

We will need a new tax code for the wealth AI creates

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Artificial intelligence is scary to many people. Major technological revolutions force a renegotiation of society's basic economic contract. AI will significantly diminish the requirement for labour at any given level of GDP, and if we are unprepared we will stumble into a chaotic transition.

I'm a technology optimist. I've spent four decades studying disruptive innovation, from the microprocessor, the internet and mobile phones to OpenAI. I'm certain AI will do 80 per cent of the economically valuable work humans do today, for 80 per cent of all jobs, faster than most believe. The question isn't whether mass underemployment arrives by the next decade, but whether we have a coherent policy framework ready when it does.

Right now we don't. The current US tax code was designed for a world where labour gets a fair share of economic value creation and capital needs encouragement. But when AI and robotics compress labour while juicing capital returns, it will necessitate changes to the tax code. Amid the inequality and substantial unemployment AI may cause, we will need to sacrifice some capitalist efficiency to reduce suffering.

The right response requires radical simplicity and political achievability. Tax changes should be revenue neutral and backed by 75mn voters, roughly the number who voted for President Donald Trump.

Post 2028, the US should eliminate preferential capital gains treatment and tax it as ordinary income. No principled argument survives in a world of AI-boosted capital returns. Special treatments like tax loss carryforwards protect asset holders who need no protection. Reasonable carve-outs should continue, such as gains on primary residences up to a threshold and legitimate family-farm gains, both important voting constituencies. This could generate approximately \$400bn per year.

These collections should flow first to those whose employment is affected by AI, compensating a share of their lost income. Any remainder should rebate the federal income tax paid by the roughly 75mn Americans earning under \$75,000 and paying about \$75bn (around the number who voted for Trump). Around 40 per cent of capital gains come from those earning over \$10mn a year. This isn't redistribution. It will rebalance a tax code that was already redistributing, just upward.

Post 2030, the US should add token taxes on AI compute and robotic labour substitution revenue of 20 per cent. I'm not a fan of innovation taxes. But if AI displaces the payroll base, a compute-usage levy is the corrective. Proceeds should flow first to unemployment, then broaden as AI profits grow — with an estimated \$150bn-\$200bn per year within five years.

Post 2030, we should make “basic needs” expertise near-free for everyone. A federal initiative covering primary and multi-speciality care, mental health and chronic care, personalised tutors and legal aid could cost just a few dollars per citizen. When expertise becomes near-free, the advantage of affording doctors, tutors and lawyers collapses — an equalisation no redistribution scheme has achieved. The downstream savings would make total costs negative and the economy deflationary by 2035.

A bold presidential candidate for 2028 could adopt this tax-neutral platform: accelerate AI, help most Americans and energise a frightened voter base. By the late 2030s, if AI disruption is high, we could approach a trillion-dollar annual kitty, low-cost basic services and the seed of a sovereign wealth fund. Beyond 2035, AI will create enormous corporate wealth. The question is who owns it. A sovereign fund with ownership of AI companies makes every American a capital owner, not a bystander to the AI economy.

On employment creation, AI will make it easy for 50mn Americans to be re-employed as micro-entrepreneurs by 2035, with AI handling finance, legal, marketing requirements and taxes so each person can pursue their craft. The human touch, provenance-rich, artisanal, will probably be valued over pure utility. Status, social capital, reputation, competition and mastery of a skill will be what people strive for. The majority of today’s jobs are servitude to survival, the opposite of human dignity.

None of this requires new institutions, just replacing a 1950s tax code with one designed for the 2030s. Capitalism operates by permission of democracy, and its voters benefit here. The alternative is to watch a democracy with large structural underemployment decide that capitalism itself is the problem. History doesn’t grade that outcome well. The future utopia is ours to invent. The dystopia is ours to choose.