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Portugal

Portugal seeks to become low-tax haven for young people

Centre-right government bets on 10 years of tax breaks to stop brain drain

More than 360,000 people aged 15 to 35 left Portugal between 2008 and 2023, accounting for two-thirds of all emigrants during that period © Patricia De Melo Moreira/AFP/Getty Images

Barney Jopson in Madrid and **Sérgio Aníbal** in Lisbon 7 HOURS AGO

Portugal is planning to turn itself into a low-tax haven for young adults by offering a decade of tax breaks to people starting their careers in an effort to halt a growing brain drain.

The country's centre-right government wants to reduce the income tax burden on young people for 10 years — including a first year in which no tax is due — under a plan that has few precedents in global fiscal policy.

The initiative underlines the urgency of reversing a debilitating outflow of younger workers, who are leaving one of the poorest economies in western Europe in search of better-paid jobs abroad.

Portuguese Prime Minister Luís Montenegro, who leads a fragile minority government, will present the tax plan as part of a 2025 budget on Thursday, but it is not certain he has enough votes to get it approved by parliament. If he fails, his government's survival will be in doubt.

The government in Lisbon is seeking to tackle a combination of high taxes, low wages and high housing costs that are driving many highly educated young adults out of the country.

"Our goal is truly to increase our ability to retain talent, to keep our young people in Portugal, ensuring that fewer of them leave, and that those who do can return," Montenegro said this summer. "We want a tax system that is more youth friendly."

Portugal's Prime Minister Luís Montenegro will present the tax plan on Thursday © Samuel Corum/AFP/Getty Images

Under the proposal, young people would pay no income tax in their first year of work. They would be exempted from 75 per cent of tax due in years two to four, exempted from 50 per cent of tax due in years five to seven, and exempted from 25 per cent in years eight to 10.

But the IMF has raised doubts over the fiscal incentives for young people, warning that the impact of age-based preferential tax rates on emigration is "uncertain".

Gonçalo Matias, chair of the Francisco Manuel dos Santos foundation, said it was "absolutely critical" to stem the emigration of graduates from Portuguese universities that had received a surge of public investment.

"Portugal has been investing in education, but that investment is benefiting countries like France and Germany" which receive Portuguese immigrants, he said. "It doesn't make sense for a poor country like Portugal that actually benefited a lot from European funds and European solidarity to then lose that investment to the richer countries."

Matias described the proposed tax breaks as "sensible and balanced", but said that to change the tide, the government would also need to do more to make housing affordable, help young people find employers, and cut red tape.

The previous Socialist government, which lost an election this year, also introduced tax breaks for young people, but they were only available to university graduates. The current proposal would apply to everyone under 35.

Montenegro said in a television interview on Tuesday that his government's proposal was "a more balanced solution . . . than the one we had initially", a reference to the outcome of talks with the Socialist opposition that led him to cut the scheme's length to 10 years from 13.

But the Socialist party's support for the budget is not guaranteed because it is opposed to cutting the corporate tax rate, which is also part of the government's plans.

Marina Costa Lobo, director of Lisbon's Institute of Social Sciences, said Montenegro had appeared "very moderate and quite pragmatic" in the haggling over youth income tax. "If the Socialists refuse to support this budget, they will look irresponsible. They will look like they are rejecting stability in favour of resisting giving any kind of support to this government."

The prime minister could also reach a majority with the support of the hard-right Chega party, Portugal's third-biggest political force.

Its leader André Ventura has spoken approvingly about the youth tax cuts, but he also presents himself as Montenegro's chief opponent and lambasts dealmaking between the Democratic Alliance (AD) and the Socialists.

Portugal has long been a country of emigrants. The number of people who were born there but live overseas is equal to about one quarter of Portugal's resident population of 10.6mn, the highest rate in the EU, according to the Emigration Observatory.

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But in recent years the departure of talented young people has been seen as an economic handicap.

Between 2008 and 2023, 361,000 people aged between 15 and 35 left the country, accounting for two-thirds of all emigrants during that period, according to the national statistics institute.

Despite the outflow, Portugal's population has continued to grow in part because it has attracted migrants from other countries with a golden visa programme and tax incentives for well-off expatriates, both of which are being phased out. The new youth tax breaks will, however, be available to non-Portuguese citizens who move to the country.

The government estimates that the youth tax breaks will cost the state about €650mn a year.

The IMF warned that such reductions in tax revenue ran counter to Portugal's needs to pay off government debt while funding more public investment.

A worker in Portugal earning the average annual wage of about €20,000 currently pays a top income tax rate of 26 per cent. Anyone earning between roughly €21,000 and €27,000 pays a top rate of 32.75 per cent.

Additional reporting by Emma Agyemang