

Abstract

In 2004, Japan abolished part of its spousal exemption regulations. This paper examines, on theoretical and empirical levels, the effects of this tax reform on the income of married women, allowing for heterogeneous effects across income distribution. The empirical results from quantile difference-in-difference estimations and novel decomposition methods indicate that low-income wives increased their labor supply and incomes, in accordance with changes in tax incentives. In contrast, medium- and high-income wives, who were presumably unaffected by the tax reform, decreased their incomes in response to the upward trend of their husbands' incomes during the same period. I argue that this behavior of middle- to high-income wives is due to an increased awareness of the shape of the budget line that were less conspicuous under the previous tax regime.