Countries compete to keep skilled young workers

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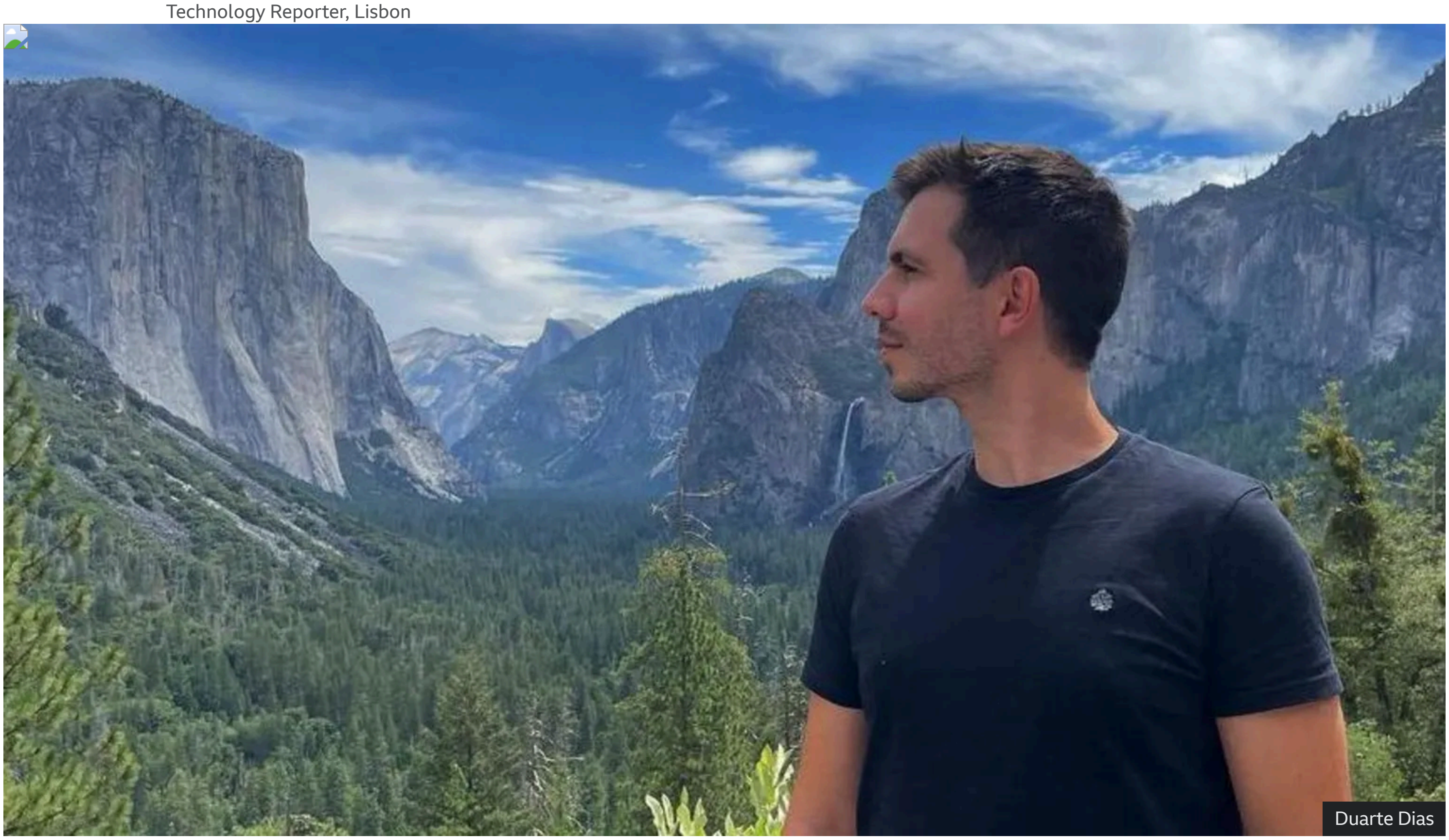

Duarte Dias

Lisbon, Dublin and Seattle - like many Duarte Dias has moved to move up

In 2020, Duarte Dias, a Portuguese software engineer, accepted a job offer to work in Microsoft's Dublin subsidiary.

A little over a year later, he joined a team at Microsoft's headquarters in Seattle, where he still works.

Even though he misses the Portuguese laid-back approach to life, and the family-like team spirit of the work environments there, he does not regret, not for one second, his choice of pursuing an international career.

Mr Dias's decision was made easier by all the financial impact of moving.

The verdict of the spreadsheet was clear: staying in Portugal would be financially ruinous.

"I did simulations of how much money I would save a year in Portugal, and I quickly realised that I wouldn't be able to have a comfortable life financially, even if I got one of the most well-paying jobs available in engineering for my experience level," says.

A two-year job experience in Portugal while Mr Dias was concluding his masters at Lisbon's Instituto Superior Técnico cemented his conviction: his yearly income amounted to €35,000 ($36,000; £29,000).

But his take home salary was much, much less.

His income placed him in a tax bracket which meant up to 40% of this gross salary went to the state.

"Financially it was bad. It would be very hard to save money if I didn't live with my parents," he recalls.

Moving to Ireland meant an immediate hike in his salary prospects, almost doubling to €60,000.

The money is even better in the US, where he now earns upwards of $160,000 before a 20% income tax rate, much lower than at home.

Mr Dias intends to return to Lisbon in two years' time with "with many more savings".

Portugal is an attractive place to live but still many youngsters go abroad

Keeping skilled workers like Mr Dias in Portugal has been a concern for recent governments.

In 2020, the administration led by the Socialist Party's Antonio Costa launched IRS Jovem, a programme of tax reductions for workers less than 30 years old and tiered by level of education.

In 2022, 73,684 taxpayers benefitted from this incentive, according to official data.

After a snap election in March, the new centre-right Portuguese government led by Luis Montenegro doubled down on the idea and expanded it from five to 10 years, and to all workers under 35 independently of their educational levels.

The proposal, passed by the Portuguese parliament in late November, is due to benefit up to 400,000 workers, according to the Portuguese Ministry of Finance.
But specialists say it likely won't be enough to keep the young from going abroad.

"It is unlikely that, on its own, the tax regime will make young workers remain in the country, whether because professional opportunities are more abundant in foreign countries, or due to the fact this tax benefit applies only to yearly incomes under €28,000," says Sérgio Vasques, professor of tax law at the Católica Lisbon School of Law.

He points out that the Portuguese government still takes more of the average worker's salary than most richer nations.

Known as the tax wedge, the ratio between the amount of taxes paid by an average single worker without children and the corresponding total labour cost for the employer, stands at 42.3% in Portugal.

That's **the 8th highest among** the 38 member countries of the OECD.

"This is a tax regime that is an enemy of qualified work and professional success. This regime will not solve this problem," adds Mr Vasques.

Mr Vasques, also a former secretary of state for tax affairs in the early 2010s, adds: "I also cannot imagine a young professional deciding to move to Portugal just because of an extra couple hundred euros at the end of the year.

"Not even a low-skilled worker will make a decision based on that. Portuguese food works probably better as an incentive to move here than that tax regime".

Poland also has measures in place to keep young people from heading abroad

Rita de La Feria, chair of tax law at the University of Leeds, reminds that the exodus of young people isn't just a Portuguese problem, and that Europe is grappling with the challenges of young emigration.

According to a study requested by the Portuguese Parliament, as of July, in the European Union Portugal, Poland and Croatia had special tax regimes based on the taxpayers' ages.

"The challenges are very obvious: worker mobility is higher. The problem is that the country spends very large amounts on training for them to leave for other countries as soon as they enter the workforce," she said.

Ms de La Feria, who moved to the UK at a young age, told the BBC that when she left Portugal she did not intend to "leave for good: many leave their countries of origin thinking they will come back at some point. But once they form a family, it's almost impossible to return."

"Low salaries" the problem in Portugal says Antonio Almeida

Antonio Almeida, a software engineer like Mr Dias, left Portugal during the pandemic in late 2020 for a job in Berlin, right after finishing his degree. He would change the German capital for Brussels two years later. All his work experience was done abroad.

"Back in 2020, we were offered monthly salaries of €1,300, gross, in Lisbon. Berlin offered me €4,200 for a junior role."

Even with a 40% income tax rate in Germany, there was a considerable net gain. "It wasn't a difficult decision," says Mr Almeida.

Now in Belgium - where taxes are higher, he stresses - returning to his homeland isn't a priority. "I think of returning eventually, mainly for family reasons.

"But at the moment my life standards are very high and I like the way of life of central Europe. And the main problem in Portugal is low salaries, not taxes."

Mr Almeida does not consider the Portuguese tax changes as a major factor when thinking of the pros and cons of coming back home.

"Up until today I never thought about it."

Mr Dias agrees: "Salaries outside Portugal will always be higher, and all those who don't have any personal or familial connections to the country won't have any kind of financial or career incentive to stay there".

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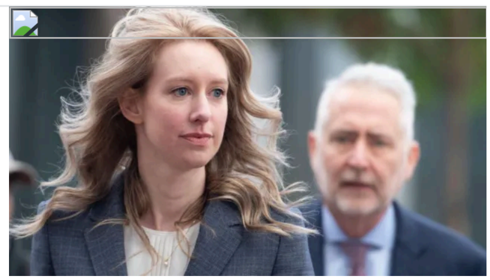

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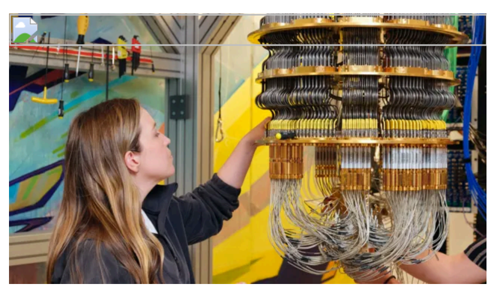

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