



New measures aimed at cooling an overheated mainland property market appear to have done the opposite as couples fake marriage or divorce to defeat the rules and buy, writes **Lulu Chen**

Profit bliss in wedded splits

Marriage and divorce – both real and fraudulent – have become ways to help people evade government restrictions on buying and selling property.

“With the new restrictions and property taxes, the numbers of fake marriages and divorces are bound to go up,” said Xie Baisan (谢白三), professor and director for Fudan University Financial and Capital Markets Research Centre.

In an attempt to cool property prices, 23 mainland cities imposed austerity measures in the past two months that limit the number of properties a family can buy. They also set up barriers to non-local residents purchasing homes. In response, creative couples are turning to marriage or divorce – sometimes using fraudulent documents – to avoid taxes or to buy property in violation of the restrictions.

Last month, police detained a couple in the northeastern province of Liaoning (辽宁) who allegedly committed tax fraud. The couple managed to save 80,000 yuan (HK\$94,700) in taxes by faking their divorce, the Xinhua news agency said.

Wang and Gao, who were quoted only by their surnames, wanted to sell two properties. Under State Council rules, a family who own a property for more than

five years can sell it without having to pay tax. But this only applies to one property per family. The couple forged documents to prove they were single, split the properties between them and avoided the payment – until they were caught.

This is just one of many such cases of fake divorces and marriages that have been reported.

The Higher People’s Court of Beijing Municipality posted a case on its website in which a couple got a legitimate divorce so they could obtain subsidised housing in 2009. The wife later sued her ex-husband after she found out he was having an affair, and said he tricked her into a divorce. The court said she did not have a case due to lack of evidence.

But it wasn’t until recently, after China released its controversial new measures to cool the property market, that fake marriages and divorces became such a hot topic. Last month in Shanghai and Beijing, local families that already own two or more homes and non-local families that own one or more homes were banned from buying any more.

But the rule created an unintended incentive. Local couples who own two properties could buy two more if they got divorced or, if they are single but living together, not marry at all.

“A key issue is people are playing around with the idea of ‘family,’” said Peng Jian (彭健), director of Beijing Huahuan Law Firm. “The legal definition of what family means remains a grey area.”

It is difficult to tell how these property policies will affect marriage and divorce rates. The measures restricting non-locals

and limiting the amount of property a family can purchase were not released until January. But in Shanghai, while divorce numbers declined slightly last year, the number of couples getting married also dropped 14.33 per cent to 126,296, according to the Shanghai Civil Affairs Bureau.

Tu Feng (涂峰), a researcher at the Chinese Academy of Social Sciences, said he believed the proportion of people who would choose to fake matrimony or divorce was still small, and usually such people had less traditional views on marriage and family.

Some other measures might motivate people to get divorced. Families buying second homes face an interest rate some 1.1 times higher than the benchmark interest rate on the mainland. And families selling their only property that they have owned for five years or more do not have to pay tax on the sale.

Also, after Shanghai became one of the first two cities to impose property taxes on high-end apartments from January 28, local families buying second homes and non-local families buying any real estate must pay annual property taxes. Such taxes did not exist on the mainland until Shanghai and Chongqing (重庆) became trial cities to test the measures in January. The main reason behind such property divorces is to avoid rules imposed on second homes.

But the rules spur people to marry as well.

On February 16, Beijing started banning non-locals with fewer than five years of local employment from buying homes in

If these people are smart, they would know to sign a prenup, otherwise they might end up in some heavy fighting over the property with their fake spouses

Huang Rongqiang, a divorce lawyer in Sichuan

the capital. An unintended result was that the policies prompted talk of non-locals getting married to Beijing residents to buy property.

One post on Weibo, China’s version of Twitter, immediately grabbed the attention of internet users. It jokingly said Beijing residents should marry and divorce six times a year and charge a 1 per cent fee on each property they help buy. If, on average, each home was worth 2 million yuan, Beijingers could earn 120,000 yuan in 12 months.

Posts offering marriage proposals on such internet forums as Tianya have also mushroomed, and some are apparently serious. One person claiming to be a 30-year-old single man from a decent family in Beijing said he was willing to marry non-locals provided he was paid a certain fee, though he did not specify how much. He also said he had lawyers and a real estate agent to provide the documents.

By February 23, 23 cities had announced austerity measures that created what some consider a double standard between locals and non-locals in property buying.

“Some criticised the latest regulations for being discriminatory,” said David Ng, the head of regional property research at the Royal Bank of Scotland. He said that while such policies would help restrict speculation in the near term, it remained to be seen how long they would last.

Zhu Xiaoding (朱孝顶), a lawyer at the Beijing Cailiang law firm, said: “Fraudulent marriages can be common.” People who married and divorced for property were not guilty of any crime, but those who

forged documents could be charged for tax evasion or fraud, he said. The Higher People’s Court of Beijing Municipality webpage posted cautions about the risks of faking marriages and divorces.

Huang Rongqiang (黄蓉强), a divorce lawyer in Sichuan (四川), the province with the highest number of divorces last year, said that if a couple were legally wed, the property purchased after marriage belonged to both parties, if there was no prenuptial agreement. “If these people are smart, they would know to sign a prenup, otherwise they might end up in some heavy fighting over the property with their fake spouses,” Huang said.

Criticised for the rising property prices, the central government introduced the latest measures originally to curb inflation and discourage speculation in the real estate sector.

Yet scholars like Xie of Fudan University said such measures only eased the symptoms and did not fix the key problems. “If you look at the fundamentals, nothing has changed. The government still relies heavily on land sales for income, and every year millions of graduates wish to stay in big cities. China is still undergoing urbanisation, there’s too much liquidity and real interest rates are still too low.”

In the past week, some developers said they would offer discounted prices. But Ng of the Royal Bank of Scotland said he did not expect to see prices come down for another year or two. “Most developers are still cash-rich and some provide discounts just to maintain market share,” he said. “Many buyers will jump into the market again at the first signs of a drop in price.”

Tax activists building up a good head of steam

Zhou Xin and Simon Rabinovitch

You might call it the “steamed bun party”. A small but vocal number of Chinese are beginning to complain about taxes, placing their government in the unfamiliar position of having to defend – and sometimes change – its fiscal policies.

It is hardly a popular uprising and is certainly not an organised movement like the anti-establishment “tea party” in the United States. Still, expressions of discontent about taxes are significant in the controlled world of mainland politics. The economic consequences are also big, with taxation one of the keys to unlocking the mainland’s suppressed domestic demand.

The emergence of taxes as a public concern was on display this week at the National People’s Congress, the country’s annual session of parliament, which features scripted meetings and next to no real debate.

It all started with the steamed bun. Pan Yaomin, a representative in a municipal-level People’s Political Consultative Conference, submitted to that body – which advises parliament – a proposal for cutting the “steamed bun tax”.

“The steamed bun is a daily necessity for many people, and it’s just not right to pay high taxes on it,” he said.

In truth, there is no levy targeted just at steamed buns. Pan’s contention was that the buns should be treated as a grain product, which is subject to 13 per cent in value added tax, rather than as a processed food, which is subject to a 17 per cent VAT.

He touched a chord with his proposal, fuelling widespread discussion in Chinese media and prompting local tax authorities to defend their position and explain they did not have the power to make changes.

Pan’s action was the latest sign that public grumbling about taxes is causing the central government to pay attention – and sometimes to make policy changes.

A week before the parliament opened, the State Council, or cabinet, said an annual vehicle tax would be 31 per cent less than planned, following strong opposition from car owners.

The government has also taken only tiny steps towards introducing a property tax, wary of a backlash from homeowners.

“These are specific and minor examples of progress, but they won’t change the overall trend of an increasing tax burden

on individuals and firms,” said Li Weiguang, a professor at the Tianjin University of Finance and Economics.

Li has been one of the key advocates of reforming the mainland’s fiscal system.

“The government can do whatever it wants with its budget and taxation, without any checks. That’s really terrible,” he said.

Zong Qinghou, the billionaire boss of Chinese drinks company Wahaha and a parliamentary delegate, followed that tack in his policy proposal to the National People’s Congress.

“In the distribution of income, the state has taken too much, while companies and residents have taken too little. As such, how can we effectively boost domestic demand?” he asked.

“Cutting taxes for ordinary people is the most direct and effective way,” he said.

There is powerful evidence to suggest that the government’s share of total income, though not formal taxation, is too high on the mainland.

While the economy has grown by an annual average of 10.5 per cent over the past decade, government revenues rose 20.1 per cent a year during that time.

Mirroring a fall in the share of national



A vendor selects steamed buns for customers at a Hubei province market. Photo: Reuters

income going to workers, consumption has gone from 46.4 per cent of GDP in 2000 to 35.6 per cent in 2009, abnormally low for a peacetime economy. Investment – a reflection of the government’s spending power – rose to 47.7 per cent of GDP from 35.3 per cent in the same period.

“The system has to be reformed,

otherwise China’s economic transformation won’t be realised,” Zhang Xiaojing, a researcher with the Chinese Academy of Social Sciences, said.

Beijing will soon move in that direction by raising the minimum threshold for income taxes from the current level of 2,000 yuan (HK\$2,370) a month. Local

media reports said it may be lifted to 3,000 yuan. Zong of Wahaha has called for the floor to be set at 5,000 yuan.

There is no talk of lowering existing income tax rates. In the mainland’s graduated system of personal tax, the rate for the lowest bracket is 5 per cent.

Cutting taxes is only a small part of what Beijing must do to stimulate consumption. Boosting wages, speeding up the development of cities and building a stronger social safety net are also crucial.

Forbes ranked China second in its 2009 “tax misery index”, behind France.

Tax collection is still patchy, as one entrepreneur surnamed Fang, who owns a small translation firm in Beijing, can attest.

“My business would go bust if I didn’t do tax planning,” she said, using a euphemism for evading taxes.

But as Beijing introduces new taxes, such as on property, it will find resistance.

Netease, one of the country’s main Web portals, published an unsigned commentary earlier this year that argued it was time for the parliament to exercise more oversight of taxation.

Reuters