



# Japan: foreign stock-based compensation reporting

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Global Mobility Services (GMS)



## Revisiting reporting requirements for foreign stock-based compensation first introduced under the 2012 tax reforms

### 1. Reporting requirements refresh

In an attempt to create more transparency in relation to foreign stock-based compensation, the National Tax Agency (“NTA”) implemented a new reporting requirement, Form 9(3) in 2012 for Japanese subsidiaries of a foreign company (50% or more of the outstanding shares in the Japanese subsidiary are held by the foreign company) or a Japanese branch of a foreign entity. Upon first implementation, the reporting only covered all employees and directors who were Japan residents and actively employed by the company at the time of receiving the stock-based compensation. This includes both locally employed individuals and those on secondment to Japan. An annual report including detailed information on the employee or director and the stock-based compensation (see up to date table on page 2) due annual by March 31 of the following year for all companies that have a requirement.

The reporting requirements were further expanded under 2016 tax reforms to include Japan nonresident employees and directors, as well as employees and directors no longer with the company but continue to have stock-based compensation. The due date for Form 9(3) for nonresident employees and directors is April 30 of the following year. Along with the increased scope, the form itself was reconstructed to include additional information such as residency status, period of contract term, and My Number details.

Upon inception, paper filing was the standard, but in unison with the NTA’s digital transformation push, the number of forms that allow paper filing continue to reduce from 1,000 forms (before 2020) to 100 forms (until December 31st, 2026) to 30 (January 1st, 2027 onward). For those that have over those amounts are required to either e-file or submit the data via optical disk (i.e. CD or DVD).

### 2. Increased importance

With no tax withholding requirements on foreign stock-based compensation, the Japanese government continues to leverage Form 9(3) to understand the scope of stock-based compensation being issued to current and former employees of Japanese subsidiaries of foreign companies and the stock-based income that should be reported on the employees’ annual income tax return filings. With Form 9(3) and other annual statutory reports on employment income, tax authorities are theoretically able to reconcile employee’s income against what is reported on their individual income tax returns, making it important for employers to not only comply with their reporting obligations, but educate their employees to ensure they understand the Japan tax treatment and necessity to report the income through an annual tax return filing.

While there are no monetary payments associated to the filing of Form 9(3), being simply an information based filing, noncompliance or fraudulent filings could lead to difficulties with the NTA.

### 3. Looking forward

Employers are faced with an increasingly difficult task of keeping up with changing reporting standards, gathering necessary information for in scope employees and directors, and instructing employees and directors regarding their requirement to include stock-based compensation on the annual individual income tax filing. Please stay in touch with your KPMG Japan contact to discuss ways we can help.

- Equity seminar for employees in Japan
- Stock-based compensation annual reporting preparation - form 9(3)
- Ad-hoc stock-based compensation guidance

Information to be reported		Notes
Personal information of employee or director with stock-based compensation	<ul style="list-style-type: none"> <li>• Name</li> <li>• Address (*)</li> <li>• My number</li> <li>• Residency status</li> </ul>	(*) Resident – address upon receipt of stock-based compensation Non-resident – Japanese address upon departure from the country
Stock-based compensation related details	<ul style="list-style-type: none"> <li>• Date of receipt</li> <li>• Description of stock-based compensation (*)</li> <li>• Total value</li> <li>• Number of units</li> <li>• Value per unit</li> <li>• Currency</li> </ul>	(*) Examples: Distribution of stock (with/without cash payments) or cash payments (equivalent to stock price/equivalent to dividends), etc.
Rights related details	<ul style="list-style-type: none"> <li>• Grant date</li> <li>• Type of rights (*)</li> <li>• Total number of shares / units or value of cash/ other benefit to be received</li> <li>• Type of unit (**)</li> <li>• Indicate director / employee</li> <li>• Period of contract (***)</li> </ul>	(*) Listed examples are stock option, restricted stock, restricted stock units, Employee Stock Purchase Program (ESPP), phantom stock, Stock Appreciation Rights (SAR), performance based shares, performance based units  (**) Unit for amount included in “Total number of shares / units or value of other benefit” (e.g. shares, USD, JPY, etc.)  (***) Employment period, Japan assignment period, director service period, etc.
Foreign affiliate details	<ul style="list-style-type: none"> <li>• Name of company</li> <li>• Corporate ID</li> <li>• Name of country where the headquarters is located</li> </ul>	
Other comments		Examples: Tax agent name Hypo tax Exercise price – when stock options exercised with cash
Japan company details	<ul style="list-style-type: none"> <li>• Address</li> <li>• Name</li> <li>• Corporate ID</li> </ul>	

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