

Do Self-Employed Underreport Their Income? Evidence from Japanese Panel Data

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Abstract

This paper examines to what extent the self-employed households underreport their income to the tax authority in Japan. We employ the so-called expenditure-based approach which focuses on the difference of Engel curves between the self-employed and wage earners. Using the Japanese panel data over 2009–2017, we find that the self-employed possibly underreport their income by about 41–46%. The findings are robust to the different specifications such as different preferences between the self-employed and wage earners.

Keywords: Tax evasion, Self-employment, Engel curve, Life-cycle/permanent income hypothesis,

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