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SAVING BEHAVIOR OF SINGLE PARENTS AND INHERITANCE TAX REFORM IN JAPAN

Abstract:

This paper examines the effects of the 2013 Japanese inheritance tax increase on saving behavior of parents. This is the first empirical study to investigate the relation between Japanese actual inheritance tax reform and household behavior based on micro-level survey data. We follow a difference-in-difference approach by using pooled cross-section data, provided by the Central Council for Financial Services Information, covering each 3-year-period before and after the announcement of the tax reform. Under this analytical framework, it is tested whether the aged single parents who are likely to be affected by the tax hike did change their saving behavior in comparison with those who are not. Our estimation identifies some positive impact of the tax policy change on saving rate, suggesting that 1) intentional bequest motives are operative, 2) the income effect from an expected rise in tax burden on the future transfers of their wealth might outweigh the substitution effect that reduces savings.

Keywords:

Inheritance tax, household saving rate, bequest motives

JEL Classification: C21, D14, H24