

# TAX TREATMENT OF STOCK OPTIONS

## JAPAN



	EMPLOYEE	EMPLOYER
<b>GRANT DATE</b>	No tax consequences.	No tax consequences.
<b>VESTING DATE</b>	No tax consequences.	No tax consequences.
<b>EXERCISE DATE</b>	Income tax arises on the spread at exercise.	No tax consequences.
<b>WITHHOLDING &amp; PAYMENT OF TAX</b>	The employee's income tax liability is subject to withholding by the employer if there is a recharge from the parent company to the Japanese employer.	Where income tax withholding is required, it must be withheld and remitted to the tax authorities with the regular monthly tax payments.
<b>SOCIAL SECURITY</b>	Provided that the share options are not a form of salary paid to an employee for labor, social insurance contributions generally would not apply.	If social insurance contributions are required, they must be withheld and remitted to the tax authorities with the regular monthly tax payments.
<b>REPORTING</b>	The employee must report details of taxable income from share options or the sale of shares on the annual individual tax return.	The employer has reporting requirements if a recharge is made from the parent company to the Japanese employing company. If this is the case, the employer (Japanese entity) must report a notification of distribution of stock options to the tax authorities on an annual basis.
<b>SALE OF SHARES</b>	Taxed on sale. The gain is calculated as the market value on disposal less the market value of the shares on the exercise date.	No tax consequences.

For further information and to register for future updates contact:

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Information contained herein is intended to reflect present law and provides only a general outline of the subjects covered. Material discussed herein is meant for general informational purposes only and should not be relied on as professional advice. As such you should consult your own tax advisor regarding your specific tax matters.

This summary has been prepared on the basis that employees are resident in Japan throughout the period from grant of stock options until the shares are sold and that the employee is employed by a local employer in Japan, which is a subsidiary of an overseas parent. The potential tax consequences may vary greatly depending on your company's equity plan's design, administration, as well as many other factors.

Should you have a need for a trusted advisor in this area, please contact BDO's Global Equity team.

**This information is current as of August 2016.**

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<b>IS A CORPORATION TAX DEDUCTION AVAILABLE?</b>		A deduction will be available if a recharge arrangement is implemented for reimbursement by the Japanese subsidiary of actual plan costs incurred by the parent for employees rendering services to the Japanese employer, and shares are purchased on the open market. However, no deduction available for options granted to officers or directors.
<b>"QUALIFYING" PLANS AVAILABLE?</b>		Not applicable.
<b>INTERNATIONALLY MOBILE EMPLOYEES</b>		<p>The above summary has been prepared on the basis that employees are resident in Japan throughout the period from the grant of the share option until the shares are sold.</p> <p>The rules for internationally mobile employees are complex and there are specific rules applicable to non-resident individuals. Generally, Japan will have the right to tax the gain if there is a link between the option which the employee has received and the work of the employee performed in Japan. Japan broadly sources equity income based on the period between grant and vesting. It is highly recommended that advice is sought on an individual by individual basis.</p>
<b>OTHER POINTS FOR CONSIDERATION</b>		<p>This summary is provided by BDO for informational purposes only to provide an outline of the general tax and social security position based on current tax law.</p> <p>There are also a number of legal and regulatory issues to consider on the implementation of any employee equity plan including, but not limited to, employee entitlement claims, exchange controls, securities restrictions, prospectus requirements and data protection regulations. We recommend that legal advice is obtained prior to the implementation of any employee equity plan.</p>
<b>KEY ACTION POINTS</b>		
<ul style="list-style-type: none"> <li>✓ Employers are responsible for the withholding of tax and social security on the exercise of employee stock options. Companies should review their systems to ensure that they are sufficiently robust to be able to capture, process and report stock option exercises through the payroll.</li> <li>✓ There are specific rules applicable for Internationally Mobile Employees holding equity in Japan. We recommend that companies review their systems to ensure that Internationally Mobile Employees moving in or out of Japan whilst holding equity can be identified to ensure correct compliance and identify any potential trailing liabilities.</li> </ul>		