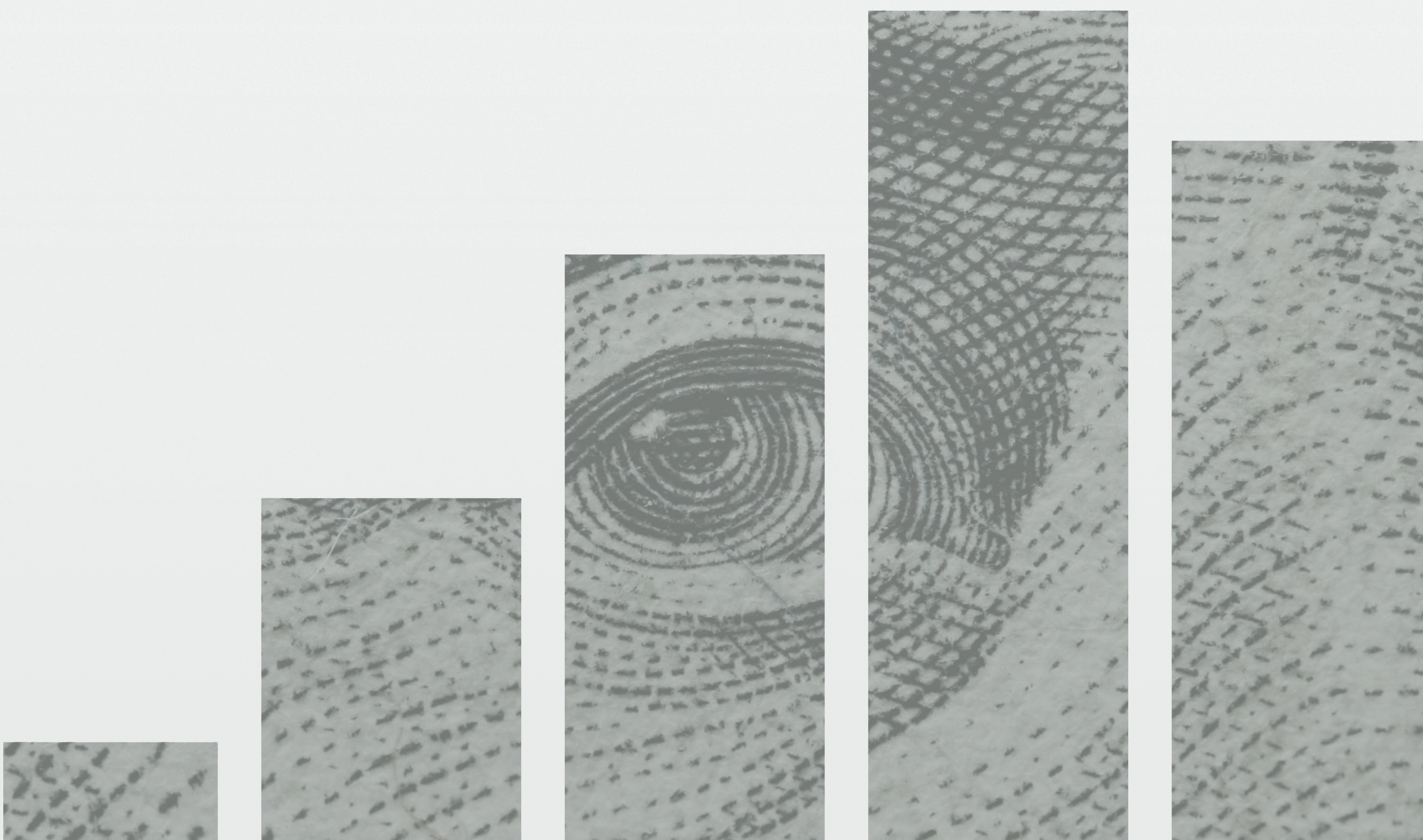
FADING BEAUTY

How the One Big Beautiful Bill Could Widen Wealth Inequality

OCTOBER 2025

BOSTON INDICATORS RACIAL WEALTH EQUITY RESOURCE CENTER

Barr Foundation



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ABOUT BOSTON INDICATORS

Boston Indicators is the research center at the Boston Foundation, which works to advance a thriving Greater Boston for all residents across all neighborhoods. We do this by analyzing key indicators of well-being and by researching promising ideas for making our city more prosperous, equitable and just. To ensure that our work informs active efforts to improve our city, we work in deep partnership with community groups, civic leaders and Boston's civic data community to produce special reports and host public convenings. This report is part of the Boston Indicators Racial Wealth Equity Resource Center initiative.

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Introduction

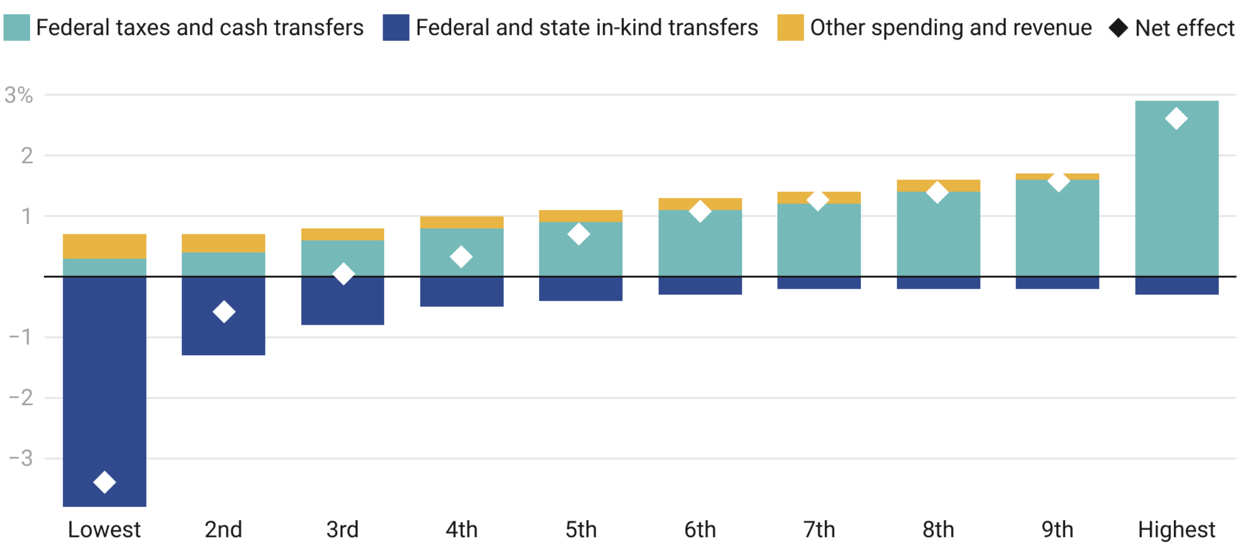
On July 4, 2025, President Trump signed into law the "One Big Beautiful Bill" (OBBB), potentially the most significant piece of legislation of his second term. It extends a variety of individual and business tax cuts that largely benefit the wealthy, scales back the social safety net, dramatically increases funding for border security and deportation efforts, phases out numerous clean-energy tax credits, boosts defense spending, and much more. The Congressional Budget Office (CBO) estimates that on net the law will add $3.4 trillion to the deficit over the next decade, at a time when debt levels are already high and inflation persists.[1] These conditions matter because high debt and persistent inflation both tend to hit low- and moderate-income (LMI) households hardest. Inflation raises the cost of essentials like food, housing, and transportation, while wages for LMI workers often fail to keep pace. And higher federal debt can create pressure to cut government spending on public programs that are especially important for LMI families.

Concerns raised by each of the policy changes in the OBBB merit serious investigation. But for this report, which we are releasing as part of our Racial Wealth Equity Resource Center, we are focusing on the subset of provisions that are most likely to reduce financial stability and economic opportunity.

Wide-ranging analyses from national experts including the Yale Budget Lab, the Tax Foundation, the Committee for a Responsible Federal Budget (CRFB), the Urban Institute, the Center for Budget and Policy Priorities (CBPP), and Brookings all converge on the same conclusion: The law and its tax provisions tilt heavily toward the highest-income households. The Congressional Budget Office (CBO) estimates that in the U.S., those in the bottom 10 percent of the income distribution will lose about $1,200 annually in income and transfers (such as cash transfers and in-kind support like Medicaid and SNAP), while families in the top 10 percent will gain roughly $13,600, or 2.7 percent of their income (Figure 1).[2]

Figure 1. Average Annual Change in Household Resources as a Result of OBBB

Expressed as a percentage of income, 2026 to 2034. United States.



Calculations are based on the CBO's January 2025 Baseline

Chart: Boston Indicators • Source: Congressional Budget Office • Created with Datawrapper

Much of the public debate has understandably focused on the near-term income effects of OBBB. But income is only part of the story. Families' ability to achieve long-term security, and ultimately build wealth, depends on whether they can withstand shocks, save steadily, and invest in assets like higher education, a home, or retirement accounts. By cutting supports like Medicaid and Supplemental Nutrition Assistance Program (SNAP), reshaping student aid, and cementing a tax code that favors those at the top, OBBB not only worsens income inequality today but also sets in motion dynamics that will widen wealth disparities tomorrow, especially along racial lines.

The Aspen Institute offers a helpful way to think about this, showing how baseline financial stability connects to intergenerational wealth building (Figure 2).[3] They define stability as "having routinely positive cash flow and low or no harmful debt, the ability to build financial cushions, and access to quality public and workplace benefits that protect against shocks." Without that foundation, wealth-building becomes nearly impossible.

Figure 2. Five Conditions - and One Precondition - Support Successful Wealth Building

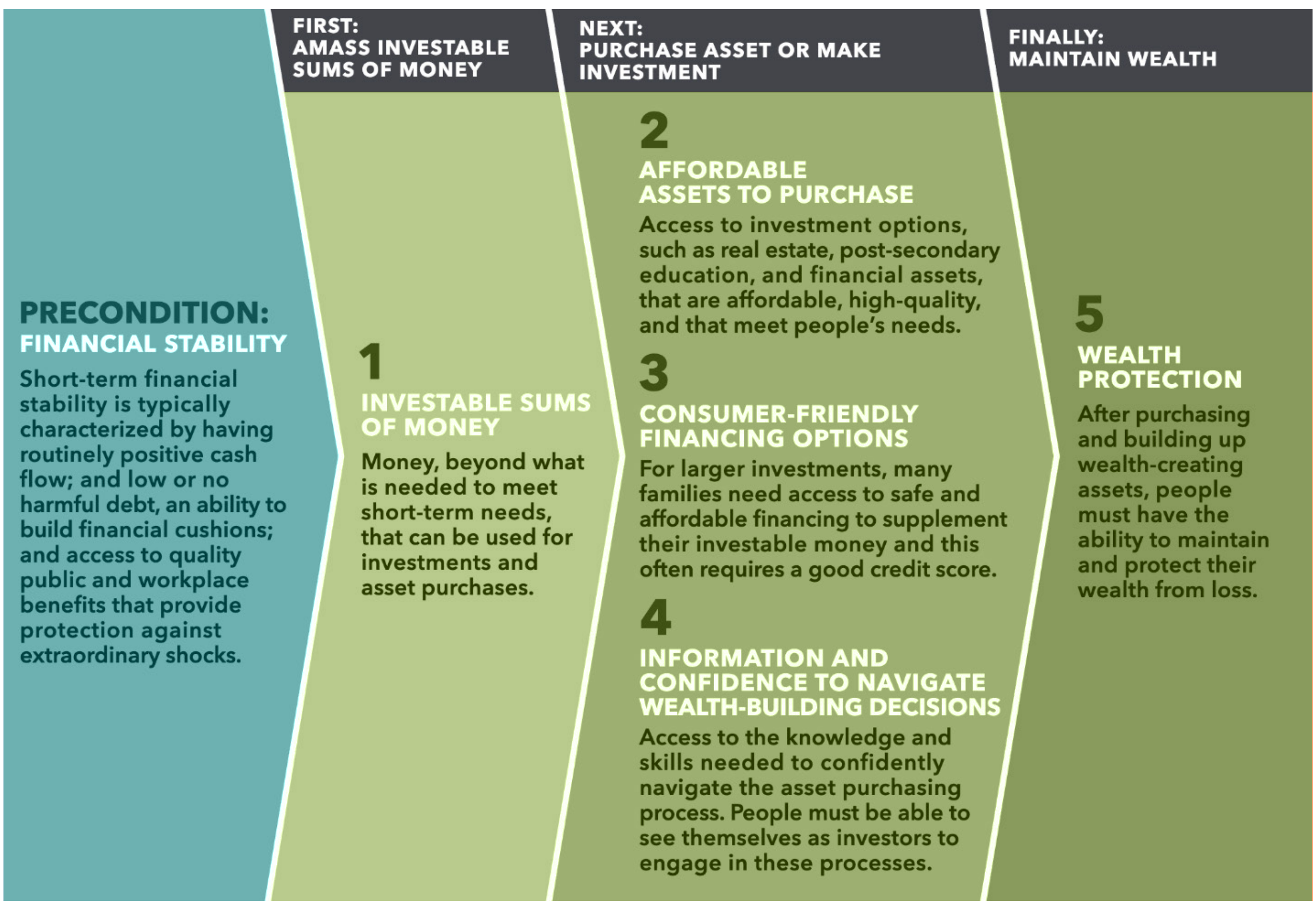


Chart: Aspen Institute; Source: Aspen Institute, 101 SOLUTIONS FOR INCLUSIVE WEALTH BUILDING

When faced with an economic shock, such as an unexpected bill, a health emergency, a flat tire, or a home repair, having a financial buffer to weather that shock is crucial. According to the Federal Reserve Bank's Survey of Household Economics and Decisionmaking (SHED), only 63 percent of adults in the US reported having at least $400 in cash or savings to cover an emergency.[4] The other 37 percent said they would have to borrow or sell something to cover such an expense. However, the harsh reality is that many LMI households live paycheck-to-paycheck, with little or no savings at all. Research also finds that LMI families experience more frequent economic shocks compared to higher-income families, and each shock erodes long-term security, making it harder to move from stability to wealth accumulation.

These vulnerabilities are widespread: In 2022, nearly 13 million Americans had negative wealth, owing more than they owned.[5] Furthermore, the distribution of wealth in the United States is deeply unequal. White households, on average, hold far more wealth than Black and Latino households, and while Asian American households report the highest average wealth, those averages mask steep disparities among subgroups. In 2022, White households had about six times the wealth of Black households and five times that of Latino households.[6]

The OBBB's long-term effect on the racial wealth gap remains uncertain, but the provisions most relevant to household financial stability point in a troubling direction. And so, this report analyzes four areas of the law most likely to shape families' ability to save and build assets:

- Reforms to the Tax Code
- Reforms to the Social Safety Net - Medicaid and SNAP
- Reforms to Student Loan Programs
- Reforms for Families with Children - Child Tax Credit and Trump Accounts

Reforms to the Tax Code

During President Trump's first term, Congress passed the Tax Cuts and Jobs Act (TCJA) of 2017, which was the largest overhaul to the tax code in over two decades. On net its benefits flowed disproportionately to the wealthy; it expanded the federal deficit; and it did little to raise incomes for LMI families.[7] Many of its provisions were set to expire in 2025, but the OBBB now makes most of them permanent. Because OBBB pairs these extensions with restrictions to Medicaid and SNAP, the new law compounds the regressivity of the TCJA by partially paying for the extension of tax cuts for the rich by reducing safety net supports for families (see the next section). The OBBB also makes changes to the Child Tax Credit (CTC) that we discuss in a later section.

Central to these tax provisions is the extension of lower marginal tax rates for high earners, first enacted in 2017. Keeping those rates in place delivers large benefits to households at the top of the distribution, cementing a tax code that asks less of the wealthy than it did prior to 2017. The CBO estimates that a family earning less than $50,000 could see a modest $300 in tax relief in 2027, while a family making over $1 million could receive $90,000 or more. Because many low-income families already owe little or no federal income tax, they see almost no gain from these provisions.

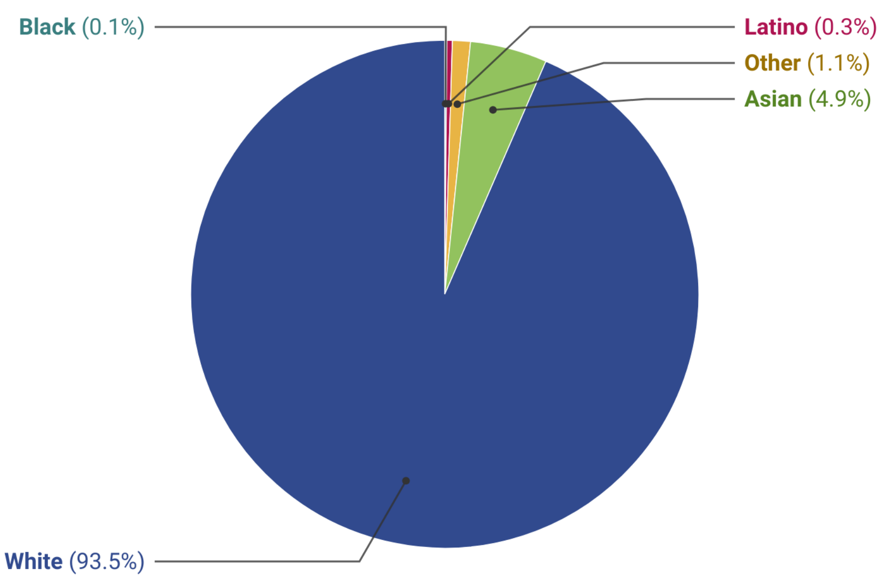
The law also continues the business tax cuts introduced under TCJA, including full expensing of equipment and other breaks that reduce effective corporate tax rates. These benefits accrue mainly to shareholders and business owners, groups disproportionately concentrated at the top of the wealth distribution, further amplifying inequality.

OBBB raises the cap on the **state and local tax (SALT) deduction**, the amount of income taxpayers can subtract from their tax liability, from $10,000 to $40,000 (for joint filers) in 2025, with the cap set to rise modestly through 2029. Before TCJA there was no cap, largely benefiting middle- and upper-income households in high-income, high-tax states (like Massachusetts) who could deduct unlimited amounts. The $10,000 cap introduced in 2017 limited this benefit and made the tax code somewhat more progressive. By lifting the cap to $40,000, OBBB undermines much of that progressivity. In a state like Massachusetts, this change reduces federal taxes for middle- and upper-income households but does little for most families who pay far less than $40,000 in state and local taxes each year.

Another major provision is the **estate tax exemption**. The estate tax is one of the most progressive features of the U.S. tax code because it curbs the transfer of large estates across generations. Since wealth in the U.S. is disproportionately concentrated among White households, cuts to the estate tax primarily benefit those who are White. In 2017, the TCJA doubled the estate tax exemption, but this provision was scheduled to expire in 2026, resetting the exemption to $7.2 million for individuals ($14.4 million for couples). Had the estate tax exemption reset, nearly 600,000 additional households would have had to pay the estate tax, but the OBBB permanently increases the exemption to $15 million for individuals ($30 million for couples), and this threshold will adjust with inflation moving forward. Of those newly exempted, 93.5 percent were White, 5 percent were Asian and less than 1 percent were either Black or Latino (Figure 3). Making this provision permanent will cost about $212 billion over the next 10 years, money that could have instead been used to support families with greater need. The OBBB's change does nothing to the Massachusetts estate tax exemption, which continues to sit at $2 million and does not adjust with inflation.

Figure 3. The estate tax applies only to very high-wealth families, who are more likely to be White.

Percentage of newly exempted households by race and ethnicity with wealth over $7/$14 million (pre-TCJA level) but under $15 million/$30 million (OBBB level)



Calculations reflect couples whose wealth would have exceeded the reset exemptions of $7.2 million/$14.4 million versus those meeting the new OBBB thresholds of $15 million/$30 million.

Chart: Boston Indicators • Source: Survey of Consumer Finances. 2022 • Created with Datawrapper

Finally, OBBB introduces new carve-outs that raise issues of horizontal equity, the principle that households with the same income should pay the same taxes.[8] One obvious example is the new **provision exempting tips** from federal income tax. While intended to help service workers, many already pay little or no federal tax because of low wages. Tipped workers, a small subset of the labor force (3.3 percent in Massachusetts), face a range of challenges including low base wages, predatory wage practices, and unstable or unpredictable schedules. For many, these conditions already mean little federal tax liability, which limits the impact of this new carve-out. And with OBBB's new work requirements for Medicaid, tipped workers may be at heightened risk of losing health coverage. A more effective way to support them, particularly in a state like Massachusetts, would be to raise the tipped sub-minimum wage, as was proposed in 2024, from $6.75 an hour to the full state minimum wage of $15.[9]

Reforms to the Social Safety Net

MEDICAID CUTS

The new law, in part, pays for the extension of the TCJA tax cuts by dramatically scaling back Medicaid and SNAP. These changes will almost certainly make lower-income individuals and families worse off in the long run. The new law slashes almost $1 trillion from Medicaid, severely limiting access to Medicaid by 1) attaching a work requirement, 2) adding a burdensome mandate for individuals to repeatedly verify their work histories and for states to reconfirm them, and 3) limiting states' abilities to impose new taxes on health-care providers to secure matching federal dollars. Additionally, the OBBB changed the eligibility rules for some legal immigrants, which will result in many legal immigrants losing access to health care.

The CBO estimates that 10 million Americans could lose access to health insurance between now and 2034.[10] In Massachusetts, estimates on how many residents will lose coverage range from a conservative 141,000 to a worst-case scenario of more than 300,000.[11] Because the new law does not enumerate an exact schedule of funding cuts but, rather, adds on onerous work requirements that individual states must carry out, the impact can vary state by state. Later this fall, Boston Indicators in partnership with the Center for State Policy Analysis at Tisch College (Tufts University) will be releasing a report outlining potential strategies that the state can deploy to mitigate the potential harm due to disenrollment.

Nevertheless, we know that the populations most at risk are those who depend on MassHealth, the Commonwealth's Medicaid program. In 2024, Black and Hispanic residents in Massachusetts were significantly more likely to rely on MassHealth, while White and Asian residents were more likely to receive health insurance through an employer (Figure 3).[12] Among Black residents, just 53 percent had employer-sponsored coverage and one-third (33 percent) relied on MassHealth. Among Hispanics, less than half had employer-sponsored coverage (44 percent), and 42 percent were enrolled in MassHealth.

Losing health insurance often leads to high out-of-pocket health costs and deters people from seeking preventative health services. One study looking at Medicaid expansion in Oregon, for instance, found that nearly all catastrophic financial expenditures, defined as out-of-pocket medical expenses exceeding 30 percent of one's income, were eliminated.[13] In a national Kaiser Family Foundation (KFF) health tracking poll, about 6 in 10 adults worry about covering the costs for a health emergency and about 4 in 10 adults said they had some form of medical debt either for themselves or someone they care for.[14]

Fig 4. Black and Hispanic residents are more likely to receive insurance through MassHealth.

Reported health insurance type by race (2024)

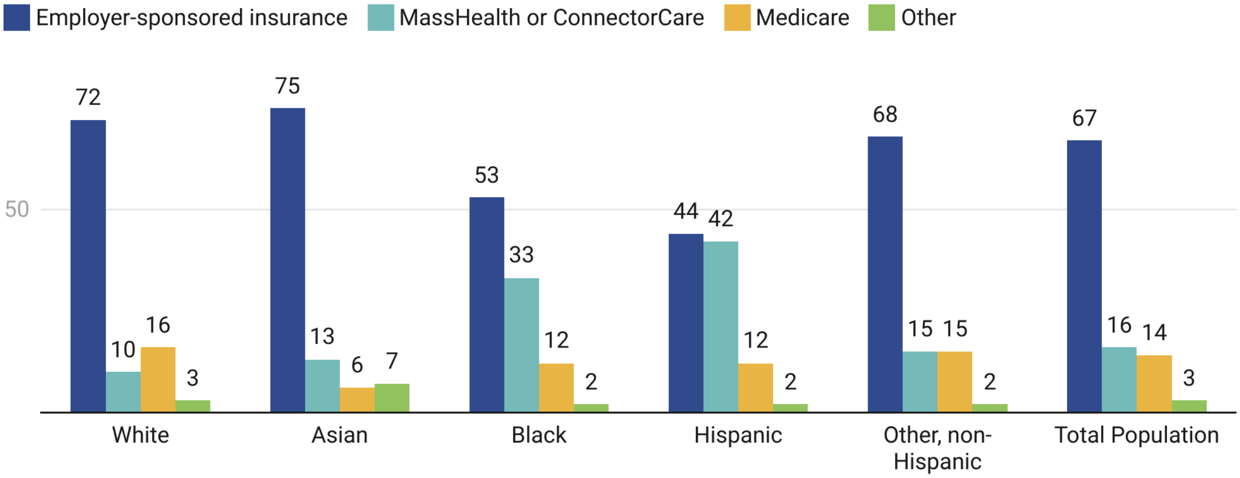
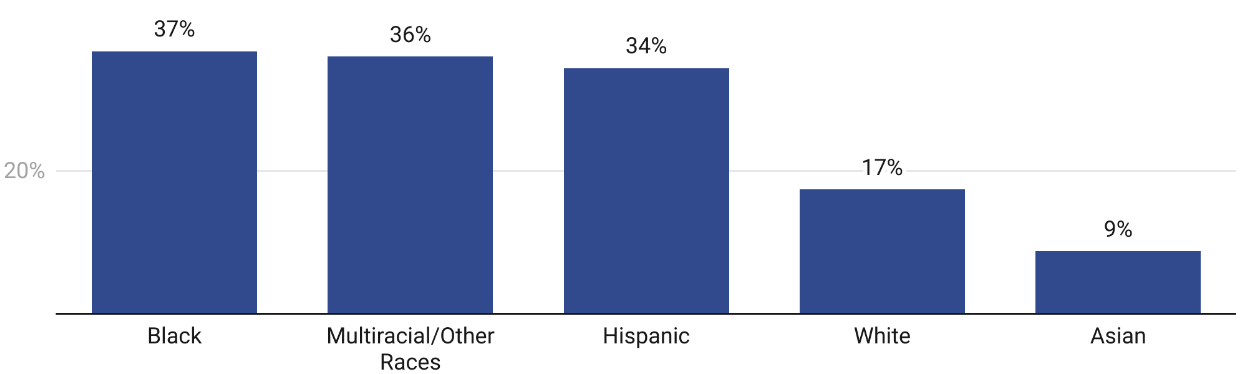


Chart: Boston Indicators • Source: Massachusetts Health Insurance Survey (MHIS), CHIA • Created with Datawrapper

Locally, the Center for Health Information and Analysis (CHIA) found that Black and Hispanic residents in Massachusetts were more likely than their White peers to report having financial strain related to health-care expenses, even when controlling for family income, educational level, size of the family and health status (Figure 4).[15] Without access to Medicaid under the new law, many families could face unsustainable rising health-care costs and higher out-of-pocket medical expenses.

Figure 5. Black and Hispanic residents are more likely to report having financial strain when paying for medical expenses in Massachusetts.

Adjusted rates of financial strain among Massachusetts residents by race/ethnicity, 2023



*Adjusted for family income, educational attainment, family composition, and activity limitations/health status of family members. ^Reference category: Race/Ethnicity = White *Measure is significantly different from the reference category (p<0.05)*

Chart: Boston Indicators • Source: Center for Health Information and Analysis • Created with Datawrapper

Previous attempts to attach work requirements, for example in Arkansas (the first state to impose work requirements to health-care insurance) and Georgia, have led to thousands losing health insurance.[16] Not only will people need to show proof of employment each month, but states will need to verify and reaffirm the information to ensure ongoing coverage, which will inevitably lead to administrative and process delays and loss of coverage. Proponents of work requirements argue that these provisions increase employment levels, but the research does not back up these claims. And with less access to health care many workers might opt to skip doctor visits when sick, starting a vicious cycle of more missed workdays due to declining health and weaker ties to the labor market.

SNAP CUTS

The second largest hit to the social safety net comes in the form of stricter eligibility requirements for accessing SNAP. The new law strips eligibility from many legal permanent residents who previously qualified, such as refugees, persons granted asylum, and victims of human trafficking. It also broadens work requirements for able-bodied adults without dependents by extending the requirement from age 55 to 65 and narrows the parent exemption to those with children under 14 rather than 18. Parents with children between 14 and 18 are now subject to the same rules as adults without dependents.

In Massachusetts, one in six residents receives SNAP, with an average monthly benefit of $469 per family (as of 2022).[17] More than half of recipients are families with children. Our own analysis finds that at least 40,000 Greater Boston recipients will now be subject to the new work requirements, a 47 percent increase. Of these, roughly 11,000 parents—including about 5,000 Latino parents—who lose the broader work exemption will face new reporting rules to maintain benefits. With food costs already forcing trade-offs in housing, medical care, and utilities, these changes will push many struggling households to shoulder more of their food costs and forgo long-term needs like education savings. For a full analysis on the impact of these SNAP cuts on Greater Boston, read our Meeting the Moment: SNAP Cuts and the Local Fallout.

Reforms to Student Loan Programs

The OBBB makes multiple changes to higher education, but for this report, we focus on the changes related to education financing, as higher education is crucial for upward mobility. A wide body of research shows that investing in human capital (i.e., education that increases knowledge and skills) can raise lifetime earnings. Yet returns to education differ by race.[18] As *The Asset Value of Whiteness* found, White college graduates hold seven times the wealth of Black graduates.[19] Education helps boost earnings across groups, but by itself it does not close the racial wealth gap.

Many families want to invest in higher education but lack the personal savings to cover all or some of the costs. So, borrowing to pay for higher education can allow for critical investments that are well worth supporting. But there are trade-offs. Many families can only afford college by borrowing, and loans, while sometimes risky, often finance investments that pay off. At the same time, rising tuition costs, uneven access to family wealth transfers, and differences in repayment capacity mean that the same debt load carries very different consequences depending on who takes it on. Black students, for example, are more likely to borrow, carry higher balances into adulthood, and lack family wealth that could cushion repayment.

On its face any efforts to reduce student loan debt appear worthwhile, as the growing student debt crisis in America often delays homeownership and family formation, among other key milestones. But the way we choose to address the problem will make a big difference. A good faith reading of the OBBB would suggest that it is designed to address both sides of the problem: reducing high levels of student debt while also attempting to rein in the rising cost of higher education. Yet it is far from clear how much it will succeed. Tuition keeps climbing, repayment capacity remains uneven, and other provisions of the law put added pressure on low- and moderate-income families.

Student loan reform sits at the intersection of competing aims: expanding access to higher education, shielding borrowers from unsustainable debt, and maintaining fiscal discipline. If the provisions help people avoid burdensome levels of debt, that could be a meaningful step forward. But if they instead lead some students to forgo further education altogether, the result could be more harmful than helpful.

With all of that in mind, major changes to higher education financing included in the OBBB are:

- The new law eliminates Grad PLUS loans and places a cap on how much students and parents can borrow for professional graduate degrees via Parent PLUS loans (i.e., law school, medical school, or a master's/doctoral degree). Unfortunately, the new cap—$20,500 for master's degrees and $50,000 for law and medical degrees—falls far short of the average tuition costs, which may discourage enrollment or force students to cover these financing gaps from personal savings.

- The new law overhauls the repayment plans for student loans by eliminating the Biden administration's Saving on a Valuable Education (SAVE) and all other income-driven repayment (IDR) plans (i.e., Pay As You Earn, Revised Pay As You Earn, and Income-Based Repayment) and replaces them with just two repayment options: a standard plan and a repayment assistant plan (RAP). Previously, millions of borrowers enrolled in the SAVE plan, and it remains unclear how the Education Department will migrate SAVE plan borrowers into the new IDR plan, and how these new options will impact borrowers' financial stability. On the one hand, the simplicity of fewer repayment plans may make it easier for borrowers to navigate their repayment plans, but on the other, having various options for repayment may offer more financial relief for young adults who typically have volatile incomes and gaps in employment.

- And lastly, under the new law Pell Grants can only be used for direct costs, such as tuition and room and board that is paid directly to the school. In the past, Pell Grants could be used for both direct and indirect costs, like books and living expenses. These grants were critical for some low-income students who needed more financial assistance to cover everyday living expenses. Moving forward, students who attend college in cities with a high cost of living, such as Boston, may experience additional financial pressures due to these new restrictions.

Reforms for Families with Children

CHANGES TO THE CHILD TAX CREDIT

The Child Tax Credit has historically been one of the few tax provisions to draw bipartisan support because it supports families with children while taking the form of a tax cut. When it was first being conceptualized, however, the intent was for it to be more than a mere tax break. In 1987, Congress convened a task force to develop "A New American Agenda for Children and Families," which noted that demographic shifts among Black, Hispanic, and Asian children warranted a new approach to preparing children for the future.[20] Among its recommendations was the creation of a Child Tax Credit, envisioned as a child allowance available to all parents regardless of income, creating a kind of social security for children.

When President Clinton signed the first CTC into law, though, the policy reflected a different intent. Rather than serving as a universal allowance aimed at reducing poverty, it was framed as tax relief for middle-income families.[21] Each administration since has sought to use the CTC as a tool to offer tax relief for families with children, and this newest iteration is no different, but there are some important changes to note.

In 2017, the TCJA doubled the credit from $1,000 to $2,000, and under the OBBB it will rise again, from $2,000 to $2,200 beginning in 2026, with annual adjustments for inflation thereafter. While this newest iteration continues the trend of positioning the CTC as tax relief, the design choices carry important implications for how well the credit meets its original poverty-reduction goals.

First, the new law now requires that both the tax filer and their dependent(s) have a Social Security number. This change excludes about 4.5 million children nationwide, primarily children of immigrant parents, who previously qualified for the CTC. In Massachusetts, approximately 61,000 children will now be ineligible. Second, under the OBBB, the high phase-out threshold for couples remains at $400,000. And third, the OBBB leaves in place the TCJA refundability cap of 15 percent of earnings above $2,500. This cap limits how much low-income families can actually receive if their potential refund exceeds their tax liability.

As a result, families with incomes below $26,000 see no improvement compared to TCJA, and many receive only partial refunds rather than the full credit. The CBPP estimates that 17 million children nationwide will now receive no credit at all, including 225,000 children in Massachusetts, with Latino and Black children disproportionately affected.[22] At the same time, families earning up to $400,000 a year ($200,000 for single filers) will be able to claim the maximum CTC. While the credit has shifted under different administrations, many advocates see this version as a missed opportunity to refocus the CTC on reducing poverty and narrowing the racial wealth gap.

TRUMP ACCOUNTS

Deep within the OBBB is a pilot program that offers a new savings vehicle, eponymously named "Trump Accounts," that could help some families save for the future. These accounts provide a one-time seed investment of $1,000 for all babies born after December 31, 2024, and before January 1, 2029. Once opened, parents, grandparents, and other friends and family can contribute to these accounts, up to $5,000 a year, however, these contributions are not tax deductible. Employers can also contribute to these accounts up to $2,500 a year, which would not be counted as taxable income. The rest of the details for how this pilot program will be administered and carried out are still being determined and will likely be hashed out during the rulemaking process.

Promoting savings at an early age is not new. In fact, the original blueprint for a children's savings plan was written back in 1991, by Michael Sherraden, a scholar on social policy and asset-building.[23] He advocated for a universal approach which included regular government contributions that would accrue over time and an accessible approach to expand asset building to underserved communities. Since then, many others have studied how these early savings programs (sometimes called "Baby Bonds," "Children's Savings Accounts (529s)," or "Individual Savings Accounts") could reduce the racial wealth gap, improve financial literacy, and plant early college aspirations.

For example, in 2022, the Massachusetts State Treasurer set up a Task Force to explore a statewide Baby Bonds program, which recommended a program with auto-enrollment of all newborns who were enrolled in the state's Transitional Aid to Families with Dependent Children program (TAFDC) and all foster children under the age of one in the custody of the Department of Children and Families.[24] Each account would be initially seeded with a deposit of $6,500 and managed by the state treasurer's office. At the federal level, Reps Corey Booker (NJ) and Ayanna Pressley (MA) proposed a Baby Bonds program, which would be seeded with $1,000 at birth and would include additional government contributions on a progressive scale.[25]

On its face, this program could be a useful tool for families struggling to save for their children's future. But as written in the OBBB, the Trump Accounts raise many concerns. Much will hinge on the details that emerge during the rulemaking process, which will determine who is eligible, how funds can be used, and what safeguards are in place to ensure the program benefits lower-income families. Without careful attention to these design choices, the program risks falling far short of its potential. The following are provisions that if included in the final rules would maximize the usefulness and versatility of Trump Accounts:

- **Auto-enrollment:** Research shows that auto-enrollment is the best option to reach all families, particularly those who have less experience with financial institutions, such as the unbanked or underbanked population.
- **Exclusion of account balances from means-tested benefits qualification:** Because these savings programs are aimed at reducing wealth inequalities, it is crucial that they prioritize progressive contribution scales and ensure that any contributions or assets accrued in the accounts do not affect access to public benefits.
- **Easy rollover options into other tax-advantaged savings accounts:** The Aspen Institute also points out that if such a program were to become universal, these accounts could serve multiple purposes, enabling families to "capital stack," working alongside other savings vehicles.[26] For example, the rulemaking could make it easier for families to roll over balances from the Trump Accounts into other savings accounts, such as 529s and retirement accounts.

Discussion

Lawmakers in the U.S. have long championed policies that advance the American Dream: the promise that, regardless of one's background, if they worked hard, they would earn enough to move up the economic ladder. However, the promise of upward mobility—that we might be better off than our parents—has been fading for many low- and middle-income Americans. True upward mobility depends not only on steady income but also on the ability to save and build wealth. Income pays for daily needs, while wealth provides security, opportunity, and resources that can be passed on to the next generation.

> The promise of upward mobility—that we might be better off than our parents—has been fading for many low- and middle-income Americans.

Costs for essentials like health care, food, child care, and housing have all increased, forcing many to turn to supports like SNAP and Medicaid. President Trump's new tariffs only add to the financial strain. Working families are often hit the hardest, since a larger share of their income goes toward basic needs. For example, families in the poorest income bracket spend roughly one-third of their income on food, compared to just 8 percent for those in the richest income bracket.[27]

Unfortunately, the OBBB provides little relief for these struggling families, and instead undermines both their income and ability to save for the future. By cutting Medicaid, SNAP, and Pell Grants, the law forces families to spend down savings or go into debt to cover health care, food, and education. Limits on student borrowing may further widen earnings gaps tied to education. At the same time, analysts warn the law will drive unsustainable deficits and inflation. Meanwhile, most of the law's tax benefits flow to the wealthy, giving them even more assets to pass down to their children. Together, these changes risk deepening inequality and expanding the racial wealth gap.

Still, there are steps that we can take at the state and local level to mitigate the fallout. There is a practical limit, since only the federal government has its unique scale and legal authority. But the state legislature, for instance, could use state tax revenue to partially backfill federal cuts to Medicaid and SNAP. The state could also expand state-level tax credits like the Earned Income Tax Credit or Child Tax Credit, improve public higher education and keep tuition down, and invest in affordable housing programs that reduce housing cost burdens. Local governments can push zoning reforms that allow more housing supply, strengthen tenant protections, and create local relief funds for families facing eviction or food insecurity. These efforts cannot fully offset federal retrenchment, but they can make a difference in helping keep some families from falling further behind.

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