



# GMS Flash Alert

## Global Compensation Edition

2023-012 | January 18, 2023



# Japan – Tax Reform Includes Stock Option Taxation Changes for Start-Ups

Under Japan's 2023 tax reform proposals,<sup>1</sup> one of the requirements (the "exercise period requirement") for a stock option to be considered a "qualified stock option" will be relaxed in the case of stock options issued by certain unlisted Japanese "start-up companies" to their employees/directors.

---

## WHY THIS MATTERS

The relaxing of this requirement should provide an incentive for start-ups. The period during which individuals awarded such stock options can choose to exercise them and "defer" their taxability is extended (as noted below) to within 15 years after the right is granted, rather than as has been the case, the current maximum period of 10 years.

Extending the tax-preferential period for stock options means that they could be a more attractive way of compensating individuals in the start-up sector and give that sector a boost.

---

## Background

Under current stock options rules, there are several requirements that stock options granted by a company to its employees/directors (including those of a subsidiary) must meet in order to be treated as "qualified stock options." Treatment as a tax qualified stock option allows income from the exercise of such qualified stock options to be treated as taxable capital gain and deferred until the shares obtained from the qualified stock option exercise are sold, instead of being treated as employment income taxed at the time of the stock option exercise.

© 2023 KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. © 2022 KPMG Tax Corporation, a tax corporation incorporated under the Japanese CPTA Law and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. Printed in the U.S.A. NDPPS 530159.

## Changes under 2023 Tax Reform

Under the 2023 tax reform proposals, the “exercise period requirement” will be relaxed in the case of stock options issued by certain unlisted Japanese “start-up companies” to their employees/directors (including those of a subsidiary) as described below.

	Exercise Period Requirement for Certain Start-up Companies
Current Law	Option must be exercised after two years but before 10 years from the resolution date of the option grant.
Proposed Law	Option must be exercised after two years but before 15 years from the resolution date of the option grant.

A “start-up company” is a Japanese company (“Kabushiki-Kaisha”) that has been in existence for less than five years, is unlisted, and meets certain other requirements.

---

## KPMG INSIGHTS

This measure – amongst others in the 2023 tax reform – is part of Prime Minister Fumio Kishida’s intention to support start-ups and entrepreneurial activity in Japan as integral to his government’s “new capitalism” agenda.

For start-ups that depend on the efforts of their employees to perform research and development, negotiate supply chains, and build relationships with manufacturers, the time to bring a product or service to market, while continuing to retain employees to keep the concern going, up to and beyond the time it has a sellable product or service, can be lengthy. So, this extension of the exercise period requirement will give them some “breathing room” to achieve their goals.

If employers have questions regarding existing rules, and/or the changes that apply to start-ups, what the conditions of eligibility are, and what the tax consequences are, they should contact their qualified global reward professional or a member of the Global Reward Services team with KPMG in Japan (see the below Contact Us section).

---

## FOOTNOTE:

1 For an English-language version of the key points of the FY 2023 tax reform on the website of Japan’s Ministry of Finance, click [here](#). And in Japanese, see this [webpage](#).

\* \* \* \*

## Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in Japan:



**Hisanobu Eguchi**

Tel. +81 (3) 6229-8166

[Hisanobu.eguchi@jp.kpmg.com](mailto:Hisanobu.eguchi@jp.kpmg.com)



**Benjamin Starkey**

Tel. +81 (3) 6229-8233

[Benjamin.Starkey@jp.kpmg.com](mailto:Benjamin.Starkey@jp.kpmg.com)

**The information contained in this newsletter was submitted by the KPMG International member firm in Japan.**

© 2023 KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. © 2022 KPMG Tax Corporation, a tax corporation incorporated under the Japanese CPTA Law and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

[www.kpmg.com](http://www.kpmg.com)

[kpmg.com/socialmedia](http://kpmg.com/socialmedia)



© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

KPMG LLP is the U.S. firm of the KPMG global organization of independent professional services firms providing Audit, Tax and Advisory services. The KPMG global organization operates in 147 countries and territories and has more than 219,000 people working in member firms around the world.

Each KPMG firm is a legally distinct and separate entity and describes itself as such. KPMG International Limited is a private English company limited by guarantee. KPMG International Limited and its related entities do not provide services to clients.

Flash Alert is a GMS publication of KPMG LLP's Washington National Tax practice. To view this publication or recent prior issues online, please click here. To learn more about our GMS practice, please visit us on the Internet: click here or go to <http://www.kpmg.com>.