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Offshore amnesty offered, again

Fidesz aims to encourage Hungarians to bring home their financial assets hidden in foreign and offshore bank accounts by offering a tax amnesty. However, considering the risks in Hungary's current business environment and the state of the budget, revenues from the scheme are expected to be minuscule.

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Fidesz MPs Antal Rogán and János Lázár filed an amendment to the 2011 budget at the end of November to allow a one-off tax amnesty on the transfer of undeclared funds held outside the country back to Hungary. This money would be subject to the 16% personal income tax rate and could be transferred back to Hungary with no further investigation into its origins.

An earlier tax amnesty announced in 2008 by the previous government failed, as it resulted in only HUF 2 million in extra tax revenues, compared to the expected HUF 50–100 billion. In 2008, only 24 Hungarians seized the opportunity to bring home a negligible amount of money. Similar programs have been successful in some other countries; for instance, Italy's amnesty for tax evaders holding funds outside the country has attracted more than €80 billion so far, thanks to the generous terms and the anonymity offered.

The previous program raised several concerns from tax advisors. They said that the original version did not include guarantees to prevent the use of the scheme for money laundering, and companies could exploit the amnesty opportunity as a loophole for tax evasion.

The government – the head of which famously called central bank governor András Simor an "offshore knight" for having an investment account in Cyprus – has chosen an interesting time to try and lure this money back to Hungary. After its decision to bring the assets of mandatory private pension funds under state control, many Hungarians started worrying about the safety of their bank deposits. Unfortunately, it is not unthinkable any more in Hungary that the government will borrow people's savings in the name of "National Cooperation." As a result, not only the wealthiest, but even those with only small savings are now planning to open bank accounts in neighboring Austria.

Hungarians transfer approximately HUF 200–300 billion a year to foreign bank accounts, Blochamps Capital CEO István Karagich told the Budapest Business Journal. Blochamps estimates that total undeclared funds outside the country now exceed the HUF 2,200 billion amount kept in Hungarian private bank accounts, although a certain portion of that amount has already been reinvested in Hungary as foreign direct investments.

While an offshore bank account may sound like something very obscure, in reality perfectly legal savings account for the majority of the funds held outside the country. "If someone has HUF 100–200 million savings in a Hungarian account, he usually controls at least a similar amount through an offshore entity or a foreign account," Karagich said. These investors typically want to secure their assets through geographic diversification and tax optimization, he added.

Hungarian banks have difficulties keeping their wealthiest private banking clients, Karagich said. In addition, the large multinational banks tend to serve their biggest Hungarian customers, who have millions of euros in funds, through the foreign parent bank rather than the local affiliate.

At the same time, income from illegal activities, primarily from corruption, certainly accounts for a significant part of these funds, according to Karagich. While it is hard to estimate the exact amount of revenues from corruption, he believes that approximately 10–40% of the total investment value has been unjustified during the past few years in Hungary. This huge amount has never been spent on the projects themselves, as it served other "private or group interests," he noted.

Ten years ago, it was much more difficult to transfer money intended to be hidden from tax authorities to offshore accounts due to the lack of tried and tested methods, Karagich said. Now, setting up an offshore company through a law firm to operate Hungarian businesses is a relatively common and simple procedure partly thanks to the country's unstable tax policies. The failure of the previous tax amnesty indicates that government institutions should first set an example by handling corruption and setting up a stable tax system, Karagich said. ■