

Estimating Elasticity of Taxable Income: Evidence from Top Japanese Taxpayers

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Abstract

A vast number of empirical studies have recently attempted to explore the elasticity of taxable income (ETI), using microdata on individual incomes. The current study aims to measure ETI, using data on the top Japanese taxpayers between 1986 and 1989. During this period, Japan experienced drastic reforms with respect to individual income taxation, including large declines in the income tax rates of the top-to-bottom income earners and income brackets; these reforms were enacted to alleviate the burden of income taxation. Specifically, the national and local income tax rates on top income earners in Japan fell from 88% to 65%. We constructed a panel dataset of the top taxpayers in Tokyo, Japan from 1986 to 1989, using *The List of Top Taxpayers* in every period therein. From information on their income taxes, the amounts of taxable income were computed; from there, the ETI in Japan was estimated by regressing the taxable incomes on net-of-tax rates. We estimated that the ETI with regard to the net-of-tax rate was approximately 0.1—a figure prominently lower than that cited in previous studies set in the United States. It is noted, however, that there remain a few concerns about the robustness of our estimation.

JEL Classifications: H21, H24

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Remark

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