



Vol. XX, No. 3

January 23, 2026

In This Issue

State Budget: Lawmakers Suggest Unspecified Tax Hikes During First Budget Hearings

1

Ballot Measure Update: Poll Finds Lackluster Support for Wealth Tax Initiative

3

CalTax Commentary: California Voters Approve New Taxes, But at What Cost?

4

Courts: 'Pay First' Rule Shoots Down Suit Alleging Transfer of Appeal to OTA Violated Rights, Court of Appeal Rules

6

California's Competitiveness: Crypto Startup Moves Headquarters From Palo Alto to South Dakota as CEO Criticizes Wealth Tax

7

New Legislation: Recently Introduced Legislation of Interest

7

Waste, Fraud & Mismanagement: Office Created in 2024 to Investigate Jail Deaths Hasn't Done So

8

Potpourri: Newsom Calls Election to Fill Congressional Vacancy

8

Tax Trivia: Which Governor Used CalTax Speech to Promote State Budget Reserve?

9

Blast From the Past: Taxpayers' Movement Sweeps the Nation in 1926

9

Coming Up: CalTax Foundation Hosts Webinar on Wealth Tax

10

State Budget:

Lawmakers Suggest Unspecified Tax Hikes During First Budget Hearings

During the Legislature's first budget hearings of the year, several state senators alluded to a desire to raise taxes to address the state's structural budget deficit. No concrete proposals were made, but the lawmakers indicated that a variety of taxes could be under consideration.

The Assembly Budget Committee kicked off the Legislature's portion of the annual state budget process January 20 with a two-hour hearing, and the Senate Budget and Fiscal Review Committee held a similar hearing the next day.

Both forums featured presentations by Department of Finance Chief Deputy Director Erika Li, who briefed legislators on the \$348.9 billion budget proposed by Newsom earlier this month, and Legislative Analyst Gabe Petek, who warned lawmakers that the governor's plan does not adequately account for risks facing the stock market.

During the portions of the hearings set aside for lawmakers to ask questions and make comments, several senators discussed "raising revenue," often in the context of their opposition to spending reductions.

Senator Jerry McNerney, who chairs the Senate Revenue and Taxation Committee, noted that the budget's reliance on personal income tax revenue leads to volatility.

"I think it's time for a statewide discussion about how to even out this volatility, even though those are difficult conversations – it's been noted, it's been tried before,"

David Kline, Editor

California Taxpayers Association

1201 K Street, Suite 1600, Sacramento, CA 95814

McNerney said. He added that his committee will hold “oversight hearings about how we can find solutions to that problem.”

While the senator did not specify the changes he envisions, a sales tax on services has long been described by supporters as a way to address volatility, and is often paired with an acknowledgment that past attempts – including several by then Senator Robert Hertzberg, who chaired the Senate’s tax policy committee – failed due to strong public opposition.

Senator Maria Elena Durazo, a Democrat from Los Angeles, told the Department of Finance staff that she wants to “hear about options – and one of those is to generate revenue.” She suggested the possibility of imposing a tax of “tens of billions of dollars” on large California employers if they have employees enrolled in the Medi-Cal program.

Senator Caroline Menjivar, a Democrat from Van Nuys, said: “I’m disappointed that there’s no proposal to change how our revenues come in. We can’t just cut our way out of it. I think there should be a mixture of cuts, being strategic with how we use our dollars, but also looking to change our revenue streams.”

Menjivar made the comment after referring to one of Newsom’s healthcare proposals as “barbaric” and stating that she is strongly opposed to receiving last-minute proposals from the governor during this year’s budget negotiations – a sentiment that was echoed by several lawmakers from both parties and both houses.

Senator Laura Richardson, a Democrat from Torrance, urged the Legislature to address “some agencies that have bloated,” and added that “revenue options” also should be considered.

“I’m not saying I necessarily support revenue options that may come forward – I may or I may not,” Richardson said. “But to not have any of that ... in the budget, I think really is derelict of duty. ... So I would hope, come May ... there has to be a discussion of what other options there might be, particularly regarding revenue.”

In the lower house, Assembly Member Alex Lee, who has carried past legislation calling for a wealth tax, used the budget hearing as an opportunity to renew his claim that billionaires are not “paying their fair share” of taxes. Li told both committees that the governor’s budget is based on an estimated revenue increase of \$42.3 billion over three years. Still, the state faces a \$2.9 billion deficit in 2026-27, she said.

Li called the governor’s plan a “workload budget” that sticks to the status quo. She said any major changes in spending or revenue will wait until the May revision, which the administration is statutorily required to present to the Legislature by May 14.

“Why are we analyzing a budget that isn’t complete?” Republican Senator Roger Niello of Roseville, vice chair of the Senate committee, asked. “That is, I have to say, a little bit frustrating.”

Several issues came up repeatedly during the budget hearings: the impact of federal changes on California hospital funding and the managed care organization (MCO) tax; the ongoing failure of the state to repay the federal loan to the unemployment insurance fund, and the ensuing tax increase on employers and interest payments of more than \$660 million per year; Newsom’s lack of funding to specifically support the retail theft and drug diversion provisions of voter-approved Proposition 36; and the need for maintenance and improvements at many county courthouses.

Petek warned of “considerable downside risk to [the governor’s] revenue estimates,” leaving Newsom’s plan “precariously balanced” even as the state experiences major growth in revenue. Market indicators suggest that California may be “due

for a market downturn at some point in the next year or so," Petek added, especially in the area of stocks relating to artificial intelligence.

Noting that the structural deficit grew at the same time revenue increased, Niello added: "I don't think that's ever happened before. Maybe it has, but it is certainly rare, and I believe that is truly alarming."

Li and Petek agreed that persistent structural deficits are projected to extend into future years. Petek urged the Legislature to "adopt or use the lower revenues" and begin addressing long-term imbalances immediately rather than wait, noting that "it would be very difficult if you waited and tried to address a large 20 or larger budget deficit all at once."

Li said the administration hopes to begin working with the legislative leaders prior to the May revision, rather than "pop something in the May revision and give the Legislature four weeks to look at something."

Laird said the Legislature is eager to have those discussions "and not feel like we're jammed at the end."

Similarly, Assembly Budget Committee Chair Jesse Gabriel urged the administration to communicate with lawmakers "to avoid surprises in the May revision."

Numerous other lawmakers made similar comments, and some voiced outright distrust of the administration's negotiating tactics.

Senator Eloise Gomez Reyes, a Democrat from San Bernardino, said her past experience in the Assembly leads her to believe that lawmakers don't always get "straight answers" from the administration's representatives during budget hearings, even when questions are provided in advance.

Senator Christopher Cabaldon, a Democrat from Davis, suggested that the Legislature simultaneously prepare two budgets – one based on the administration's projections and the other on the legislative analyst's – so it will be ready for either circumstance.

"We have a cost disease problem in state government that we have to tackle," Cabaldon added. "We are spending too much to deliver too little, in terms of the efficiency and effectiveness of our services."

"The notion that we might do two budgets is not what I signed up for," Laird quipped.

Ballot Measure Update:

Poll Finds Lackluster Support for Wealth Tax Initiative

The proposed wealth tax initiative is supported by 48 percent of the voters who hear the measure's official title and summary, dropping to 46 percent after they hear positive and negative information about the proposal, according to a poll released January 20.

The proposal, currently in the signature-gathering phase for possible qualification for the November ballot, would impose a one-time 5 percent tax on the total wealth of people with net assets of \$1 billion or more who were California residents as of January 1.

Based only on the official title and summary, the tax initiative starts with 48 percent in support, 38 percent opposed, and 14 percent undecided. After the survey respondents listened to pro and con arguments, support dropped to 46 percent and opposition increased to 44 percent.

Voters expressed concern that the measure might hurt the state's economy and potentially cost jobs, the pollster said.

The poll was conducted from January 6 to January 12 by the Mellman Group and was paid for by opponents of the measure. The survey included responses from 800 voters representing the likely November electorate in California.

Mellman noted that ballot initiatives that start below 50 percent typically do not succeed.

CalTax Commentary:

California Voters Approve New Taxes, But at What Cost?



By CalTax Research Fellow Caitlin Herring

With 2026 now well under way, here's what's new in your wallet – or what's missing from it.

Despite California's already stratospheric cost of living, localities across the state decided that November 2025 was the perfect time to ask voters for even more – and that's just the tip of the iceberg.

The results of California's November 4 special election, certified in December, show that in addition to approving the state redistricting measure, voters approved nine of 14 local tax and bond measures, increasing local taxes an estimated \$351.1 million per year.

These measures, ranging from parcel taxes for road maintenance to significant sales tax increases, were approved even as the state grapples with some of the highest living costs in the nation.

The biggest tax increase was in Santa Clara County, where Measure A, a 0.625 percent sales tax increase – projected to cost taxpayers \$330 million annually – passed with approximately 57 percent of the voters in support. County officials estimate that the average household will pay an additional \$82 per year, though the actual effect will vary based on individual spending.

It is well-documented that the sales tax is a regressive tax – one that has the largest impact on those with lower incomes – so the affordability problem is especially relevant when it comes to this form of taxation.

Notably, 531,513 Santa Clara County residents cast a vote for or against Measure A, compared to 463,061 who voted in the county assessor race on the same ballot. This suggests that direct tax measures continue to be very important to Californians, as numerous public opinion polls also remind us.

Proponents argue that tax increases address genuine funding gaps – Measure A, for instance, was described as being needed to support public hospitals and essential services that otherwise would face cuts. In El Dorado County, voters approved parcel taxes specifically for road maintenance, with proponents arguing that more revenue is needed to respond to years of deferred infrastructure repairs.

But here's the uncomfortable truth: California is layering new taxes onto an already strained population. The state consistently ranks among the most expensive places to live in the United States, with median home prices exceeding \$800,000 and our income, sales, and property taxes are among the highest nationwide. Each new levy, however well-intentioned, tightens the vise on working families already struggling with mortgages, rent, childcare, groceries, college tuition, and more.

Several measures that required a two-thirds vote – a critical taxpayer protection that prevents narrow majorities from imposing significant, long-lasting financial obligations – were not approved. This threshold exists precisely to ensure broad consensus for new taxes, particularly those earmarked for specific purposes, but too many local officials and special interests will respond to the failure of their measures by trying to get around the two-thirds safeguard rather than trying to build consensus.

There will be many more local tax measures on the ballot this year, to put it mildly. Gubernatorial elections typically draw more voters to the polls, and local governments flood the general election ballot with hundreds of sales taxes, parcel taxes, hotel taxes, business taxes, and bonds that come with property tax increases. Already, groups in Los Angeles have proposed a sales tax increase that would hit all residents and a new tax targeted at the city's largest employers – both surefire ways to incentivize more businesses to leave Los Angeles for parts of the country where operating costs are much lower.

Often, the local tax hikes are described as necessary to fund core services, raising the question of why the local government isn't fully funding them already, rather than spending tax dollars on lower priorities while letting important services languish.

As we get closer to November, expect renewed debates over fiscal sustainability and whether California's high-tax model can survive an affordability crisis that continues to drive residents, jobs, and investments to other states – including the eight states that lowered their personal income tax rates and four states that reduced their corporate income tax rates effective New Year's Day.

The question California must confront isn't whether government services are necessary. It's whether the state's tax-and-spend approach is sustainable alongside policies that have made housing and everyday expenses prohibitively unaffordable for many residents.

When voters are asked to add to their tax burden this year, they should ask some questions of their own, including where the existing tax dollars are going, what steps are being taken to increase efficiency at all levels of government, and how many people will be priced out of California if taxes increase year after year, and never go in the other direction?

Courts:

'Pay First' Rule Shoots Down Suit Alleging Transfer of Appeal to OTA Violated Rights, Court of Appeal Rules

A company didn't meet the "pay first, litigate later" requirement when it paid a disputed sales tax liability one year *after* filing suit, and therefore cannot pursue allegations that the state violated its due process rights by transferring its appeal to a new entity six years into the process, the First District Court of Appeal ruled January 16 ([*Yogurt Time LLC v. Office of Tax Appeals*](#)).

The underlying dispute involved a state audit that concluded the owner of four frozen-yogurt shops had not accurately accounted for the percentage of "to go" sales during a period from 2008 to 2011, resulting in underreported taxable sales. At the time the audit was conducted and the ensuing tax determination was appealed, sales tax administration and appeals were under the jurisdiction of the State Board of Equalization, and a BOE hearing originally was scheduled for April 2015.

The dispute dragged on and numerous delays occurred, and during the delay, California dramatically altered its tax structure by creating the California Department of Tax and Fee Administration to administer the sales tax and other taxes, and the Office of Tax Appeals to decide disputes beginning January 2018 – at which time the appeal was transferred to the new office.

In January 2023, the OTA ruled largely in favor of the CDTFA, but granted some interest relief after finding that the agency took an unreasonable amount of time (nine months) to complete and issue a five-page summary analysis. The OTA additionally noted that the sales tax administration agency took approximately one year to reschedule a BOE oral hearing that had been scheduled for December 2016, rather than the 90 days the agency said it should take.

Yogurt Time petitioned for a rehearing, arguing, among other things, that transferring the appeal to the OTA violated the right to due process. The transfer essentially dismissed six years of work done during the BOE appeal, the taxpayer argued, and started a completely new process, while the CDTFA continued to add interest to the tax liability.

In June 2023, the OTA rejected the taxpayer's petition for a rehearing, ruling that the "actual or perceived violation of a constitutional right is not a basis for granting a rehearing" because the OTA didn't have jurisdiction to decide constitutional issues in the first place.

After the two losses before the OTA, the taxpayer sued in San Francisco County Superior Court. In September 2024, roughly a year after filing suit, Yogurt Time paid the disputed tax.

The trial court did not reach the merits of the case, but dismissed the suit because the taxpayer did not pay before filing suit. Additionally, the court rejected the taxpayer's request to amend the suit to argue that since the tax was paid prior to the court's ruling, the California Constitution's "pay first" requirement was satisfied.

The Court of Appeal affirmed the trial court's ruling, finding that the longstanding "pay first" rule truly means pay *first*, and concluding that the taxpayer couldn't possibly have amended the suit to cure that defect.

"Because Yogurt Time has not persuaded us that the relief sought in this lawsuit is not barred by California Constitution, article XIII, section 32, we need not address whether dismissal was also justified by appellant's failure to exhaust administrative remedies," the appellate court added.

California's Competitiveness:

Crypto Startup Moves Headquarters From Palo Alto to South Dakota as CEO Criticizes Wealth Tax

BitGo, a crypto firm recently valued at \$1.96 billion, moved its headquarters from Palo Alto to Sioux Falls, South Dakota, and the chief executive officer indicated that the proposed wealth tax initiative was a factor.

The *Los Angeles Times* reported January 21 that the company, founded in 2013, has been operating in Sioux Falls since moving its corporate headquarters in December.

"The startup is known as a custodian for digital assets; it provides cryptocurrency wallets for institutions and helps them stay secure, insured and compliant with financial regulations," the *San Francisco Chronicle* [reported January 14](#).

BitGo, which has 566 workers worldwide, said it will keep its Palo Alto location, as well as its offices in San Francisco, New York, Canada, India, Germany, Singapore, South Korea and Dubai.

Chief Executive Officer Mike Belshe "has repeatedly derided Gov. Gavin Newsom's leadership and, more recently, proposals for a billionaire wealth tax," the *Chronicle* reported.

In a social media post about the wealth tax initiative, Belshe wrote: "Who in their right mind would found a new business in California if California does this?"

New Legislation:

Recently Introduced Legislation of Interest

Tax Credit for Homeless Encampment Cleanup Expenses. [AB 1606](#) (Nguyen) provides a tax credit for "qualified cleanup expenses" – defined as "costs directly related to the one-time removal and disposal of unauthorized encampments, illegal dumping, and abandoned property," until January 1, 2032. Vote: Majority.

Limitations on Non-Recognition of Gains. [AB 1611](#) (Haney) prohibits the non-recognition of gains for taxpayers who exchange single-family residential rental properties if they own 50 or more residential rental properties in California, for exchanges completed on or after January 1, 2026. Vote: Two-Thirds (Tax Increase).

PIT Deduction for Homeowners. [AB 1620](#) (Sanchez) authorizes a personal income tax deduction for the amount paid as a premium on a home insurance policy for the taxpayer's primary residence, for tax years 2026 through 2030. Vote: Majority.

Waste, Fraud & Mismanagement:

Office Created in 2024 to Investigate Jail Deaths Hasn't Done So

"A state office created in 2024 to scrutinize local investigations into jail deaths has yet to complete a single review of the more than 150 people who have died in custody in California's county jails over the past year-and-a-half," the *Los Angeles Daily News* [reported January 19](#).

The newspaper said the office "hasn't received the records needed to fully analyze the deaths, according to the Board of State and Community Corrections, a regulatory body appointed by the governor to oversee the state's jails and juvenile halls."

The In-Custody Death Review Division was created within the BSCC as a result of [SB 519](#) (Atkins), signed into law in October 2023.

When SB 519 was making its way through the Legislature, the Assembly Appropriations Committee reported that the legislation was estimated to cost "approximately \$15.2 million annually to fund the appointed Local Detention Facility Monitor and 57 full-time equivalent staff members, including a supervisory physician, nurse consultants, registered nurses, health program managers, field representatives, and analysts."

"[T]he new law's limitations quickly became apparent once the division began collecting data on deaths that occurred after its formation in July 2024," the *Daily News* reported. "The initial information submitted by counties lacked sufficient detail, with the majority of the means and manners of death listed as 'pending investigation.' Such internal investigations can take months – sometimes even years – to complete."

A spokesperson for the new entity told the newspaper that the counties made it "clear they would not send nonpublic information," and the investigatory board has "yet to receive a completed investigation for an in-custody death in a local detention facility."

Potpourri:

Newsom Calls Election to Fill Congressional Vacancy

Governor Gavin Newsom has scheduled a June 2 special election to fill the congressional vacancy left by the recent death of Representative Doug LaMalfa, followed by an August 4 runoff if no candidate receives more than 50 percent of the vote in June.

The June election date coincides with the scheduled primary for governor, state legislative races, and other state positions.

Assembly Member James Gallagher, a farmer and lawyer from Sutter County, announced that he is running to fill the remaining time in LaMalfa's term, with the endorsement of LaMalfa's family. Democrat Audrey Denney, who describes herself as an educator and nonprofit leader, also announced her candidacy.

The geographically large district covers the northeastern part of the state.

The June election will use the district's current congressional map. A candidate who receives more than half the vote would immediately take office in this district.

However, the June primary also will include a separate election using the new district lines approved by voters in Proposition 50. That will be followed by a November general election between the top two vote-getters for the new term that will begin during the first week of 2027.

Gallagher, who said he isn't sure if he will run for the full term in the new district, criticized Newsom for calling the election for the latest possible day he could, rather than the earliest possible day, March 31. This will leave the district without a representative for two more months than necessary, Gallagher said.

Tax Trivia:

Which Governor Used CalTax Speech to Promote State Budget Reserve?

Which California governor used a speech at a CalTax Annual Meeting to unveil a proposal for the state to establish a reserve fund to hold a large revenue surplus and prepare for economic downturns – what he later described as a “rainy day fund” and touted as a major accomplishment of his time in office?

- a. James “Sunny Jim” Rolph.
- b. Frank Merriam.
- c. Earl Warren.
- d. Ronald Reagan.
- e. Pete Wilson.
- f. Arnold Schwarzenegger.
- g. Gavin Newsom.

(Answer on the last page.)

Blast From the Past:

Taxpayers' Movement Sweeps the Nation in 1926

“The taxpayers' movement has swept the continent from ocean to ocean. One result has been the development of [the] California Taxpayers' Association, a statewide organization, which rigidly adheres to a non-political policy The state association and the [Western States Taxpayers' Conference] have no panacea, no cureall, no patent process of reducing taxes. ... They propose that there be a concerted effort to eliminate waste and extravagance and to insist that, before public enterprises are launched, there be a sane preliminary investigation and inquiry for the best economies Every family is vitally concerned, for every family must take from its income or resources its share of the tax money that is spent.”

— Column by John Lathrop, editor of *The Tax Digest, San Francisco Bulletin*, September 14, 1926.

Coming Up:

CalTax Foundation Hosts Webinar on Wealth Tax

Tuesday, January 27

CALIFORNIA TAX FOUNDATION WEBINAR ON WEALTH TAX INITIATIVE

Log-in information provided upon [registration](#), 9 a.m. (Pacific)

Subject: In the first webinar of the California Tax Foundation's 2026 series, experts dissect the legal vulnerabilities, constitutional challenges, and economic implications of Initiative 25-0024A1, the "2026 Billionaire Tax Act." The panelists are Jared Walczak (senior fellow, Tax Foundation), Joe Bishop-Henchman (executive vice president, National Taxpayers Union), and San Jose State University Tax Law Professor Annette Nellen, with moderator Caitlin Herring (CalTax Research Fellow). MCLE and/or CPE credits are available. Click [here](#) to register.

Tax Trivia Answer: c. Governor Earl Warren, who delivered the speech February 19, 1943, during CalTax's 17th Annual Meeting at the Biltmore Hotel in Los Angeles. Warren is one of six sitting governors to speak at a CalTax Annual Meeting. The others are Governors James Rolph (Sixth Annual Meeting, 1932), Frank Merriam (1935 and 1937), Ronald Reagan (closing dinner of the 42nd Annual Meeting, 1968), George Deukmejian (1984 and 1989), Pete Wilson (1991, 1992, 1995, and 1997, and as former governor at the 90th Annual Meeting in 2016).

CONTACT US

Robert Gutierrez

President and CEO

David Kline

Vice President of
Communications and Research

Peter Blocker

Vice President of Policy

Joan Armenta-Roberts

Sales Tax Consultant

Caitlin Herring

Research Fellow

Jeissy Lee

Policy Analyst

Krissy Looney

Office Manager / Assistant Bookkeeper