

The Effect of Public Disclosure on Reported Taxable Income: Evidence from Individuals and Corporations in Japan

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Abstract: The potential behavioral response to public disclosure of income tax returns figures prominently in policy debates about its advisability. Although supporters stress that it encourages tax compliance, policy debates proceed in the absence of empirical evidence about this, and any other, claimed behavioral impact. This paper provides the first such evidence by examining the behavioral response to the Japanese tax return public notification system. The analysis suggests that, when there is a threshold for disclosure, a non-trivial number of both individual and corporate taxpayers whose tax liability would otherwise be close to the threshold will underreport so as to avoid disclosure, provoking a response of the opposite direction than what supporters stress. An analysis of public corporations' financial statements and financial statement data from a proprietary sample of public and private firms offers no evidence that these companies' taxable income declined after the end of the disclosure system.

Remark: The opinions expressed in this paper are those of the authors and do not represent the views of the organizations to which the authors belong. Any remaining errors are the responsibility of the authors.

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