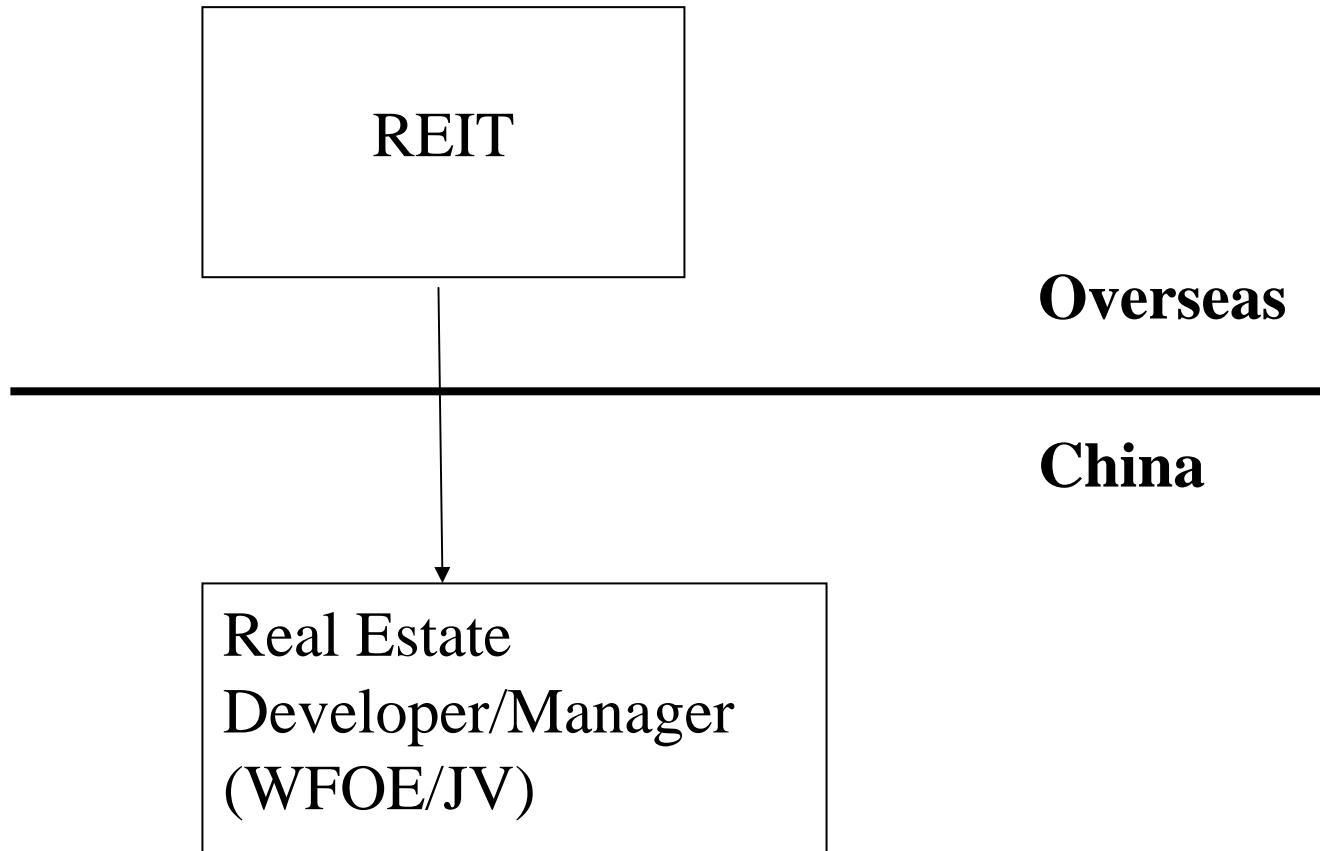


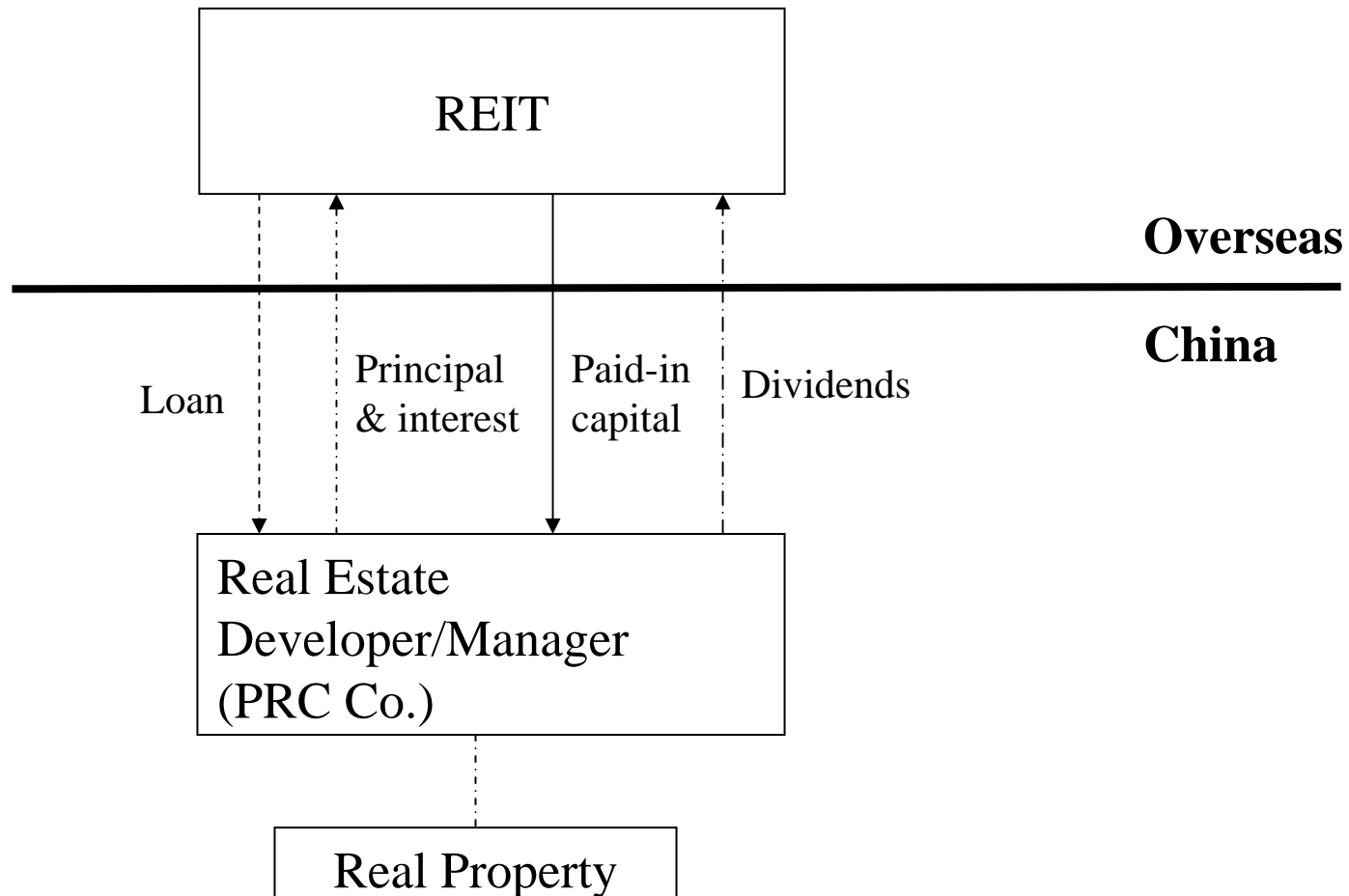
**Investment Structure for, and
Chinese Tax Implications of,
Investing
in
the Chinese Real Estate Market**

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Investment Structure



Tax Implications



See notes on taxation on the next page.

- SAIC charge in respect of paid-in capital (see Appendix I)
- 10% withholding tax when the equity in PRC Co. is transferred (possible work-around)
- 10% withholding tax on outgoing interest payments
- Currently, no withholding tax on outgoing dividends
- When real property is sold:
 - Buyer pays a 1.5%~3% deed tax;
 - Seller pays a 5% business tax (on the entire gross receipts if property held for 5 years or less, or on the net capital gain if property held for more 5 years);
 - Seller may now be required to pay a 33% income tax on net income from sale of property;
 - Seller may also need to pay land appreciation tax (see Appendix II);
 - Both seller and buyer pay stamp duty (0.05% of the contract amount); and
 - Both seller and buyer pay transaction fees.

Appendix I
SAIC Charge Rates
for the Establishment of
Foreign Investment Enterprises (the “FIEs”)

Registration Fee for Establishment of
a Foreign-invested Enterprise in China

Amount of Registered Capital	Degressive Rate
No more than RMB10 m (approx. US\$1.28 m)	0.08% but no less than RMB50 (approx. US\$6.41)
More than RMB10 m (approx. US\$1.28 m) but no more than RMB100 m (approx. US\$12.82 m)	0.04% but no more than RMB44,000 (approx. US\$5,641.03)
More than RMB100 m (approx. US\$12.82 m)	0

Appendix II

Statutory Land Appreciation Tax Rates

Where the appreciated amount is:	Then the applicable tax rate will be:
50% or less of the amount of the Deductible Items	30%
in excess of 50%, but no more than 100% of the amount of the Deductible Items	40%
in excess of 100%, but no more than 200% of the amount of the Deductible Items	50%
in excess of 200% of the amount of the Deductible Items	60%

“Deductible Items” shall mean the following items that will be deducted when calculating the appreciated amount:

- (1) Amount of funds paid to obtain granted land use rights;
- (2) Costs and expenses incurred in the development of the land;
- (3) Costs and expenses incurred on newly constructed buildings and their ancillary facilities or the assessed value of the old buildings;
- (4) Taxes related to the assignment of real estate; and
- (5) Other items to be deducted as stipulated by the Ministry of Finance.

Conclusions

- China's tax and regulatory regimes are constantly evolving.
- Also, local practices can be inconsistent with the national policy.
- Study and understand thoroughly the PRC legal, regulatory and tax environment before you "dive in" the China real estate market.