

Phantom Notches and Real Constraints: How Japan's Tax System Shapes Female Labor Supply

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Abstract

We study how Japan's tax and social insurance systems shape female labor supply, focusing on married women. Using linked administrative records, we show substantial bunching of earnings at the 1.03 and 1.3 million JPY thresholds. While the 1.03 threshold is commonly believed to be important due to spousal tax deductions, its actual impact on after-tax income is minimal for most households. In contrast, the 1.3 million threshold creates a genuine "income trap" due to social insurance contributions. As minimum wages rise, women reduce hours to avoid these thresholds, limiting full-time employment and exacerbating gender inequality in Japan's labor market.