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SOPHISTICATED BOUTIQUE TAX ADVISORY

CLIENT ALERT | WEALTH TAX WATCH | SEPTEMBER 2026

The Closed-System Fallacy

Wealth taxes, taxpayer mobility, and the case for vigilance

WEALTH TAX · MOBILITY · POLICY WATCH

By Carlos Schmidt | La Presa Partners LLC | September 22, 2026

WHY YOU SHOULD READ THIS

Two developments frame this month. Bloomberg Law reported on September 21 that HMRC has put a named compliance manager on every billionaire it has identified with a UK tax connection, filer or not. And on November 3, Californians vote on Proposition 40, a one-time 5% tax on the taxable net worth of roughly 200 residents, keyed to where they lived on January 1, 2026, a date already behind us.

This piece sets those events beside the mobility data, with the labels the data actually carry, and asks one question: how should a revenue estimate, or a client, price the fact that residence is a choice? It closes where our clients' interest lies, in understanding proposals early and taking part in the debate. Read it before November 3.

A wealth tax's revenue estimate rests on an assumption about behavior: how many of the people it targets will stay, and what they will do with their assets if they don't. The question is how well revenue estimates account for changes in taxpayer behavior. Official estimators build such changes in; the interesting differences lie in how.[1]

Two developments this month put the assumption on display, one in each direction. In London the state is widening its oversight of obligations that already exist. In Sacramento voters are being offered a new one. They are different policy choices and deserve separate judgment; both arrive against the same backdrop of rising populism and a widening sense that the rules are not the same for everyone.

Our thesis is modest. Mobility is a real policy consideration, but the statistics do not show wealthy people fleeing in response to these measures. What the statistics do show is that residence, timing, asset location, and legal status all move the answer, and that the reference dates in a proposal deserve attention while it is still a proposal. Read the dates before the rates.

EXECUTIVE SUMMARY

- **HMRC has widened its list.** Every billionaire HMRC has identified with a UK tax connection now has a named compliance manager, filer or not. HMRC will publish the headcount in a wealthy compliance plan later this year (§01).

[1] Unless otherwise stated, "§" refers to a section of the Internal Revenue Code of 1986, as amended (the "Code"), and "Treas. Reg." to the Treasury regulations thereunder, each as in effect on September 22, 2026. UK references are to HM Revenue & Customs guidance and statistics as published on the dates cited.

- **Prop 40 is keyed to the past.** Residency is fixed as of January 1, 2026; taxable net worth is measured on December 31, 2026. A resident who left in the spring remains in scope, subject to thresholds and apportionment (§02).
- **The base is defined, not "everything."** 5% of taxable net worth after a phase-in from $1.0 billion to $1.1 billion; directly held real property, pensions and retirement accounts, Roth accounts up to $10 million, and an aggregate $5 million of "all other assets" are excluded (§02).
- **The LAO's arithmetic cuts both ways.** Tens of billions of dollars of one-time revenue over several years, against a possible ongoing loss of under $1 billion a year in income tax as billionaires respond (§02).
- **U.S. expatriation listings are at a six-year high.** 5,790 names in four quarters by Greenback's tally; 1,781 in the June 2026 quarter, up 68.5%. The list records reporting, not departure, and says nothing about motive (§03).
- **The UK number you have heard is the wrong one.** HMRC counts about 9,000 outflows from the non-dom population in 2024–25, down from 11,200, in a year that ended before the reform took effect. Henley's 16,500 projection rests on a disputed methodology (§03).
- **Estimators already price the doors.** The LAO, Hoover, and the OBR all build behavior into their numbers; the question is how, not whether (§04).
- **The politics do not follow the usual lines.** A union sponsored Prop 40; a teachers' union opposes it; Sergey Brin has given $102 million to the opposition (§05).

01 LONDON: THE WIDER LIST

Bloomberg Law reported on September 21 that HM Revenue & Customs has assigned a personal compliance manager to every billionaire within its reach. The managers are not the news. HMRC says it has used dedicated customer compliance managers for wealthy individuals for several years. What changed is the population: HMRC has refreshed its list of billionaires to include everyone it has identified with a UK tax connection, not only those who file a UK personal return. The expansion was foreshadowed in HM Treasury's September 2025 Treasury Minutes, which responded to a Public Accounts Committee finding that HMRC did not know how many billionaires paid tax in the UK.

HMRC declined to say how many people it has identified, promising the figure in a wealthy compliance plan later this year. Practitioners already feel it. "We are already seeing clients being contacted directly, as well as through their registered agents, with significant requests for information," Charlie Sosna, head of private wealth and tax at Mishcon de Reya, told Bloomberg. "This looks to be part of a broader move towards greater scrutiny of the affairs of the very wealthy."

Two points of precision. First, a "UK tax connection" is HMRC's description of the population it is overseeing. It is not a new residence test, taxing power, or exit charge; whatever HMRC asks about must rest on obligations that already exist under UK law. Second, the program reaches identified billionaires, not everyone with a UK link. Departure does not extinguish an existing liability; a named compliance manager coordinates HMRC's oversight of it.

02 SACRAMENTO: THE DATES MATTER MORE THAN THE RATE

On November 3, California voters decide Proposition 40, the 2026 Billionaire Tax Act. Sponsored by SEIU United Healthcare Workers West and drafted by tax law professors, it would impose a one-time excise tax "on the activity of sustaining excessive accumulations of wealth" by California residents with taxable net worth of $1 billion or more, and on applicable trusts. The mechanics are worth a table.

FEATURE	PROP 40 AS DRAFTED
Rate and base	5% of taxable net worth as defined in proposed RTC §§50301–50303; phase-in from 0% at $1.0 billion to 5% at $1.1 billion; married couple treated as one taxpayer
Exclusions	Directly held real property; traditional pensions and retirement accounts; Roth accounts up to $10 million; an aggregate $5 million exclusion for the residual “all other assets” category (art, vehicles, personal property)
Residency test	California resident on January 1, 2026 (the “tax obligation date”); later departure does not by itself remove the taxpayer from scope, subject to thresholds and apportionment (§50306)
Valuation date	December 31, 2026; specified transfers after October 15, 2025 above $1 million may be added back (§50303)
Payment	Due with 2026 returns in 2027, in full or in five annual installments with a 7.5% yearly charge; illiquid assets may be pledged to the state under a contract that survives departure
Revenue (LAO)	Temporary increase of tens of billions of dollars over several years; possible ongoing decrease of less than $1 billion a year in income tax
Litigation	Validation proceedings may be brought in Sacramento County Superior Court within 60 days of the election, with appeal directly to the California Supreme Court (§50314)
Competing measures	Propositions 41 and 42 could block Prop 40 if either is approved, receives more yes votes, and is found to conflict

Exhibit 1. Proposition 40 mechanics. Sources: text of proposed law and Legislative Analyst's analysis, California Secretary of State voter guide; Hoover Institution; Holland & Knight. Figures are as drafted and subject to regulation and litigation.

Two dates do the work. Residency on January 1, 2026 fixes who is in; taxable net worth on December 31, 2026 fixes how much. The first date is already past, so a billionaire who moved to Texas in March remains in scope if voters approve the measure, subject to the thresholds and the apportionment rules in §50306. The second date is still ahead, which is why the addback exists: it limits the effect of large year-end transfers, though only those above the $1 million threshold for specified transfers.

The fiscal case is contested on its own terms. The measure's findings count about 200 billionaires with roughly $2 trillion of combined wealth. The Legislative Analyst estimates a temporary revenue increase of tens of billions of dollars over several years, warns that when and how much is very hard to predict, and flags a possible ongoing income tax loss of under $1 billion a year as billionaires respond. Hoover's Proposition Lab, treating the lost income tax as a growing perpetuity and assuming departures occur, puts the long-run result at a net loss of $25 billion “at best.” The estimates differ in method and assumptions, including how future income tax losses are valued; they are not directly comparable.

03 THE MOBILITY NUMBERS, WITH LABELS

The question is how well revenue estimates account for changes in taxpayer behavior. Here is what the exit data show, and what they do not.

MEASURE	FIGURE	SOURCE
Names on U.S. expatriation list, four quarters to June 30, 2026	5,790, per Greenback's tally (highest since 2020)	91 FR 46535 (July 23, 2026), via Greenback/Newsweek
April–June 2026 quarter	1,781, up 68.5% year on year	Same
First half 2026	3,243, up 38.5%	Same

MEASURE	FIGURE	SOURCE
Fee to renounce U.S. citizenship, from April 13, 2026	$450, down from $2,350	State Dept., FR Doc. 2026-04931
Outflows from UK non-dom taxpayer population, 2024–25 (pre-reform)	About 9,000, down from 11,200	HMRC
Inflows to that population, 2024–25	About 8,600, down from 10,000	HMRC
Non-dom and deemed-dom tax and NIC liabilities, 2024–25	£13.6 billion, up 9%	HMRC
Henley projection, UK net millionaire outflow 2025	16,500 (methodology disputed)	Henley & Partners; Tax Policy Associates

Exhibit 2. Exit indicators, United States and United Kingdom. The Federal Register list counts citizens and long-term residents whose loss of status was reported to Treasury during the quarter; it reflects reporting dates, not departure dates, and does not identify motive. Greenback's four-quarter tally has not been independently re-counted for this alert.

Read the labels. The U.S. list under §6039G records when Treasury received the information, not when anyone left, and it mixes citizens with long-term green card holders. It cannot tell you why a name is on it. The State Department's fee cut in March returned the charge to the $450 it set in 2010; whether that explains the second-quarter jump requires separate analysis, and the list does not reveal motives.

HMRC's figures describe movement into and out of the non-dom taxpayer population, which is not the same as physical departure from the UK. Both outflows and inflows fell in 2024–25, and the year ended before the April 2025 reform took effect, so these numbers are a baseline, not a verdict. The 9% rise in liabilities covers non-domiciled and deemed-domiciled taxpayers combined, and comes with HMRC's own caveat about the timing of capital gains; it says nothing about who left or what they paid.

The Henley figure is the one everyone quotes. Tax Policy Associates reviewed the methodology and found no statistical controls; Henley's 2026 report, published without its former data partner, carries no migration figures at all. Treat 16,500 as a mood, not a measurement. The mood is real, and it is part of the politics.

04 THE CLOSED-SYSTEM FALLACY

The closed-system fallacy is not a claim that wealth taxes assume nobody moves; estimators know better. The LAO's income tax caveat, Hoover's perpetuity, and the OBR's non-dom costings all build behavior into the number. The fallacy is the habit, common in public debate, of treating the behavioral assumption as a footnote rather than the whole estimate.

Legislators price it too. California fixed residency to a date ten months before the vote. The UK replaced domicile with a residence test on April 6, 2025. The United States has long treated expatriation as a defined tax event: §877A treats a covered expatriate's property as sold at fair market value the day before the expatriation date, with separate rules for deferred compensation, specified tax-deferred accounts, and interests in nongrantor trusts.[2] Moving abroad is not expatriation, and expatriation is not a synonym for tax freedom.

Reference dates, valuation dates, and look-backs decide who is in and how much. They are easiest to understand while a proposal is still a proposal.

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[2] §877A(a) treats all property of a covered expatriate as sold for fair market value on the day before the expatriation date, with gain recognized above an inflation-indexed exclusion of $910,000 for 2026 (Rev. Proc. 2025-32, §3.38). Separate rules apply to deferred compensation, specified tax-deferred accounts, and interests in nongrantor trusts (§877A(c)–(f)). Subject to statutory exceptions, a covered expatriate is one who, on the expatriation date, meets the net worth test ($2 million, not indexed) or the average annual net income tax test (average net income tax liability for the five preceding tax years above $211,000 for 2026, Rev. Proc. 2025-32, §3.37), or who fails to certify five years of federal tax compliance (§877(a)(2); Notice 2009-85; Instructions for Form 8854). The deemed-sale date, the net worth test, and the certification are distinct requirements measured at distinct times. Relocation abroad is not, by itself, tax expatriation.

The tests differ by regime and by person. A California resident on January 1, 2026 should understand the thresholds and apportionment rules. A U.S. person weighing expatriation should understand that the covered-expatriate tests, the deemed-sale date, and the five-year certification are three different things. Nobody's deadline is everybody's deadline.

What separates a good projection from a bad one is not whether it assumes mobility but how it prices it. Residence, timing, asset location, and legal status all move the answer, for the state and for the taxpayer. That is the practical lesson, and it is a modest one: know the dates, know the tests that apply to you, and do the arithmetic before someone else does it for you.

05 THE POLITICS DO NOT FOLLOW THE USUAL LINES

It would be convenient to file all this under left versus right. The record will not cooperate. SEIU-UHW sponsored Proposition 40. By August 11, Sergey Brin had given $102 million to Building a Better California, the committee opposing it. In June the California Teachers Association, Planned Parenthood, and the California Medical Association came out against the measure too; Planned Parenthood and the CMA called it a “flawed response” to health care cuts. When a teachers' union and a Google founder land on the same side, something more than tax policy is in play. Prop 40 also shares the November 3 ballot with the midterm elections, which guarantees it more airtime than any valuation methodology has ever enjoyed.

The ballot asks voters whether the system is fair. Their answer will not turn on discounts for lack of marketability. It will turn on whether they believe the rules are the same for everyone. Criticism of international financial centers and low-tax jurisdictions belongs to the same debate. Lawful structures are not suspect because they are efficient; they become symbols when the public suspects the rules offer different opportunities to different people. Bloomberg's August report that more than $1 trillion sits in “tax alpha” strategies will be read that way by some voters whatever the legal merits of any given implementation. Compliance is necessary. It is not, on its own, persuasive.

AI sharpens the mood. IMF Managing Director Kristalina Georgieva wrote in January 2024 that “in most scenarios, AI will likely worsen overall inequality, a troubling trend that policymakers must proactively address to prevent the technology from further stoking social tensions.” In June 2026, in a Bloomberg interview, she warned that policymakers had underestimated the backlash against globalization and should avoid repeating that mistake with AI. Our reading, and it is an interpretation rather than a finding, is that anxiety about jobs, skills, and who captures the gains makes simple answers attractive. “Tax the billionaires” is a simple answer. Valuing a private company, funding a levy from an illiquid stake, and predicting who leaves are not.

WHAT WE WOULD WATCH NEXT

- **November 3, 2026.** Prop 40 and the competing Props 41 and 42. Watch the result, the competing measures, and any validation proceedings brought under the measure's 60-day challenge provision.
- **HMRC's wealthy compliance plan, late 2026.** The billionaire headcount and how HMRC describes the population it is overseeing.
- **The next Federal Register lists.** Further releases may clarify the trend; the effect of the fee reduction requires separate analysis, and the lists do not reveal individual motives.
- **HMRC's 2025–26 non-dom statistics, summer 2027.** The first year under the residence test; the government says it cannot estimate departures accurately until then.
- **Copycat measures.** Washington, Massachusetts, and New York have all seen wealth tax proposals since 2023. A California yes changes the arithmetic for each.

OUR TAKE

Enforcing existing law and inventing a new base are different acts, and we would not lump them together. But they answer the same anxiety, and clients who treat one as a technical nuisance and the other as a political curiosity will misread both.

On the numbers, mobility is a real consideration, and the official data are enough to say so without leaning on contested projections or on causes the data cannot show. On the law, the interesting development is not the rate; it is the reference date. A one-time tax keyed to a past date, a widened oversight list, and a defined expatriation event are three ways of pricing the same behavior. The client who understands the dates early has choices to consider. The client who learns them late has fewer.

On the politics, we would counsel engagement over indignation. Trade associations, public consultations, and conversations with elected representatives all count, and the persuasive voice concedes the fairness concern first and explains the arithmetic second. The market is asking whether the wealthy will leave. The harder question, and the one voters are actually answering, is whether they should have to.

Curious times call for vigilance. The same ballot that decides Proposition 40 will decide who gets to write the sequel. We will keep watching, calendar open and reference dates circled.

SELECTED RESEARCH AND PRIMARY AUTHORITIES

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HM Treasury, Treasury Minutes, CP 1404, September 2025, paras. 3.3–3.4, p. 32 (identified billionaires, anticipated assignments, data sources).

UK Parliament, Public Accounts Committee, “Taxing the Wealthy: HMRC Does Not Know How Many Billionaires Pay Tax in the UK,” 2025.

California Secretary of State, Official Voter Information Guide, Proposition 40: text of proposed law (proposed RTC §§50301–50303, 50306, 50314) and Legislative Analyst's analysis, including interaction with Propositions 41 and 42.

Hoover Institution, Proposition Lab, “Proposition 40 – The Billionaire Tax Act,” September 2026 (rate, phase-in, dates, exclusions, installment charge; $25 billion net loss as a growing perpetuity).

Holland & Knight, “California's Proposed Billionaire Tax: What You Need to Know,” September 2026; ArentFox Schiff, “California's Proposition 40 Billionaire Tax,” July 30, 2026 (residency and valuation dates; charitable addback).

Fortune, “Google co-founder Sergey Brin has now spent $100 million to fight California's proposed billionaire tax,” August 11, 2026 ($102 million to Building a Better California).

Internal Revenue Service, Quarterly Publication of Individuals Who Have Chosen to Expatriate, 91 FR 46535 (July 23, 2026), FR Doc. 2026-14841 (§6039G); four-quarter tally by Greenback Expat Tax Services as reported by Newsweek, September 2026.

U.S. Department of State, Schedule of Fees for Consular Services, final rule, FR Doc. 2026-04931, March 13, 2026, effective April 13, 2026.

HM Revenue & Customs, Statistical commentary on non-domiciled taxpayers in the UK, July 31, 2026, sections 3–5 (outflows, inflows, liabilities, capital gains caveat).

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Henley & Partners, Henley Private Wealth Migration Report 2025, June 24, 2025 (16,500 projected UK net outflow).

Bloomberg, “A Tax Strategy for the Rich Built the World's Largest Hedge Fund,” August 2026 (via TaxProf Blog, August 5, 2026).

International Monetary Fund, K. Georgieva, “AI Will Transform the Global Economy. Let's Make Sure It Benefits Humanity,” January 14, 2024; Bloomberg interview, reported June 8, 2026.

IRC §§877, 877A, 6039G; Rev. Proc. 2025-32, §§3.37–3.38 (2026 amounts); Instructions for Form 8854 (2025); Notice 2009-85.

IMPORTANT NOTES

This alert addresses U.S. federal and California rules and UK enforcement developments as reported through September 22, 2026. Proposition 40 remains subject to voter approval, implementing regulation, and litigation; every figure attributed to it is as drafted. Migration and expatriation statistics measure different things and are labeled accordingly; where sources differ in method or horizon, we have said how. The §877A gain exclusion and the average annual net income tax threshold are indexed annually and are stated for 2026 under Rev. Proc. 2025-32; the $2 million net worth threshold is not indexed. Nothing here is a recommendation that any reader change residence, citizenship, or domicile.

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