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Reaction Paper #2- The California Wealth Tax

A new bill has been proposed by California Assemblymember Alex Lee that involves taxing the wealthiest residents of the state. The proposed bill would take effect in 2026 and impose a 1.5% wealth tax on individuals with over \$1 billion in net worth and a 1% tax on those with assets exceeding \$50 million. The bill's goal is to tax under 0.1% of California households and generate \$21.6 billion in state revenue. The wealth tax would target overall wealth, which includes assets like stocks and real estate. Similar proposals have been pushed by Bernie Sanders and Elizabeth Warren but were never implemented. Alex Lee's California Wealth Tax proposition is facing significant opposition, including California Governor Gavin Newsom's reluctance to support it. The bill will have to receive a 2/3 majority vote to become law.

The bill is being proposed to help strengthen California's finances. The state is currently struggling with a projected \$22.5 billion budget deficit, as their current expenditures are larger than their revenues. Supporters argue that the revenue generated by the wealth tax would help fill this deficit and create more spending for the state's education system. Supporters of this bill mainly include economists in favor of progressive taxation, liberal advocacy groups, and teacher's unions. Although there are many who would support a wealth tax, there are also those who propose it, specifically wealthy individuals and corporations.

Republicans in the state of California argue that a wealth tax will cause a Wealth Flight, which is when wealthy individuals and businesses choose to leave the state to avoid higher taxation. If high-net worth individuals leave the state to avoid the wealth tax, the state would lose a significant portion of its tax revenue. This would further reduce funds for public services and increase California's already large budget deficit. Many wealthy individuals are also investors

and business owners within the state. Their departure could cause a negative economic impact through the depletion of jobs and market volatility.

Democrats believe that the wealth tax could help remedy the extreme income inequality in the state. The super-wealthy have access to sophisticated tax planning services that allow them to legally reduce their taxable income. Not to mention many wealthy individuals keep most of their wealth tied up as capital gains in stocks and real estate, which is often taxed at a lower rate than basic income. The wealth tax would ensure that the wealthiest individuals are contributing a fair share to taxes to support social programs and public services like education.

In conclusion, the proposed wealth tax in California aims at reducing wealth inequality and generating additional revenue for the state. Advocates believe that the revenue generated from this tax would help fund essential public services. They also argue that the tax would ensure the super-rich are contributing their fair share to the state's services. However, the proposal faces substantial challenges including a wealth flight, administrative enforcement, and market impacts. The ongoing debate about the state's wealth tax underscores the complex task of balancing progressive taxation with economic stability.

Sources:

“California Lawmaker Joins Other Blue States in Latest Attempt to Tax Rich People.” *Los Angeles Times*, Los Angeles Times, 19 Jan. 2023, www.latimes.com/california/story/2023-01-19/california-joins-other-blue-states-in-latest-attempt-to-tax-the-rich.