TAX TREATMENT OF RESTRICTED STOCK & RSUS

JAPAN

	EMPLOYEE	EMPLOYER
GRANT DATE	Restricted stock: No tax consequences. Restricted Stock Units (RSUs): No tax consequences.	No tax consequences.
VESTING DATE	Restricted stock: The taxable amount is the difference between the market value of the shares at vesting and the price the participant paid on award (if any). RSUs: The taxable amount is the difference between the market value of the shares at vesting and the price the participant paid on award (if any).	No tax consequences.
WITHHOLDING & PAYMENT OF TAX	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.
SOCIAL SECURITY	Provided that the restricted stock or restricted stock units 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.
REPORTING	The employee must report details of taxable income from share awards 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 restricted stock or RSUs to the tax authorities on an annual basis.

For further information and to register for future updates contact:

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Defined terms used in this summary:

Restricted Stock - Issued shares transferred to employees on the date of grant which are typically subject to restrictions on sale or forfeiture for example if performance targets are not met.

Restricted Stock Units – Awards where employees receive a right to acquire shares. Shares are only issued following vesting and attainment of performance targets, if applicable.

This summary has been prepared on the basis that employees are resident in Japan throughout the period from grant of stock awards 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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TAX TREATMENT OF RESTRICTED STOCK & RSUS

JAPAN

	EMPLOYEE	EMPLOYER
SALE OF SHARES	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.
IS A CORPORATION TAX DEDUCTION AVAILABLE?	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. No deduction is permitted for the benefits received by the officers and directors of the subsidiary.	
"QUALIFYING" PLANS AVAILABLE?	Not applicable.	
INTERNATIONALLY MOBILE EMPLOYEES	The above summary has been prepared on the basis that employees are resident in Japan throughout the period from the grant of the stock award until the shares are sold. 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 shares 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 case by case basis.	
OTHER POINTS FOR CONSIDERATION	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. 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.	

KEY ACTION POINTS

- ✓ Employers are responsible for the withholding of tax and social security on the employee equity awards. Companies should review their systems to ensure that they are sufficiently robust to be able to capture, process and report Restricted Stock grants and RSU vests through the payroll.
- ✓ 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.