The Rise of State Wealth Taxes: What High-Net-Worth Individuals Need to Know

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What We'll Cover

- The current state of wealth tax proposals;
- Why states are pursuing these measures;
- The practical and constitutional challenges facing implantation; and
- Planning considerations worth evaluating now.

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Why States Are Considering Wealth Taxes

- **Revenue Generation:** States continue searching for stable revenue sources as spending obligations rise.
- **Wealth Concentration:** Policymakers increasingly focus on accumulated wealth rather than annual income.
- **Appreciated Assets:** Many ultra-high-net-worth households derive wealth growth primarily from appreciation rather than current taxable income.
- **Tax Fairness Initiatives:** Proponents frequently argue that existing systems under-tax significant concentrations of capital and push the tax burden onto less wealthy classes.
- **Central Policy Question:** Should tax systems focus solely on income, or should they periodically tax accumulated wealth itself?

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The Current Wealth Tax Landscape

- **California**
  - California voters will consider Proposition 40 (the Billionaire Tax Act) on November 3.
  - If approved, the measure would impose a one-time 5% tax on net worths exceeding $1 billion.
  - Tax would apply to individuals and certain trusts.
- **Minnesota**
  - HF4616, introduced in the 2026 legislative session, proposed an annual 1% tax on Minnesota-sitused wealth exceeding $10 million.
  - Tax would apply to individuals and Minnesota-resident trusts.
  - Bill is expected to reemerge in the 2027 legislative session.
- **Other States Considering Wealth Taxes:** Hawaii, Illinois, New York, Pennsylvania, Rhode Island

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How Wealth Taxes Would Work

- **Frequent Features**
  - Annual taxation of total net worth
  - High exemption thresholds
  - Flat tax rates
  - Broad inclusion of both individual and trust assets
- **Potentially Taxable Assets**
  - Public securities
  - Closely held businesses
  - Real estate
  - Partnership interests
  - Trust interests
  - Private equity and venture investments

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Wealth Tax Challenge #1: Valuation

- **Particularly Difficult Assets**
  - Family businesses
  - Commercial real estate
  - Private equity investments
  - Venture capital holdings
  - Family limited partnerships
  - Trust interests
- **Practical Consequences**
  - Annual appraisals
  - Increased compliance costs
  - Greater audit activity
  - Frequent valuation disputes

The fundamental problem: *How do you determine a taxpayer's wealth every year?*

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Wealth Tax Challenge #1: Liquidity & Administration

- **Asset-Rich, Cash-Poor**
  - Many taxpayers have substantial assets but little current liquidity.
  - Examples include family business owners, real estate investors, and private fund investors.
- **Administrative Challenges**
  - Implementing a wealth tax requires significant state enforcement resources.
  - Legal challenges may last years.

Central question: *Can a state efficiently administer a tax on complex, illiquid assets?*

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Wealth Tax Challenge #3: Legal Obstacles

- **Due Process:** Can a state tax wealth with only limited connections to that state?
- **Commerce Clause:** Does the proposal improperly impede interstate commerce?
- **State Constitutional Issues**: Many states have constitutional limitations on certain types of taxation.
- **Challenges to Enforcement:** Disputes around residency, asset valuation, control, etc., may significantly impede collection.

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Residency and Domicile: The Hidden Battleground

- **Why It Matters:** Most proposals focus primarily on state residents.
- **Areas of Increased Scrutiny**
  - Location of primary residence
  - Days spent in-state
  - Business activities
  - Family connections
  - Voting and licensing records
- **Highest-Risk Groups**
  - Multi-state families
  - Snowbirds
  - Family office principals
  - Recently relocated taxpayers

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What Should Individuals and Advisors Be Doing Today?

- **Individuals**
  - Review residency positions
  - Understand state tax exposure
  - Monitor legislative developments
- **Business Owners**
  - Evaluate valuation readiness
  - Review ownership structures
  - Assess long-term liquidity planning
- **Trustees and Other Advisors**
  - Review trust situs
  - Evaluate trustee location
  - Understand multi-state contacts

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What We Are Watching

- **Legislative Trends**
  - Upcoming election in California will be an important bellwether
  - Minnesota wealth tax proposal expected to return in 2027
  - Activity in other high-tax jurisdictions
- **Potential Alternatives to Wealth Taxes**
  - Capital gains surtaxes
  - Mark-to-market regimes
  - Enhanced trust taxation
  - Property taxes on vacation homes
  - New income tax brackets for higher earners

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Key Takeaways

- **Wealth taxes are no longer theoretical:** Several states have actively considered wealth-tax legislation or similar measures targeting accumulated wealth.
- **Implementation is far more difficult than policy design:** Valuation, liquidity, administration, and enforcement create substantial barriers.
- **Legal challenges remain significant:** Many proposals raise unresolved constitutional and jurisdictional questions.
- **Good planning remains the best response:** Families can evaluate ownership structures, trusts, valuation processes, and residency positions without making speculative changes.
- **Bottom Line:** The trend deserves attention even if no wealth-tax proposal ultimately becomes law.

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