

ABSTRACT

Individual responses to income taxation provide insights into whether tax changes act as incentives to increase work hours or disincentives that reduce them. This study analyzes white-collar workers' responses to changes in labor supply due to variations in after-tax wages, controlling for various demographic variables. It aims to determine whether tax changes encourage greater work hours, thereby increasing labor supply, or fewer work hours, thereby reducing labor supply based on individuals' perceptions of the incentives or disincentives created by taxation.

This research utilizes raw data from the 2022 National Labor Force Survey (SAKERNAS) containing variables such as hours of work, wage, and other demographic and socioeconomic information. The data analysis method applied in this study is Piecewise Linear Regression (PLR).

The study finds that income tax changes act as an incentive for low-income individuals, as evidenced by a positive and significant relationship between after-tax wages and labor supply. In contrast, for middle- and high-income individuals, income tax changes serve as a disincentive, showing a negative and significant relationship between after-tax wages and labor supply. Additionally, the study reveals that women are generally more responsive to income tax changes compared to men across all income levels. Other control variables, such as age, marital status, education and job also significantly affect labor supply.

Keywords: *Income Tax, Labor Supply, Labor-Leisure Choice, White-Collars, Piece-Wise Linear Regression*