

New Optimal Income Tax Theory and Japanese Income Tax and Minimum Wage Policy

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Abstract

In this article, we discuss income taxation of high earners, public assistance and minimum wage policy in Japan, using the new approach of optimal income tax theory. After reviewing the existing study on income distribution of high earners and elasticity of taxable income in Japan, we find that it can be justified to raise the highest income tax rate in Japan. Also, it is desirable to introduce EITC type wage subsidy if job participation decision is very important in labor supply response in Japan. Further, the minimum wage may work as complementary to EITC type wage subsidy.

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