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Tianjin Introduces Further Tax Incentives to Promote its Equity Investment Fund Industry

● Inside the News

To encourage the development of the equity investment fund industry in Tianjin, on October 16, 2009, the People's Government of Tianjin approved and promulgated the *Measures on Promoting the Development of Equity Investment Fund Industry in Tianjin* (the "**Measures**") jointly stipulated by Tianjin Municipal Commission of Development and Reform Tianjin Municipal People's Government Financial Affairs Office, Tianjin Commission of Commerce, Tianjin Finance Bureau, Tianjin Local Tax Bureau and Tianjin City Administration for Industry and Commerce. The Measures became effective as of the date of its promulgation, and apply to both domestic and foreign-invested equity investment funds (the "**Funds**") and equity investment fund management enterprises (including industry investment fund management enterprises, the "**Fund Management Enterprises**") registered in Tianjin.

The Measures set forth specific preferential policies applicable to Funds and Fund Management Enterprises registered in Tianjin, which are summarized as follows:

The Measures provide that partnership Funds and Fund Management Enterprises may qualify for pass-through tax treatment, i.e. "allocate first, then tax". According to the Measures, individual limited partners to a limited partnership Funds shall pay individual income tax under the item of "income from interest, dividends and bonuses" or "income from transfer of property" at a rate of 20%, and the investment income or equity transfer proceeds of an individual general partner to the same, who not only operates the partnership business but also make capital contributions to the funds, shall be taxed at a rate of 20%, provided that the aforesaid income/proceeds can be separated out. Partners in the form of companies or other entities shall pay enterprise income tax according to the relevant laws and regulations.

The Measures further set forth that during the period from January 1, 2006 to December 31, 2012, Funds and Fund Management Enterprises registered and recorded in Tianjin may enjoy the following six incentives:

1. From the year when a Fund Management Enterprises first pays its business tax, the financial department in the district where the Fund Management Enterprise pay the tax, will reimburse the Fund Management Enterprise the total amount of the local portion of the business tax paid for the first two years, and a half amount for the subsequent three years;
2. From the year when the Fund Management Enterprise first makes profits, the financial department in the district where the Fund Management Enterprise pay the tax, will reimburse the Fund Management Enterprise the total amount of the local portion of the enterprise income tax paid for the first two years, and a half amount for the subsequent three years;
3. The plants newly built or purchased by the Fund Management Enterprise for self use are exempted from deed tax, and house property tax for three years;
4. Fund Management Enterprises which build or purchase plants for self use in Tianjin, will be given a lump sum subsidy of 1000 RMB per square meter, and the maximum amount of the subsidy is 5 million RMB; Fund Management Enterprises which rent workplace for self use, will be given a subsidy of 30% of the rent per year for 3 years. In case the rent is above the average market price, the subsidy shall be calculated based on the average market price and the total amount shall not be more than 1 million RMB;
5. A senior officer who is continually employed by a Fund Management Enterprise in Tianjin for more than 2 years (including 2 years) will be granted an award by the local financial department when purchasing his first commercial house, vehicle or receiving trainings in Tianjin. The maximum accumulated awards will be the actual price he pays for the same, and the term of the awards shall not exceed 5 years;
6. When investing in projects located in Tianjin, the Funds will be awarded by the financial department an amount of 60% of the local portion of the income tax the Funds pay for exit gains or other proceeds.

The financial department mentioned in the Measures refers to the local financial department where the Funds or the Fund Management Enterprises are registered. The Measures further provide that, during the course of implementing the Measures, if multiple preferential policies are applicable, the Funds and the Fund Management Enterprises shall not enjoy repeated preferential policies, but may choose a more favorable one.

Finally, the Measures define a project recommendation mechanism through which large-scale and high-profile projects will be firstly recommended to Funds and Fund Management Enterprises registered and recorded in Tianjin. The investee companies in Tianjin will then have priority to be listed in the Tianjin government's waiting list of going public companies, and will be supported by Tianjin government when listing domestically or overseas and be given relevant preferential polices applicable in Tianjin.

Should you have any questions regarding the above, please feel free to contact us. Thank you!

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