

Japanese Tax System and Some Empirical Evidence

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Part 1. Introduction

Part 2. Learning More About Taxes

Part 3. History of Income Tax Reform

Part 4. An Example of Empirical Research: Takeshi Miyazaki & Ryo Ishida
“Estimating the Elasticity of Taxable Income: Evidence from Top
Japanese Taxpayers”

Abstract

This study aims to estimate the elasticity of taxable income (ETI) with regard to the net-of-tax rate, precisely in terms of potential for the margin arising from the behavioral response. We use panel data from top Japanese taxpayers in Tokyo during 1986–1989 and focus on the tax policy changes caused by the 1987–1989 comprehensive tax reform, which substantially reduced the top marginal tax rates. It is found that the ETI with regard to the net-of-tax rate is approximately 0.055–0.074, considerably lower than those for the United States and most European countries. One possible reason for the small ETI estimates is the absence of the behavioral response in terms of choice of deductions in this study. It is also shown that the short-term response to the 1987 tax change is significantly strong, whereas the medium-term response between 1986 and 1989 is weak and insignificant.

¹ The views expressed herein are those of the authors, and they do not necessarily reflect the opinions of the organizations to which the authors belong. Any remaining errors are the sole responsibility of the authors.