



The Daily Dish

Robin Hood Delivers Xmas Coal

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'Tis the season of giving, and Representative Goldman (D-NY) has given us the [Redistribution of Billions by Instituting New High-Income Obligations on Overlooked Debt](#) (ROBINHOOD) Act. Ah, gee. But no thanks.

The ROBINHOOD Act would impose a 20-percent excise tax on loans and lines of credit backed by capital assets. The sponsor argues:

One of the most common strategies that the ultra-wealthy use to avoid taxation is to borrow heavily against their appreciating assets, which allows them to avoid selling assets that would trigger a capital gains tax. Because borrowed funds are not considered taxable income, they can access vast sums of cash without needing to sell assets and pay taxes. Meanwhile, their assets continue to grow in value, compounding their untaxed wealth.

The ROBINHOOD Act would address the tax avoidance strategy employed by ultra-wealthy individuals by imposing the long-term capital gains tax rate of 20% on loans and lines of credit backed by capital assets for individuals making over \$400,000 a year or \$450,000 for joint filers. The bill applies to loans backed by personal financial investments such as stocks, bonds, private equity, inter-collectibles (art, coins, etc.), real estate, digital assets, trusts, and other similar instruments. It includes common-sense exemptions for home mortgages, home equity loans and lines of credit, margin loans, and credit secured by farmland.

It would be easy to dismiss the ROBINHOOD Act as just more messaging from the progressive jihad front because it is just a message bill and part of the progressive jihad against success in America. But there are some important tax policy lessons to be learned as

well.

The press release highlights the fact that Elon Musk pledged \$94 billion in assets as collateral for loans in 2022 and the sponsor is offended that Musk is living large (“consuming” in the dry prose of economists) tax-free. Agreed. The solution is to tax consumption and to do so in a progressive fashion; i.e., with a larger tax rate the more one consumes. Notice that this results in a large tax on lavish lifestyles no matter how they are financed – loans, asset sales, labor income, gambling winnings, and stealing from granny all lead to the same tax.

A corollary is that a progressive consumption tax is based on real economic activity; how one arranges their financial affairs does not affect the tax liability. Financial affairs are easy to rearrange and the tax system should contain as few incentives to do so as possible. Keeping them out of the tax system entirely accomplishes this.

Notice the ethical foundations of the tax: If you make \$1 million and choose to save all of it, you would pay no tax. But if you had no income and consumed \$1 million worth of Twizzlers and Diet Coke, you would pay a tax. You are taxed on what you take out of the economy (consumption) and not what you contribute to it (labor, savings).

Finally, in the end the purpose of taxes is first and foremost to raise money to finance the activities of government. Its use as a weapon of social justice is secondary.

The ROBINHOOD Act contains some lessons in good tax policy, it just doesn’t contain any good tax policy.