



Tax Insights
from State and Local Tax
Services

Proposition 40 California billionaire tax - why valuation matters now

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In brief

What happened?

California voters will decide Proposition 40 on November 3. If approved, the state would impose a one-time tax of up to 5% on individuals who were California residents on January 1, 2026, and whose net worth reaches or exceeds \$1 billion, as well as certain trusts. The tax generally would apply to most assets worldwide, although directly held real estate is excluded.

For individuals, two dates are critical: whether a taxpayer is subject to the measure depends on California residency on January 1, 2026, a date that has already passed, while the amount subject to tax generally would be determined based on net worth on December 31, 2026.

Why is it relevant?

Proposition 40 applies different valuation rules to different types of assets, and private companies, startup interests, art, and other assets may not have readily observable market values on December 31, 2026.

For private business interests, the measure prescribes valuation rules that could produce values significantly above fair market value. It also allows for certified appraisals, but the text appears to limit when an appraisal may replace those prescribed rules. The measure's authors have described the appraisal alternative as more broadly available. That difference, combined with the complexity of the valuation rules themselves, creates uncertainty over how some private business interests ultimately would be valued if Proposition 40 passes.

Actions to consider

For taxpayers who may be in scope, a practical first step is a preliminary model using current ownership, book value, earnings, and other readily available information. The goal is not to value every asset today; instead, it is to identify where Proposition 40's complex valuation rules could produce a material difference, and which holdings may require additional valuation or appraisal work if the measure passes.

Unfortunately, taxpayers are left with very little time. Final election results will be certified on December 11, and the first return and payment would be due on April 15, 2027. For taxpayers at the full 5% rate, valuation differences could translate quickly into millions of dollars of tax. Some taxpayers are therefore beginning the modeling now and, where the numbers warrant it, talking with appraisers so the relevant workstreams can be ready if Proposition 40 passes.

In detail

Overview of Proposition 40

The measure was proposed by Service Employees International Union - United Healthcare Workers West and certified for the November 3, 2026 ballot on June 25, 2026. Revenue would be deposited into a new 2026 Billionaire Tax Reserve Fund, allocated 90% to healthcare and 10% to education and food assistance. Proponents estimate approximately \$100 billion in revenue. The Legislative Analyst's Office estimates that revenues could total tens of billions of dollars spread over several years.

Proponents say the revenue is needed for healthcare, education, and food assistance. Opponents argue that the measure could reduce California's competitiveness, prompt wealthy taxpayers to leave the state, and ultimately generate less revenue than projected once the resulting loss of income tax revenue is taken into account. An August University of California, Berkeley IGS Poll found the measure below the necessary 50% plus 1 vote for passage but leading 48% to 41% among likely voters.

Valuing business interests

For an interest in a privately held business, the measure prescribes a formula and presumes the result to be fair market value.

GAAP book value	+	7.5 × average annual book profits	×	Ownership percentage	=	Value reported
<i>Balance sheet equity under GAAP.</i>		<i>Averaged over 2026 and the two prior years. Losses count as zero.</i>		<i>The higher of economic ownership or control rights.</i>		<i>Unless rebutted by appraisal.</i>

Under the formula, ownership percentage is not necessarily the taxpayer's economic stake since the formula attributes the higher of overall voting or other direct control rights to the taxpayer. A shareholder with 20% of the equity but 40% of the voting rights, for example, would be valued on 40%.

Where the default rules produce a result that appears inequitable or disconnected from the economics, a certified appraisal ultimately could be the principal practical route to a different supportable value, subject to the uncertainty described above over when that appraisal route is available.

A few examples show where the default rules could produce counterintuitive results:

- Because book profits are floored at zero, a business with three consecutive loss years would still be valued at book value, with no reduction for those losses.
- A profits interest is presumed to equal the maximum percentage the holder could earn, even if conditions to earn it have not been met.
- Recent funding rounds, equity sales, and insured values could act as valuation floors, and customary minority-interest and marketability discounts are not permitted.

Potential interaction with Propositions 41 and 42

Two other November ballot measures could affect Proposition 40. Proposition 41 would add audit and reporting requirements for programs funded by new special taxes and could conflict with Proposition 40's exemption from the constitutional spending limit. Proposition 42 would prohibit new state taxes on the ownership of financial assets and restrict certain retroactive taxes.

The Legislative Analyst's Office notes that if either receives more affirmative votes than Proposition 40, a court could find that it prevents some or all of Proposition 40 from taking effect. Even if Proposition 40 receives more votes, expedited litigation could leave implementation unsettled during the initial 2027 filing period.

Key dates

Nov. 3, 2026	Dec. 11, 2026	Dec. 31, 2026	Apr. 15, 2027
California voters decide Proposition 40.	Final certification of election results.	Net worth valuation date.	Returns and estimated payments due; six-month extension available for the 2026 tax year only.

Note: Proposition 40 provides that a taxpayer may either pay the tax with the taxpayer's 2026 income tax liability or pay it in five equal annual installments beginning in the year the tax is due, with each subsequent installment subject to a 7.5% annual nondeductible deferral charge on the remaining unpaid balance.

Observation: Proposition 40 could require a substantial amount of work to assemble and value net worth, and the measure leaves important questions that ultimately could require certified appraisals or additional analysis to resolve. With limited time between final election certification and the April 15 filing date, taxpayers are beginning to model potential exposure now and talk with appraisers about workstreams that could be activated quickly if Proposition 40 passes.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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