Hungary Repatriates $175 Million of Untaxed Funds, Ministry Says

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(Bloomberg) -- Hungary has drawn 49.8 billion forint ($175 million) of previously untaxed funds from abroad, the Economy Ministry said Thursday, amid criticism that the cabinet's incentives go too far and may undermine tax collection at home.

The eastern European country set up accounts in 2013 to repatriate cash from foreign tax havens. The money, whose origin need not be declared, may be invested in forint-denominated government securities.

"Hungary has to participate in the race to try to lure offshore assets that are currently seeking new target countries, especially those with Hungarian origin" said Zoltan Pankucsi, a deputy state secretary at the Economy Ministry. The ministry hopes to "significantly" increase the deposited amount through relaxing rules further this year.

The European Union signed an agreement with Switzerland in May on the automatic exchange of tax information, effectively ending banking secrecy for EU citizens as governments eye untaxed assets to boost budget revenue. Hungarians held over 700 billion forint in Austrian, Swiss and Luxembourg accounts in 2014, according to an estimate by financial consultancy Blochamps.

Holders of the Hungarian special accounts may withdraw their funds after one year by paying a 10-percent tax, compared with a 16 percent personal income tax rate. No taxes need to be paid if the funds are kept on the account for more than five years. The accounts can be opened at commercial lenders in Hungary including OTP Bank Nyrt. and Erste Group Bank AG.

Without a deadline in place for shifting funds back to Hungary, the regulations risk creating a "parallel" tax system that the gray economy can exploit indefinitely, Akos Burjan, a partner at consulting firm PwC in Budapest, said last month.

"Hungary's efforts may actually end up undermining tax collection," Burjan said.