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Preliminary Analysis of Local Preferential Policies for RMB Private Equity Investment Funds

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Alongside the rapid expansion of the equity investment market in China, RMB private equity investment funds ("PE Funds") are reaching their own developmental climax. At the same time, various areas in China leading the growth of PE Funds are eagerly implementing policies to attract and promote further development. These policies are also becoming major points of consideration for fund managers and investors seeking to establish PE Funds. Hence, we issue this article to summarize our analysis of the various local preferential policies implemented regarding PE Funds and fund management companies in some areas.

Relevant Preferential Policies Regarding PE Funds

Currently, some areas have enacted more specific local policies for the establishment of PE Funds and the requirements and conditions necessary for those funds to enjoy preferential policies. Those preferential policies mainly include benefits and financial subsidies, and subsidies for the purchase or lease of offices. Below is a preliminary analysis and summary.

- **Requirements and Conditions for Enjoyment of Preferential Policies**

  Most common among the various local policies are requirements regarding the investment contribution amounts of PE Funds (whether in the form as limited liability companies or limited liability partnerships), generally requiring that the investment contribution be paid in cash. The specific requirements under various local policies are represented in the following table:

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	Tianjin	Beijing	Shanghai	Shenzhen
Minimum total investment[1]	Subscribed capital contribution (or registered capital) shall be no less than RMB 100,000,000	Not specified for Beijing; but Haidian District imposes requirement of total investment of no less than RMB 100,000,000	Subscribed capital contribution (or registered capital) shall be no less than RMB 100,000,000	Subscribed capital contribution (or registered capital) shall be no less than RMB 100,000,000
Initial actual paid-up contribution	No less than RMB 20,000,000	Not specified for Beijing; but Haidian District imposes requirement of no less than 20% of the total investment amount	N/A	No less than RMB 50,000,000
Each partner's (or shareholder's) required contribution amount	No less than RMB 1,000,000	N/A	Each natural person partner (or shareholder): No less than RMB 5,000,000	Natural person partner (or shareholder): No less than RMB 5,000,000

Aside from the above, there are other requirements and conditions for PE Funds intending to take advantage of the preferential policies, e.g. limitations on the size of single portfolio investments, requirement of completion of the first portfolio investment by the PE Fund, due completion of applicable filing procedures, etc. The issue of PE Fund filing procedures warrants particular attention. Currently, national laws and regulations at the central level only contain express, detailed provisions for venture capital funds. To date, there are no uniform national rules with respect to the filing procedures of PE Funds. At the local level, Tianjin has already enacted comparatively clear regulations which provide expressly that "the total subscribed capital contribution or registered capital shall be not less than RMB 100,000,000", the "initial capital contribution (actual paid-up capital) shall be not less than RMB 20,000,000", and that funds and management companies which fail to file with the relevant authorities in Tianjin may not enjoy local preferential policies or the desirable investment projects recommended by the competent government authority.

➢ **Measures for Various Benefits and Subsidies**

The available benefits and subsidies vary from one locality to another. Each local government relies on broader financial policies to offer certain benefits, support, office purchase and lease subsidies as well as benefits to senior management and key personnel to attract PE Funds.

For instance, applicable Tianjin regulations provide that enterprises and projects invested in Tianjin may enjoy, upon exit or realization of returns, a tax refund of 60% of the income tax derived from such investment which is attributable to Tianjin. The Pudong New Area of Shanghai rules include benefits to encouraged PE Funds to operate in the Lujiazui Function Area and the Zhangjiang Function Area, such as by granting a 1.5% subsidy on the purchase price of offices for self-use and an annual RMB 500 per square meter subsidy for leases. In Shenzhen, aside from office purchase and lease subsidies, enterprises and projects investing in Shenzhen can enjoy, upon exit or realization of returns, a one-time return equal to 30% of the "benefits derived by the local government" (but the return is limited to no more than RMB 3,000,000 for each project). Additionally, a 100% subsidy of the "benefits derived by the local government from enterprise income" is available for the first profitable year, with a 50% subsidy of the "benefits derived by the local government from enterprise income" for the three-year period thereafter.

Relevant Preferential Policies Regarding Private Equity Management Enterprises

➢ **Requirements and Conditions for Enjoyment of Preferential Policies**

The requirements on private equity management enterprise formed as limited liability companies or joint stock companies most commonly shared among various local policies are those regarding minimum registered capital amount and initial paid-up contribution amount. The specific requirements under various local policies are represented in the following table:

	Tianjin	Beijing	Shanghai	Shenzhen
Minimum Registered Capital/Paid-up Capital	Domestic Enterprise: Registered capital of a limited liability company shall be no less than RMB 1,000,000; and shall be no less than RMB 5,000,000 for a joint stock company Foreign-invested Enterprise: N/A	Domestic Enterprise: Not expressly provided; but Haidian District requires registered capital be no less than RMB 10,000,000 Foreign-invested Enterprise: Registered capital of no less than USD 2,000,000	Domestic Enterprise: Paid-up capital of a limited liability company shall be no less than RMB 1,000,000; and shall be no less than RMB 5,000,000 for a joint stock company Foreign-invested Enterprise: Registered capital of no less than USD 2,000,000	Domestic Enterprise: Paid-up capital of a limited liability company shall be no less than RMB 5,000,000; and shall be no less than RMB 10,000,000 for a joint stock company Foreign-invested Enterprise: N/A
Initial actual paid-up contribution	Domestic Enterprise: No less than RMB 1,000,000 Foreign-invested Enterprise: N/A	Domestic Enterprise: Not expressly provided; but Haidian District requires no less than 20% of the registered capital Foreign-invested Enterprise: Be made according to relevant national laws and regulations	Domestic Enterprise: N/A Foreign-invested Enterprise: At least 20% of the registered capital must be paid-up within 3 months after issuance of the enterprise business license	N/A

- **Measures for Various Benefits and Subsidies**

  The local measures also vary in the specific measures for granting benefits and subsidies. The types of measures include policies to offer certain benefits, financial subsidies, office purchase and lease subsidies as well as benefits to senior management and key personnel. Continuous benefits and subsidies warrant particular attention. For instance, relevant policies in Tianjin grant a full business tax subsidy for the portion attributable to the local county for a two-year period after the first business tax payment date, and for the three-year period thereafter, a 50% business tax subsidy is granted for the portion attributable to the local county. Also, a subsidy for the full income tax attributable to the local county is available for the two-year period following the first profitable year, with a 50% income tax subsidy for the three-year period thereafter. Other benefits are on a one-time basis. For example, Pudong New Area of Shanghai grants partnership enterprises (including those which are PE Funds) various one-time benefits based on the total amount raised: e.g. RMB 5,000,000 subsidy for funds of RMB 1,000,000,000 or more; RMB 10,000,000 for funds of RMB 3,000,000,000 or more; and RMB 15,000,000 for funds of RMB 5,000,000,000 or more, and further benefits for projects and funds which are significantly beneficial to the financial development in Pudong.

Conclusion and Our Advice

While each area has its own preferential policies, it is important that fund managers and investors consider the varying specific measures for each area throughout the course of establishment and management, and take note of the necessary requirements and conditions for qualifying for those policies. For this, it is best to contact and communicate with relevant local regulatory authority. Finally, in practice, PE Funds which have attracted investments from or are supported by the funds guided by local governmental authorities tend to enjoy a greater advantage in obtaining preferential policies.

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1 Please note that this minimum total investment amount applies to the minimum threshold required to qualify for preferential treatment and is not the minimum threshold for establishment of a PE Fund.