 tax year made in October 2027. Section 18567 applies to the tax imposed by this Act for all years subsequent to 2027.
- (j) Notwithstanding any other provisions of law, the Board is authorized to hire ~~may~~ and pay reasonable fees to any outside experts or outside counsel as appropriate to help fully administer and collect the tax authorized by this part. While such ~~those~~ fees may be covered by the amount provided for in subdivision (e) of Government Code Section 16355, the Board is authorized to seek additional ~~may~~ funding for reimbursement if necessary.
- (k) General anti-avoidance rule.
- (1) If the Board determines that a transaction or series of transactions lack economic substance, or that a substantial purpose for any transaction or series of transactions was to obtain a tax benefit with respect to this Part that is not intended by the voters or the Legislature, the Board may determine the tax consequences to any person in a manner that is reasonable in light of all the facts and circumstances in order to deny such ~~that~~ benefit.
- (2) For purposes of this subdivision, a transaction or series of transactions shall be treated as lacking economic substance if the person does not have a valid and substantial nontax business purpose for entering into the transaction or series of transactions, taking into account the overall economic effect of the transaction or series of transactions apart from state and federal tax effects.
- (l) Controlled group allocations; substance over form.
- (1) In any case of two or more organizations, trades, businesses, entities, or arrangements owned or controlled, directly or indirectly, by the same interests, the Board may distribute, apportion, or allocate assets, liabilities, or any other items relevant to the determination of net worth under this Part between or among such persons if the Board determines that such distribution, apportionment, or allocation is necessary in order to prevent avoidance of the tax imposed by this Part or clearly to reflect the economic ownership and enjoyment of such tax items. ~~those~~ those
- (2) In exercising its authority under paragraph (1), the Board may disregard any entity, arrangement, or transaction that lacks economic substance,

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treat related transactions as a single transaction under the step transaction doctrine, or otherwise give effect to the substance rather than the form of the transaction.

- (m) Use of income tax doctrines; no implied exemptions.
 - (1) In applying this ~~Part~~, the ~~Board~~ may rely on, and courts may draw upon, legal principles developed with respect to interpretation and application of state and federal income taxes, including, without limitation, doctrines relating to economic substance, business purpose, sham transactions, step transactions, and substance over form.
 - (2) There shall be no exemptions, exclusions, or deductions from the tax imposed by this ~~Part~~ except those expressly authorized in this ~~Part~~ or in Section 37 of Article XIII of the California Constitution.
- (n) Power of the ~~Board~~. Without implication as to the powers of the ~~Board~~ in relation to any other tax, if the ~~Board~~ disagrees with a decision of the Office of Tax Appeals, the ~~Board~~ may bring an action in superior court for a trial de novo.

50313. Construction

The provisions of this ~~Part~~ shall be liberally construed to effectuate its purposes.

50314. Expedited Review

- (a) The intention of this section is to provide for expedited, conclusive resolution of the facial validity of this ~~Act~~ through a validation action.
- (b) An action or proceeding to determine whether the tax imposed by this ~~Act~~, or all proceedings in relation thereto, are constitutional or otherwise facially invalid, and filed solely to determine the validity of this ~~Act~~ or any portion of it, shall be commenced pursuant to Chapter 9 (commencing with Section 860) of Title 10 of Part 2 of the Code of Civil Procedure.
- (c) Such a validation action shall not be filed more than 60 days after the approval of the ~~Act~~ by the voters. If no action is filed within that period, the tax and all proceedings in relation thereto, including the adoption and approval of the ~~Act~~, shall be held to be facially valid and in every respect legal and incontestable.
- (d) Chapter 9 (commencing with Section 860) of Title 10 of Part 2 of the Code of Civil Procedure shall govern all validation actions under this section, provided, however, that, notwithstanding any other law:

- Italic* —
- (1) The sole venue for any (such) validation action shall be Sacramento County Superior Court, where all (such) actions shall be consolidated at least for trial, or to the extent determined by the Court. *the*
 - (2) Any appeal from an adverse determination in the Sacramento County Superior Court shall be *made* directly to the California Supreme Court, without intermediate appellate review. *10*
 - (3) If the Supreme Court grants a petition for review, it shall hear any appeal or writ involving the validity of this Act on an expedited basis. *10*
 - (4) Subject to adjustment as necessary by the applicable court to accommodate expedited, sound judicial decision making, the Sacramento Superior Court shall make every effort to resolve any validation action by April 1, 2027, and the California Supreme Court shall make every effort to resolve any review proceeding by November 1, 2027, or as soon as possible thereafter. Briefing and hearing schedules shall be scheduled as necessary to meet these dates.
 - (5) Section 868 of the Code of Civil Procedure shall not apply to actions brought under this Section.
 - (e) The State, government agency, any of its officials, any other government employer, the proponent, or in the absence of a proponent, any citizen of this State is an "interested person" under Section 863 of the Code of Civil Procedure.

Sec. 7. Subdivision (e) is added to Section 17220 of Article 6 of Chapter 3 of Part 10 of Division 2 of the Revenue and Taxation Code.

- (e) No deduction shall be allowed for any tax imposed by the State on net worth, including the 2026 Billionaire Tax Act (Part 27 of this Code) notwithstanding any other provision of law, including Section 164(a)(2) of the Internal Revenue Code, relating to the deductibility of taxes on personal property.

SEC. — **Sec. 8. Conflicts.**

income, This Act provides for a tax on net worth, not income, of billionaires. In the event that this measure and another measure that levies a tax or affects the tax rates on net worth (not income) of billionaires, or that provides for use of funds from a tax on billionaire net worth, shall appear on the same statewide ballot, the provisions of the other measure or measures shall be deemed to be in conflict with this measure. In the event that this measure receives a greater number of affirmative votes than a measure deemed to be in conflict with it, the provisions of this measure shall prevail in their entirety, and any conflicting provisions of the other measure or measures shall be null and void. *worth, not*

SEC.

Sec. 9. Proponent Standing.

The purpose of this section is to ensure the full and complete defense of this ~~Act~~, to protect the people's right of initiative and the people's right to choose who will defend this ~~Act~~ in court. Notwithstanding any other provision of law, the ~~State~~, government agency, any of its officials, any other government employer, the proponent, or in the absence of a proponent, any citizen of this ~~State~~ may defend the legality of this ~~Act~~, as provided therein through a validation action or as may otherwise be available, and is authorized to sue directly or intervene for the purpose of defending this ~~Act~~, in trial court, on appeal, on review by the Supreme Court of California or in its exercise of original jurisdiction, or before the Supreme Court of the United States. The reasonable fees and costs of defending the ~~Act~~ and advocating for its validity, if the Attorney General does not defend the ~~Act~~, shall be a charge on funds appropriated to the Attorney General, which shall be satisfied promptly.