

Taiwan Income Tax Implications of Stock Options

Understanding Taiwan Tax Regulations

This guide provides a general overview of the tax implications of stock options under varying circumstances, based on relevant legislation and tax rulings in Taiwan.

Introduction

Whether an employer intends to grant stock options to employees or employees plan to exercise stock options, both parties should be familiar with their tax obligations. This guide provides a general overview of the tax implications of stock options under varying circumstances, based on relevant legislation and tax rulings in Taiwan.

Terminology

Grant Date – The date a stock option is granted to an employee.

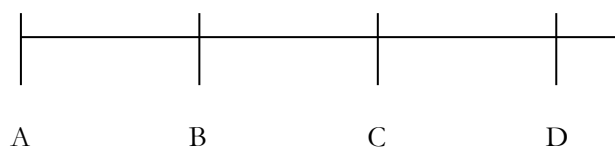
Option Price (Acquisition Price) – The acquisition price of an option. This is disclosed by the company when issuing the stock option.

Lock-in Period – The period from the grant date to the vested date.

Vested Date – The date when a stock option becomes applicable or exercisable.

Exercise Date – The date rights to the underlying assets are converted in accordance with the option contract.

Timeline



A = Grant Date

B = Vested Date

C = Exercise Date

D = Selling Date

Tax Computation on Stock Options Exercised by Employees after 1 January 2005

Scenario 1: Stock option cost is not charged to the Taiwan entity

The difference between the option price and the market value of a stock at **the exercise date** is categorized as "other income" of the employee.

In the case of an expatriate, the entire period the employee resided in Taiwan during the lock-in

period (starting from **the grant date to the vested date** of the stock option) must be taken into consideration when computing taxable profits. In the case of a local employee, the length of time the employee resided in Taiwan during the lock-in period is not relevant.

Employers should, in accordance with Section 3, Article 89 of the Income Tax Act, issue withholding tax certificates on stock option income to employees prior to the end of January of the following year. However, no withholding tax needs to be deducted or paid, as stock option income is categorized as “other income” and not salary income of the employee.

The withholding tax category for “other income” is 94.

Scenario 2: Stock option costs are charged to the Taiwan entity

If the Taiwan entity passes all associated stock option costs directly to employees, resulting in Taiwan employees eventually buying shares at full value, then there is no clear benefit granted to the employees. Under this scenario, no withholding tax needs to be deducted.

If the Taiwan entity grants stock options to employees free of charge or at reduced rates, the Taiwan entity may treat this as a fringe benefit. Such fringe benefits are subject to salary withholding tax.

If a Taiwan entity intends to grant stock options free of charge to employees, but the stock option costs charged to the entity cannot be linked to individual employees, then payments to an overseas company for those stock options are subject to 20% withholding tax. The Taiwan entity needs to deduct this amount prior to remitting the stock option costs back to the foreign company.

Scenario 3: Restricted Stock Units (RSUs)

There are currently no tax rulings in Taiwan dealing specifically with RSUs. In practice, most companies would treat RSUs in the same manner as stock

options, choosing one of the methods above depending on whether or not the RSU expense is charged to Taiwan.

Example –Expatriate Employee

Consider the case of an expatriate employee who is granted one stock option at the price of TWD 20 per option. The lock-in period is 2 years, and the option can be exercised for the first time on 1 February 2025. The expatriate employee entered Taiwan on 1 January 2025 and exercised the option on 31 May 2025. The market price of the stock at the exercise date is TWD 30 per share.

Taxable income is computed as $31/730 \times (30-20) = 0.42$.

Other Ministry of Finance Announcements

Valuing stock – Date

If the stock option is exercised on a non-trading day of the stock exchange, the value of the stock shall be determined according to the trading value of the stock on the next trading day of the exchange market.¹

Valuing stock – Method

The market value of stocks trading on the stock exchange should be calculated as the closing price for the trading day. For stocks not traded on the stock exchange, the value should be calculated as the net asset value per share, computed based on the latest set of audited accounts. In the event that no audited accounts are available, net asset value per share shall be calculated per book. For stocks traded over the counter, market value should be the weighted average trading price on the exercise date.²

Compliance with Regulations

Employers need to exercise due care and submit complete stock option-related tax filings.

¹ Supplementary announcement issued 24 May 2012

² MOF Ruling Tai Tsai Shui 10100069320

Tax implications of stock options require planning, patience, and a clear idea of what you want to achieve and the timeline within which you hope to achieve it. Grant Thornton Taiwan is highly experienced and well positioned to assist you in this regard.

If you require assistance, please contact our tax partner Jay Lo.

Contact



Jay Lo

Managing Partner

T +886 2 2789-0887 ext. 1314

E jay.lo@tw.gt.com

www.grantthornton.tw