

A Work Project, presented as part of the requirements for the Award of a Master's degree in
International Development and Public Policy from the Nova School of Business and
Economics.

IRS JOVEM: BRIDGING GENERATIONS - ANALYZING THE INTERGENERATIONAL
IMPACT OF AN INNOVATIVE FISCAL POLICY IN PORTUGAL

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20/01/2025

Abstract:

This study explores the IRS Jovem policy in Portugal, assessing whether it serves as a pathway to youth empowerment or a disadvantage for other generations. By analysing both its benefits for young adults and the potential inequities it creates, this research examines the policy's effectiveness in bridging generational gaps and fostering economic stability. Through a detailed intergenerational analysis using Gulbenkian's Framework for Intergenerational Fairness (here just the diagnostic and impact phases are presented in detail), the findings highlight the mixed perceptions of IRS Jovem.

Keywords:

Fiscal Policy, Youth Empowerment, Public Policy Analysis, Intergenerational Fairness, IRS Jovem, Youth Employment, Sustainable Development

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

Introduction

Throughout history, intergenerational tensions have profoundly shaped social evolution. Each era has witnessed the emergence of new challenges, often accompanied by a quest for an identity distinct from that of previous generations. In the cultural sphere, youth rebellion has represented a pivotal moment in this process, with music, art, and attitudes symbolizing a rejection of established values. Today, however, these boundaries appear less distinct: for instance, chart-topping music is often appreciated by both parents and children, indicating a cultural convergence that, while unifying, may also reflect deeper social transformations. This evolution raises questions about the space available for younger generations to assert their individuality and address the challenges that define them (Paytress, 2003).

Beyond the cultural dimension, young people in Portugal face significant economic and social hardships, including job insecurity, limited career prospects, and a growing sense of exclusion. One of the most prominent phenomena is ongoing emigration, driven not only by the allure of higher salaries and better opportunities abroad but also by a system perceived as inadequate in meeting the ambitions of younger generations. This brain drain is not merely a loss of human capital but also a weakening of collective hope: the most promising talents leave the country, creating a deep void that burdens families and society (Gato & Ramalhete, 2024). Economic data provide a clear picture of this intergenerational divide. Over the past two decades, Portugal's economic standing within the European Union has deteriorated. Youth unemployment remains high, and those who secure employment often face unstable contracts and wages insufficient to cover the rising cost of living (Statista, 2024). Even the dream of homeownership, once a symbol of stability and maturity, now appears unattainable: the steep increase in housing prices renders even modest goals unrealistic for a significant portion of the population.

In response to these challenges, the Portuguese government has introduced the IRS Jovem, a tax regime specifically targeting young workers with the aim of alleviating the tax burden and encouraging them to remain in the country (Conselho de Ministros, 2024). However, crucial questions arise: *can a fiscal intervention of this nature genuinely address structural issues faced by the young population while balancing the needs of other generations and ensuring intergenerational fairness?*

This thesis aims to critically analyse this policy, situating it within a broader theoretical framework that intertwines principles of tax justice with the dynamics of intergenerational equity. The primary objective is twofold: to assess the immediate effectiveness of the measure in supporting young workers and to investigate its long-term implications in terms of resource redistribution, social cohesion, and economic sustainability. The study is organized into three chapters. The first chapter explores the fundamental concepts of taxation and social justice, with a particular focus on the redistributive role of fiscal policy and comparisons with similar policies implemented in other European contexts. The second one delves into the specific fiscal measure under study, analyzing its origins, structure, and objectives, as well as the economic and social challenges that prompted its introduction, such as unemployment, talent emigration, and regional inequalities. The third chapter outlines the methodology adopted to evaluate the measure's impact through a multidimensional approach: the SOIF-FCG framework, which integrates quantitative analysis, expert interviews, and surveys targeting beneficiaries. The end discusses and synthesizes the findings, replies to intergenerational questions and offers recommendations to enhance the effectiveness and sustainability of the fiscal policy.

Through a critical and systematic approach, this thesis seeks to contribute to the debate on forward-looking fiscal policies, exploring the potential for IRS Jovem to evolve from a contingent intervention into a structural solution.

Chapter 3 – Methodology

3.1 The Methodological Framework for Intergenerational Fairness

In the previous chapters, we explored the concept of intergenerational fairness, which is particularly relevant in the current context, where economic and social dynamics increasingly highlight inequalities among different generations. The *IRS Jovem*, like many other fiscal policies aimed at specific groups, cannot be evaluated solely based on its immediate benefits; it requires an analysis that carefully considers its long-term implications. This is essential not only for the young direct beneficiaries of the measure but also for the fiscal and socioeconomic system as a whole. Policies that affect specific age groups can significantly alter economic behaviour, with consequences that impact both intergenerational balance and economic and fiscal sustainability.

In this context, the use of complex assessment tools, such as the Framework for Intergenerational Fairness, developed by the *Fundação Calouste Gulbenkian* in collaboration with the *School of International Futures* (SOIF), becomes crucial for a comprehensive understanding of the dynamics of fairness between generations. The model was established in 2018 within the framework of the *From Today for Tomorrow* program, with the specific objective of providing policymakers with a method to systematically evaluate the impact of public policies on different generations. This analytical tool allows for consideration of three-time horizons - short, medium, and long term - to provide a comprehensive view of the effects of policies in terms of resource redistribution and sustainability. Its flexibility makes it applicable to a wide range of contexts and policies, adapting to the specific needs of each case.

Over recent decades, the concept of intergenerational fairness has continued to evolve, expanding its scope to include issues closely tied to economic and social sustainability, such as

the stability of the pension system, labour market precariousness, the rise of the gig economy and the increasingly problematic student debt, which places a particular burden on younger generations. These issues, which might have previously seemed unrelated, are now central to global concerns about the future of younger generations, who are increasingly disadvantaged compared to those before them.

The importance of evaluation tools such as the SOIF-FCG model is thus particularly pronounced in the current context. In many countries, including Portugal, the consequences of the global financial crisis and the challenges related to an aging population have underscored the urgency of policies that do not compromise the well-being of future generations but instead mitigate the risks associated with an inequitable distribution of resources. The COVID-19 pandemic, with the consequent increase in public debt and growing pressure on economic, fiscal, and social systems, has further amplified these dynamics, highlighting the need for public policies designed with a broader and longer-term perspective to avoid structural imbalances that could become unsustainable over time.

Within this framework, the SOIF-FCG model goes beyond serving as a mere evaluation tool; it acts as a means to foster a broader and more informed dialogue among various stakeholders about the long-term implications of public policies. It provides policymakers with crucial information to make fairer and more sustainable decisions, ensuring that the needs of the present generations are met without compromising those of future generations.

3.1.1 Adaptation of the SOIF-FCG Framework for the Analysis of IRS Jovem

In order to accurately assess the impact of *IRS Jovem* in Portugal, it is necessary to analyse the SOIF-FCG model and adapt it to the characteristics of the Portuguese tax system and the economic challenges specific to the national context. Although the framework was initially designed to examine intergenerational fairness across various contexts, this particular tax relief

measure presents unique characteristics that require targeted adaptation. It is not sufficient to consider only the immediate effects of the measure; it is indeed essential to examine its long-term consequences on the country's economic and social framework, ensuring a balanced distribution of benefits.

For instance, young people often encounter structural barriers such as limited access to stable employment and a disproportionate tax burden, which can affect their ability to achieve financial independence and contribute to the economy. Simultaneously, economic policies addressing current generational challenges must also anticipate future fiscal pressures, such as an ageing population and the potential strain on public resources. This broader perspective highlights the importance of evaluating IRS Jovem not only in terms of its immediate benefits but also its capacity to enhance economic resilience and foster stability in the long run.

Harmonizing qualitative and quantitative analysis is necessary in this case to guarantee a more thorough assessment of IRS Jovem's effects, considering not only its immediate results but also its prospects and the economic system's capacity to preserve stability across generations.

3.1.2 The SOIF-FCG Framework: Structure and Key Phases

The SOIF-FCG model is developed through five main phases, each aimed at assessing the intergenerational fairness of a policy by considering its effects on present and future generations. Each phase provides a specific analysis, contributing to a comprehensive view of the policy's sustainability over time. We will now examine each of these steps in detail to understand how each contributes to the overall policy analysis.

I. Diagnostic Phase

The first step of the evaluation process aims to gather all necessary information to gain a deep understanding of the policy under study. This is a preliminary but essential analysis that allows

for mapping the context in which the measure is applied and identifying any imbalances or disparities that could arise in terms of intergenerational fairness. In this phase, a timeline of the policy's potential impacts in the short, medium, and long term is constructed, providing a solid foundation for subsequent evaluations.

In the case of *IRS Jovem*, the diagnosis must consider not only the immediate benefits for young workers but also the potential repercussions for other generations.

During this diagnostic stage, the collection of quantitative and qualitative data is crucial for outlining a complete picture of the situation. Previous fiscal policies are analysed, economic and demographic data are examined and various aspects are compared to verify whether the measure adheres to the principles of intergenerational fairness.

This step also raises a crucial question: does the measure contribute to reducing inequalities, or, conversely, does it risk perpetuating them over time? For *IRS Jovem*, for example, it is important to understand whether the benefits granted to young people could result in a reduction of resources available for other social policies, potentially having negative impacts on older and future generations.

II. Impact Analysis Phase

The second phase represents the core of the evaluation process and focuses on delving into the more complex dynamics related to the measure. This step uses models and forecasts, relying on both qualitative and quantitative data, to thoroughly examine the chains of direct and indirect effects that the policy may generate across different generations, both now and in the future. In the case of *IRS Jovem*, this stage involves a detailed analysis of the fiscal advantages provided to young people and their long-term consequences. It considers, for example, the effects of a reduction in state tax revenues and how this decrease might be compensated. If the

measure leads to a significant decline in fiscal income, the government might need to rebalance the budget by increasing taxes on other categories of citizens or reducing public spending in essential sectors such as healthcare and education, with potential negative consequences for future generations.

The impact analysis also examines the immediate benefits of the measure and its possible long-term side effects. It assesses the dynamics of redistribution among generations, questioning whether the policy benefits one group at the expense of another. Specifically, in our study, we can explore whether the advantages granted to young people today could translate into a reduction in resources for future generations, in the form of increased public debt or decreased availability of essential public services.

In this analysis, the use of specific indicators is crucial for monitoring the progression of impacts over time. These metrics can relate to economic aspects, such as trends in tax revenues, as well as social aspects, such as access to public services or the well-being of different age groups. Monitoring these data allows for verifying whether the policy continues to meet intergenerational fairness criteria over time or if imbalances emerge that require adjustments.

III. Scenario Analysis Phase

Scenario analysis is a fundamental pillar in the design and evaluation of public policies, as it allows a measure to undergo a rigorous stress test by simulating various plausible futures. In the case of *IRS Jovem*, this step enables going beyond traditional forecasts, exploring the interactions among economic, social, demographic and political variables, and understanding how the measure might perform in different future contexts. The primary goal of this phase is to ensure that the policy retains its effectiveness and fairness even in uncertain and changing scenarios, thus making it more resilient.

For example, the scenario analysis of *IRS Jovem* might consider situations such as:

- Significant demographic changes, including population aging, declining birth rates and migration flows, which could affect the distribution of fiscal resources and the balance between young and older taxpayers.
- Radical technological transformations, such as the rise of artificial intelligence and automation, which could profoundly alter the labor market and, consequently, the taxable income of young beneficiaries.
- Global crises, such as pandemics, international conflicts, or natural disasters, which could impact the state budget and require a reallocation of resources.
- Changes in social values and preferences, such as increasing attention to environmental sustainability or a heightened demand for democratic participation, which could shift public spending priorities and influence the acceptance of the measure.

This process does not merely describe these possible futures but provides a strategic framework for making informed decisions. It allows for identifying corrective measures to mitigate highlighted risks or seize emerging opportunities. The ultimate goal is to make the policy more resilient, fair and sustainable in the long term.

IV. Process Analysis Phase

Examining the decision-making process that led to the formulation of *IRS Jovem* is equally essential, as it allows for verifying whether the measure was designed and implemented with the principles of intergenerational fairness in mind. This approach aims to evaluate the transparency and thoroughness of the policy development process, investigating whether the interests and perspectives of the different generations involved were adequately considered.

Key aspects to inspect include the clarity of the objectives and the comprehensiveness of the knowledge base underpinning the decision. It is important to determine whether the process was supported by up-to-date and reliable data and whether various alternative options were considered, carefully evaluating their advantages and risks. Additionally, stakeholder participation is a crucial element: it assesses whether the interested parties had the opportunity to express their views, whether these opinions were considered in the final formulation, and to what extent future generations were represented in the debate.

Through this process analysis, it is possible to determine whether the formulation of *IRS Jovem* was characterized by fairness and transparency and whether it adhered to intergenerational sustainability principles. The outcome of this evaluation can indicate any gaps in the decision-making process and suggest improvements for future interventions, contributing to ensuring that public policies are designed inclusively and oriented toward the well-being of all generations, both present and future.

V. Conclusion Phase

The final phase represents the culmination of the entire analysis process, where the results obtained are reworked to provide a clear and coherent synthesis. In this step, the gathered information, including quantitative and qualitative data, scenario simulations, and empirical evidence, is analysed to offer a comprehensive assessment of the measure's effectiveness. The goal is not only to present the data but to interpret them to understand the implications of the measure both in the short and long term, assessing its impact on different generations and placing it within the broader context of public policies.

A central element of this stage is the formulation of recommendations. These do not merely suggest operational improvements but aim to strengthen the measure's sustainability and fairness over time, considering possible future developments in the economic, demographic,

and social context. Both opportunities to seize and challenges that might require further interventions are identified.

The heart of the conclusion phase is answering the fundamental question that guided the entire process: does *IRS Jovem* meet the criteria of intergenerational fairness? This answer, based on an integrated analysis, highlights the main strengths of the measure and the areas that could benefit from adjustments. Ultimately, this process does not just summarize the evaluations but offers a strategic perspective, outlining how the measure can be adapted to ensure a positive and lasting impact.

3.1.3 The Value of the SOIF-FCG Method and Its Future Implications

In conclusion, the use of the SOIF-FCG model for analysing the *IRS Jovem* is essential for ensuring a thorough and structured examination of the measure, providing a perspective that encompasses both its immediate and long-term effects. This approach allows for highlighting not only the direct benefits of the policy but also the challenges that arise when considering the distribution of resources across different generations. This process emphasizes the need for policies that, in addition to meeting current needs, are able to adapt to future changes while maintaining an inclusive and sustainability-oriented vision. The final stage of this analysis underscores the importance of policy design based on solid evidence and continuous dialogue with all involved stakeholders, fostering a deeper understanding of intergenerational implications.

Only by adopting a forward-looking approach can we make informed decisions that enhance the present while ensuring the well-being of future generations. The next chapter will focus on the diagnostic analysis of the *IRS Jovem*, a crucial step for exploring the economic and social context in which the measure operates. This stage will allow for the identification of early signs

of potential imbalances, providing the foundation for a more targeted and detailed analysis of its sustainability and long-term impact.

3.2 Phase 1 – Diagnostic Phase

As analysed in previous chapters, IRS Jovem is a fiscal policy launched by the Portuguese government as an economic support measure specifically targeting young workers aged between 18 and 35, implemented as a reduction in individual income tax (IRS) (Caixa Geral de Depositos, 2024). Introduced as a temporary but, for this study, annually renewable initiative, it aims to address various structural issues impacting younger generations, making the tax system a tool for inclusion and promotion. Specifically, the measure seeks to reduce the tax burden on young people, increasing their disposable income and thus facilitating a path toward greater financial independence, a crucial element for enabling them to enter the labour market with more stability and security (Caixa Geral de Depositos, 2024).

3.2.1 Challenges and Goals of IRS Jovem

The academic literature highlights the crucial role of economic incentives in shaping decisions regarding residence and mobility, offering a valuable framework to analyze the effectiveness of initiatives such as IRS Jovem. Specifically, Kleven et al. (2020) emphasize that well-structured tax incentives can encourage the retention of highly skilled professionals, positively influencing migratory flows. Martínez (2022) expands this perspective, demonstrating that favourable tax regimes not only attract high-income residents but also incentivize strategic mobility behaviors. Similarly, Rubolino and Giommoni (2023) reveal that fiscal decentralization in Italy has significantly impacted location choices, showing how targeted interventions can counteract brain drain and promote a fairer distribution of resources. These contributions are situated within a broader context, as analyzed by the International Monetary Fund (2024), which warns of the risks arising from the lack of adequate measures to support young workers. The absence

of targeted interventions can exacerbate structural issues such as demographic aging and the shrinking tax base, jeopardizing long-term economic sustainability.

IRS Jovem was designed to address these challenges with a focused approach. First, the youth unemployment rate, historically higher than the national average, represents a significant barrier for those seeking to establish a stable career (World Bank, 2024). Furthermore, young workers often earn insufficient wages to independently cover the cost of living, relying on family support for extended periods. This phenomenon not only delays the achievement of economic independence but also hinders the transition to adulthood, limiting the ability to purchase a home, save, or invest for the future (Portugal Property Advisor, 2024). At the same time, the lack of stable and well-paying job opportunities has led many to view emigration as the only option for achieving economic stability. The resulting "brain drain" constitutes a significant loss of qualified human capital for Portugal, as many graduates and highly skilled professionals choose to move abroad in search of better living conditions and employment opportunities that match their expertise (Essential Business, 2024). Therefore, this policy aims to tackle these challenges through clear and structured objectives:

- **Reduce the Tax Burden:** Lowering taxes for young people increases their purchasing power, enabling them to save or invest part of their income (República Portuguesa, 2024).
- **Enhance Job Attractiveness:** Fiscal support aims to make work more appealing compared to public support or non-working options, encouraging sustained participation in the labor market. By fostering resource accumulation, the policy enables young people to pursue life projects such as homeownership, higher education, or retirement savings (República Portuguesa, 2024).
- **Ensure Intergenerational Equity:** The initiative aspires to guarantee that new generations are not disadvantaged compared to previous ones in terms of economic and social

opportunities, contributing to a fairer and more sustainable integration within Portuguese society.

However, achieving these objectives requires constant analysis and monitoring. The effects of IRS Jovem on intergenerational equity may vary depending on future economic and social developments. For this reason, continuous evaluation of the effectiveness of the measures adopted is essential to ensure adequate support for younger generations without creating excessive imbalances on fiscal resources or the contributions of previous generations (Sousa, 2024).

3.2.2 Implementation Timeline

The policy under consideration is designed to provide structured and diversified economic support to future generations, guiding them through the various stages of their professional careers. In this document, we propose an implementation plan that extends until 2045 and includes an annual review aimed at assessing the results achieved and making necessary adjustments to optimize the program's effectiveness. This approach allows the impacts of the measure to be evaluated from three different temporal perspectives: short, medium and long term, in order to meet the needs of emerging workers and reflect the economic and social changes in Portugal.

In the short term, up to the natural conclusion of the current government in 2028 (Governo de Portugal, 2024), it is conceived as an immediate fiscal support measure to facilitate the entry of young people into the labour market and increase their disposable income, helping to reduce economic dependence on families. During this period, the policy offers direct immediate benefits such as increased spending capacity and access to goods and services, thus encouraging more active economic participation from new workers and supporting the preliminary analysis of the measure's effectiveness. These initial years also allow for the assessment of the effect of

tax reduction on the stability of youth employment, highlighting potential areas for improvement to optimize the policy's attractiveness and impact (França, 2024).

In the medium term, until 2035, assuming the measure is renewed, it could consolidate itself as a pillar of the Portuguese tax system, generating a structural impact on the youth labour market. At this stage, the initiative should promote an improvement in the financial stability and economic mobility of new professionals, reducing job precariousness and encouraging savings accumulation. Such stability would allow young people to consider long-term investments, such as purchasing a home, promoting greater participation in the housing market and gradual economic independence. The medium-term perspective also allows for measuring whether the policy is genuinely contributing to improving the economic conditions of new generations, fostering their job stabilization and access to safer living conditions (Almeida, 2024).

In the long term, with a horizon extending to 2045, the goal will be to monitor the structural and intergenerational effects of IRS Jovem, evaluating both the benefits and potential challenges. At this stage, the emphasis will be on sustainable impacts on the tax system and the measure's ability to promote equity among generations. Among the most relevant elements are wealth accumulation, the sustainability of public debt, and the overall contribution to welfare and social justice (Almeida, 2024).

For our analysis, understanding the long-term effects is therefore essential. The increase in wealth represents a crucial advantage: through consistent tax reduction, new workers can accumulate significant capital, building a portfolio of savings or long-term investments. This process of wealth accumulation reduces the economic gap compared to previous generations, promoting greater equity among generational groups. Easier access to savings and investments allows young generations to plan their economic futures more securely, positively impacting their living conditions (Almeida, 2024). However, in the long term, it will be essential to closely

monitor the sustainability of public debt. By reducing tax revenue from a substantial portion of the population, the policy could indeed exert pressure on state finances and social spending (Pereira, 2013). Consequently, the impact on the state budget requires ongoing assessment and monitoring to ensure that the measure does not compromise fiscal sustainability, thus avoiding burdens on future generations. The balance between fiscal support and national financial stability in the long term is therefore a crucial component of study (Calouste Gulbenkian Foundation, 2020).

Finally, from an intergenerational perspective, IRS Jovem has the potential to improve the living conditions of new generations, reducing the risks of social exclusion and strengthening their active participation in the economic and social life of the country. With greater economic autonomy and an overall improvement in welfare, young people can take on an increasingly significant role in economic development, promoting a growth model that also aligns with the principles of inclusion and social justice (Almeida, 2024).

3.2.3 Recipients, Benefits and Indirect Impacts

As analysed, the target population of IRS Jovem primarily consists of young individuals aged 18 to 35 who are entering the labour market for the first time or have recently started their professional journey. This measure is designed to provide support to both employees and self-employed workers, addressing the specific needs of a youth demographic characterized by heterogeneous socioeconomic profiles (Caixa Geral de Depositos, 2024). In particular, it targets those who, at the beginning of their careers, face precarious or temporary contracts, a condition that hinders economic stability and financial independence. The prevalence of unstable contracts represents one of the most pressing challenges for young workers in Portugal, making fiscal support essential to offer additional economic margins to navigate professional uncertainties (Mateus, 2024). Furthermore, the measure specifically addresses young

individuals with low incomes, namely those who, due to current labour market conditions, receive very modest starting salaries with limited immediate growth potential. Thanks to this tax relief, these individuals can benefit from an increase in disposable income, which, although modest, represents a first step towards greater economic independence (Almeida, 2024).

IRS Jovem is implemented at the national level, but its effects will be particularly significant in urban areas. However, even in rural areas, the fiscal support is going to play an important role: it can provide opportunities for greater economic stability for young people who choose to remain in these regions, thereby encouraging them to stay in places often subject to depopulation (ICS ULisboa, 2020).

In addition to the direct recipients, this policy generates indirect economic and social effects on other groups, particularly on the families of young workers. Family members, especially parents, can benefit indirectly from the increased financial availability of the youth. This aspect is significant in the Portuguese context, characterized by the phenomenon of the so-called "boomerang generation," which refers to the tendency of young adults to return to live with their parents for economic reasons after a period of independence. In this way, it can help mitigate this dynamic, providing financial relief to families and allowing for greater freedom for young people (Monteiro, 2018).

Finally, older generations could also be indirectly affected by this measure, especially if it becomes established as a stable fiscal intervention in the long term. In such a scenario, it may be necessary to redistribute public resources to preserve financial balance, with possible implications for the funding of policies aimed at the elderly, such as pensions or healthcare services (Cendron, 2018). The stabilization of this tax relief would therefore require careful public budget management to ensure that the reduction in tax revenues does not compromise the level of support provided to older segments of the population, maintaining an

intergenerational balance that allows all age groups to access adequate and sustainable public resources (Diario da Republica, 2015).

3.2.4 Indirect Impact on Ecological Areas

The framework also examines the impact on ecological areas. The direct effects of IRS Jovem on such areas are relatively marginal and not particularly significant for this study, as it is essentially a fiscal measure that does not directly affect natural resources, land use, or biodiversity. However, the increase in disposable income for young people resulting from the tax reduction could lead to increased consumption, generating indirect impacts on the ecosystem (McGregor et al., 2021). This enhanced purchasing power might translate into greater demand for goods and services, thereby exerting additional pressure on energy demand and natural resources, particularly in urban areas where much of the youth population is concentrated (Halkos, 2023).

Moreover, the increase in disposable income, without adequate awareness of responsible consumption, might encourage the purchase of disposable goods or products with short life cycles, thereby contributing to the accumulation of non-biodegradable waste. As highlighted by Jackson (2009) in his study on sustainable prosperity, consumption growth, if not aligned with more sustainable models, risks exceeding the planet's ecological limits.

Despite these potential negative impacts, it is important to recognize that the measure could also create opportunities to foster more mindful and sustainable consumption. For example, the increased income could be directed towards purchasing eco-friendly products or services that support the energy transition, such as renewable energy. Furthermore, studies such as Stern (2000) demonstrate that policies integrating economic and environmental measures can mitigate negative impacts while maximizing benefits

3.2.5 Limitations and Challenges of the Policy

The restrictions that could limit the effectiveness of IRS Jovem raise several issues that risk compromising the achievement of its long-term objectives.

A primary critical element is the financial sustainability of the measure and its impact on public debt. The reduction in tax revenues resulting from the policy, if not balanced by an expansion of the tax base or new sources of state income, risks burdening the public budget, exacerbated by high youth unemployment and widespread job insecurity (Mateus, 2024). According to the latest estimates from the Portuguese government, IRS Jovem could benefit between 350,000 and 400,000 young workers aged 35 or younger. The estimated costs for the government are significant, with a projection of about €525 million in reduced tax revenues, given the large number of potential beneficiaries and the extent of the tax discount granted (Ribeiro, 2024). This scenario could lead to an increase in public debt, transferring an additional financial burden to future generations. Furthermore, the lack of plans to compensate for these fiscal losses constitutes another risk factor (Mateus, 2024), especially considering that wage growth for young people is unlikely to be rapid enough to ensure a higher tax contribution in the short term (Lusa, 2024).

Another significant limitation concerns the applicability of the measure to specific categories of young people. The tax benefit excludes workers who fall under special regimes, such as non-habitual residents, returnees from abroad, or those engaged in research and innovation activities. This limits the pool of recipients, leaving out young individuals whose profiles could significantly benefit from fiscal support (Figueiredo, 2024).

The temporary nature of the incentive represents an additional critical issue, as the measure is subject to annual review. This uncertainty compromises the predictability of the policy, making it difficult for young people to plan long-term investments, such as purchasing a home or building savings, since there is no guarantee of the stability of fiscal support. In an unstable

political context, this lack of security could lead to changes in the measure that would reduce or eliminate benefits for young people, with significant consequences for those who have built expectations of continuity in support.

Moreover, the tax benefit has a limited impact on precarious workers. Many young people in Portugal work under temporary or part-time contracts and earn low wages (Agencia Lusa, 2024b); consequently, the tax advantage is modest, as the taxable income of these workers is already low. The measure does not address the structural causes of precariousness, nor does it incentivize companies to offer stable contracts, thereby limiting its effectiveness in addressing the economic difficulties faced by large segments of the youth population (IMF, 2024a).

There are also regional restrictions that influence the effectiveness of the initiative. Job opportunities vary significantly across different areas of Portugal: while urban areas, such as Lisbon and Porto, offer more opportunities and higher wages, rural or economically disadvantaged regions present few job openings. In these areas, the measure may not provide substantial benefits to young people, risking widening regional inequalities (ICS ULisboa, 2020).

Finally, the measure presents potential risks of intergenerational imbalance. Although younger generations get short-term tax relief, the pension system may experience financial difficulty because of this tax income loss, which might eventually result in lower benefits for older age groups. Given that older generations may see a decline in their projected income and younger people may still struggle to establish financial stability, this scenario runs the danger of widening the gap between those generations. The policy may then unintentionally increase the generational divide and jeopardize long-term economic stability if sufficient steps are not taken to compensate for the income loss and guarantee the viability of the Portuguese welfare system (Almeida, 2024).

3.2.6 Counterfactual Scenario: Impacts of the Absence of IRS Jovem on the Economic Well-being of New Generations

An important part of the diagnostic phase is the exploration of the counterfactual, which is the hypothetical scenario in which the IRS Jovem is not implemented. In the absence of this fiscal support measure for young workers, it is anticipated that negative effects may arise on their economic well-being and financial progression. Short-term, medium-term, and long-term projections, considering the current economic and demographic indices, suggest that the lack of adequate fiscal support could reduce disposable income, limit savings capacity, and hinder capital accumulation, with the risk of creating a lasting impact and widening economic inequalities between generations (IMF, 2024a).

In the short term, the absence of tax incentives for young workers implies that those who will begin their careers between 2025 and 2028 will not benefit from the expected tax reductions, thereby reducing their disposable income at a crucial phase of their working lives. These individuals would be subject to standard tax rates, a condition that would limit their initial spending and saving capacity. The lack of this support could increase dependence on family members for daily expenses, slowing their path towards economic independence and constraining their purchasing power and investment opportunities in education or housing. Without targeted tax support for youth during this transitional phase, many of them risk facing persistent financial difficulties.

In the medium term, specifically by 2035, the absence of the IRS Jovem could result in limited savings accumulation by young people and the persistence of unstable working conditions. Without tax incentives, many may be pushed to seek temporary or part-time jobs with limited wages and poor growth prospects, thereby fuelling economic precarity. This lack of incentives could diminish the attractiveness of formal employment, pushing some young people to turn to

informal work to supplement their income. Consequently, the new generations may be less inclined to invest in education, real estate, or other long-term expenses, further slowing their economic and personal development. Moreover, the absence of a fiscal support policy in the medium term could stimulate the emigration of human capital to countries with more favourable job opportunities, contributing to a potential exodus of young talent from Portugal.

Finally, in the long term, the absence of measures such as the IRS Jovem could trigger significant challenges to the sustainability of the state budget. While such fiscal incentives may result in reduced revenues in the short term, their absence risks incurring higher costs in the future due to unfavourable economic and demographic dynamics. Specifically, young people's inability to accumulate savings and capital could lead to increased dependence on public welfare programs, particularly in old age, thereby placing greater pressure on state resources. This issue is further exacerbated by the phenomenon of skilled youth emigration: drawn to more favourable opportunities abroad, their departure diminishes the available workforce and future taxable income base, further constraining the country's fiscal revenues.

As highlighted by the International Monetary Fund (IMF, 2024a), the lack of policies aimed at supporting and retaining young talent may amplify fiscal challenges over time, resulting in a potential loss of human capital and insufficient growth in tax revenues. This scenario underscores the importance of fiscal tools like IRS Jovem not only to promote the economic independence of younger generations but also to safeguard Portugal's financial stability in the future.

3.3 Phase 2 – Impacts Phase

After studying the diagnostic phase, in this chapter, we will analyse the potential effects of the IRS Jovem policy on different aspects. To assess its impact, forecasting models will be employed to estimate its direct influence on youth employment, average income among young

people and overall GDP. Additionally, the policy's indirect effects will be analysed by leveraging macroeconomic simulations and historical data. Comparisons with similar policy implemented in other contexts will provide a benchmark for understanding its effectiveness. Data from reputable economic and statistical institutions will support the analysis, ensuring a robust evaluation of the policy's outcomes in the absence of complete empirical data.

In addition to the immediate impacts on young people, it is crucial to assess the effects of the policy on other generations. Since the IRS Jovem is financed through public resources, it is necessary to consider the long-term effects on public debt and the social security system. Macroeconomic projections will have to estimate how this expenditure affects future finances, taking into account the costs and benefits distributed between current and future generations.

3.3.1 The evaluation plan and similar policy

In the context of the IRS Jovem, the main indicators to be examined are: the youth employment rate, in order to assess whether the policy actually stimulated the entry of young people into the labour market; and the average youth income, which is a measure of the quality of employment obtained by the beneficiaries of the policy. This analysis is particularly relevant given the structural challenges in Portugal's youth labour market, where young workers often face precarious employment conditions and lower wages compared to older cohorts.

According to official data from the Instituto Nacional de Estatística (INE), the youth unemployment rate in Portugal in 2023 is 20.25% (O'Neill, 2024), well above the national average, which is around 6% (INE, 2024). Such disparities highlight the pressing need for targeted measures like IRS Jovem to address youth employment barriers and improve socio-economic outcomes. Since the IRS Jovem is a measure that is part of a context of tax incentives to foster youth employment, it is useful to compare it with other tax relief policies applied in similar contexts, such as the *Pit Zero* policy implemented in Poland in 2019 (Poland

Accounting, 2019). The data from the Polish policy can serve as a basis for estimating the impact of IRS Jovem in Portugal, considering that the target demographic (unemployed youth) is similar.

The PIT Zero policy was implemented in Poland on 1 August 2019 and provides a full exemption from personal income tax (PIT) for young people up to the age of 26. The main objective of this measure is to reduce the tax burden for young workers, facilitating their entry into the labour market and encouraging them to get out of undeclared work. The legislation applies to income from employment and tenure contracts, up to an annual ceiling of PLN 85,528 (EUR 19,900). If the income exceeds this threshold, tax is levied only on the excess. The introduction of PIT Zero was praised for its positive impact on the net wages of young workers, with significant monthly increases depending on income. However, it has raised some criticism, including a reduction in revenue for local governments, which depend on PIT revenues (BPG, n.d.).

3.3.2 Estimating the Impact

The implementation of the IRS Jovem policy is anticipated to have a positive effect on youth employment, aligning with the outcomes observed in similar initiatives such as the PIT Zero policy in Poland. This assumption is based on the shared objective of both policies: to alleviate the financial burden on young workers and facilitate their entry into the labour market. By reducing the tax pressure on younger demographics, IRS Jovem is expected to enhance their participation in formal employment sectors.

Additionally, the policy's influence on average youth income serves as an essential metric for assessing the quality of employment it supports. As of 2023, the average monthly income for employed youth in Portugal is approximately EUR 926.00 (Coutinho, 2024). It is reasonable to expect that the tax incentives provided by IRS Jovem will lead to an increase in net incomes

for eligible individuals. For instance, considering a gross income of EUR 1,125.00, beneficiaries of the tax break could potentially experience a monthly net income increase of around EUR 120.00.

In contrast, those who will not be covered by the policy and remain subject to the standard IRS regime would see no such gains. This comparative perspective underscores the potential of IRS Jovem not only to encourage employment among young people but also to improve its quality by offering greater financial stability and disposable income. Such outcomes would contribute to addressing broader socio-economic challenges, such as youth economic insecurity and disparities in income levels.

Ultimately, the success of IRS Jovem can be evaluated by monitoring these indicators over time, drawing on data from reputable sources to ensure a comprehensive understanding of its impacts.

3.3.3 Impact on GDP: National and International Feedback

The Public Finance Council (CFP) has raised significant concerns regarding the government's proposal for the Young Income Tax (IRS Jovem) measure, warning that its implementation could have a notable economic impact, potentially reducing GDP growth by 0,3% from 2025 to 2028. This reduction would result in a return to a budget deficit by 2026, with a projected deficit of 0.2% of GDP. (CFP, 2024)

It is important to remember that the IMF has warned this measure could lead to a "considerable loss of revenue", particularly as its impact on reducing youth emigration remains unclear (IMF, 2024). A similar caution was issued by the Bank of Portugal in June 2024, which indicated that the cumulative effect of new fiscal measures might increase the risk of returning to budget deficits in the coming years. According to the Bank of Portugal's June Economic Bulletin,

recent fiscal policy changes, particularly those reducing revenue or increasing expenditure, could significantly alter the budget balance, creating challenges for meeting the country's fiscal objectives under the new European budgetary framework.

The potential return to budget deficits and reduced public revenue as highlighted by the Public Finance Council and IMF could also exacerbate intergenerational inequalities. Younger generations, while benefiting temporarily from tax relief, may face greater economic instability in the future due to increased public debt or cuts in essential services such as education and health. This dynamic risks placing a disproportionate financial burden on younger and future generations, undermining the very objectives of fostering equity and reducing youth emigration.

3.3.4 Impacts on Other Generations and Intergenerational Fairness

As underlined at the beginning of this chapter, it is essential to examine not only the effects of this policy on young people, but also how it impacts older generations, pensioners and society as a whole, considering the long-term fiscal and economic effects. The tax policy in question, like the tax breaks for young people, is supported by public resources, which implies a shift of burden onto the taxpayers of current and future generations.

The adult and older generations, who do not directly benefit from the IRS Jovem tax relief, could be negatively impacted through the increase in the overall tax burden, which is necessary to finance the policy. As we analysed in the previous chapter, this policy will have a total impact of €525 million in reduced tax revenues (Ribeiro, 2024). In other words, the benefit for the young could be supported by:

- Tax increase: If public spending on young people is financed through a higher tax burden on other generations (e.g. through an increase in the tax rate for taxpayers over the age of 35), these generations might see their disposable income decrease.

- **Cuts in Public Spending:** Alternatively, the government might opt to reduce public spending in areas that primarily benefit older generations, such as healthcare, pensions, or social programs. This would alleviate the immediate need for increased taxation but could create social tensions, especially among retirees and other vulnerable groups who rely heavily on state support.
- **Increment of public debt:** Another critical issue is the sustainability of public debt. If the government cannot finance spending on young people through economic growth generated by new hires, but relies on debt, future generations will be called upon to cover the debt accumulated today. It is important to underline that according to the International Monetary Fund, Portugal's debt is 94.4% of its GDP with a continue diminishing forecast without the implementation of the policy (IMF, 2024).

3.3.5 Impacts of IRS Jovem on Youth Empowerment and Socioeconomic Stability in Portugal

Although the primary objective of the IRS Jovem policy is to support young people by increasing their disposable income, its effects extend beyond immediate financial relief. By examining how enhanced financial security influences various facets of young adults' lives, this section highlights the broader social and economic benefits of the policy.

- Housing Affordability and Stability

Housing affordability is a pressing issue for young people in Portugal, where rental prices have escalated in recent years, often outpacing wage growth. IRS Jovem directly addresses this challenge by increasing disposable income, enabling young adults to afford better housing and reducing the risk of housing instability. Through tax relief, the policy fosters a more secure housing market, allowing young people to rent or buy homes without being overwhelmed by financial pressures. This contributes to Portugal's housing stability goals and addresses

concerns regarding youth homelessness. By enhancing housing stability, IRS Jovem improves the overall quality of life for young adults, supporting their ability to thrive in the domestic economy. (Lança & Arsénio, 2024)

The core objective of IRS Jovem is to improve the financial situation of young workers by reducing their tax liabilities and increasing their disposable income. This policy is particularly relevant in a context where youth unemployment is high, and many young adults face precarious work conditions or underemployment. By reducing the tax burden on young people, IRS Jovem makes employment more financially rewarding, which can improve job retention rates and motivate young adults to stay in the workforce longer. Furthermore, by enhancing disposable income, the policy reduces the financial incentives to emigrate, which has been a significant challenge in Portugal due to youth outflow in search of better job opportunities. As a result, IRS Jovem helps support economic stability, reduces youth emigration, and promotes workforce participation, contributing to a more resilient and dynamic labor market. (Velde, 2008)

This initiative plays a vital role in addressing the financial challenges encountered by young adults in Portugal. While its primary aim is to boost disposable income through tax relief, its impact extends across multiple sectors, including housing, healthcare, education, social engagement, and overall well-being. By alleviating economic pressures, it enables individuals to enhance their living standards, invest in personal and professional development, and engage more actively within their communities. Additionally, it aligns with broader national objectives, such as promoting gender equality, fostering social inclusion, improving energy efficiency, and encouraging cultural participation (Velde, 2008).

In a time when young people are facing economic instability and limited opportunities, IRS Jovem provides a foundation for greater economic resilience, social cohesion, and individual

well-being. The indirect effects of the policy are not only critical for the personal development of young adults but also for the overall social and economic stability of Portugal. By addressing both immediate financial pressures and fostering long-term growth opportunities, IRS Jovem tries to stand as a model policy for promoting youth empowerment and securing a sustainable future for the next generation.

- Family Policy and Demographic Goals

IRS Jovem contributes to family policy by reducing the financial burdens young adults face when starting families. The policy provides financial support during a critical phase of life, making the transition to parenthood more manageable. By lowering financial barriers, IRS Jovem indirectly supports Portugal's demographic objectives, which aim to reverse declining birth rates and promote family formation. The policy creates a more supportive environment for young families, contributing to the overall stability and growth of the population.

- Health

The IRS Jovem program indirectly influences food security and diet quality for young adults by increasing their disposable income. Financial limitations often push individuals toward cheaper, processed foods that lack nutritional value. With greater financial flexibility, young people can allocate more resources to healthier and more nutritious options. While the extent of this shift depends on factors such as financial literacy and access to affordable, quality food, the initiative holds significant potential to improve overall diet quality. Prioritizing healthier choices can, in turn, contribute to better long-term health outcomes (Reeves et al., 2015).

Moreover, the increase in disposable income may encourage young adults to invest in preventive healthcare and mental health services, which are often overlooked due to high costs. By reducing financial barriers, the program enables individuals to access essential care, such as

routine check-ups, mental health counseling, or necessary treatments, that they might otherwise forgo. This improved access can lead to enhanced overall health, reduced stress levels, and greater life satisfaction. Ultimately, by supporting physical and mental well-being, the IRS Jovem initiative contributes to building a healthier and more resilient population (Reeves et al., 2015).

3.6 Phase 5 – Conclusion Phase

The IRS Jovem policy undoubtedly represents a bold and symbolic response to the challenges Portugal is currently facing. In a context where young people are squeezed between unemployment, economic instability, and the brain drain, this measure sends a signal of confidence and hope. However, upon closer examination, a fundamental tension emerges:

can support for young people be sustainable in the long term, or does it risk unfairly burdening other generations?

The debate is not purely economic; it is, above all, a matter of intergenerational equity—a fundamental principle for ensuring social cohesion and long-term fairness. Estimates from the Public Finance Council and the IMF highlight a concerning issue: a reduction in tax revenues amounting to €525 million and a potential increase in the deficit. Without appropriate corrections, this policy risks becoming a disproportionate burden on the shoulders of older generations or future taxpayers—the very individuals it is intended to protect and incentivize (IMF, 2024b).

In this context, several critical questions regarding this measure emerge:

- I. Does it divert Portugal from its vision for the future? Yes. While the IRS Jovem policy aims to retain and support young workers, it may deviate from Portugal’s long-term vision of sustainable public finances and equitable development. The high fiscal cost poses a

challenge to economic stability, potentially diverting resources from critical investments such as education, healthcare, and social services.

- II. Does it disadvantage any generation, current or future? Yes. The policy disproportionately burdens both current and future generations. While young people benefit from temporary tax relief, future fiscal pressures may necessitate higher taxes or reductions in public spending, impacting other age groups, particularly working-age adults and retirees.
- III. Does it disadvantage a specific age cohort? Yes. The IRS Jovem policy primarily disadvantages older working-age cohorts and retirees. The resources allocated to this measure reduce fiscal space for programs targeting other groups, such as pensions, healthcare, or retraining initiatives for middle-aged workers.
- IV. Does it reinforce the transmission of intergenerational inequalities? Yes. Although the policy aims to alleviate financial pressure on young workers, its design fails to address systemic inequalities and may, inadvertently, perpetuate them.
- V. Does it limit future generations' choices? Yes. The high fiscal cost of the IRS Jovem policy could reduce the options available to future generations

3.6.1 A Multifactorial Solution for Long-Term Growth

Addressing these challenges requires an integrated and forward-looking approach capable of balancing immediate needs with the construction of a more prosperous and inclusive future. Fiscal reform alone is not sufficient: it must be accompanied by structural transformations in key sectors such as education, innovation, and housing policy to generate broad and lasting positive impacts.

Reforming education is the first critical step. To meet labor market demands, it is essential to reduce the skills gap between supply and demand. Expanding vocational training and apprenticeships, particularly in strategic sectors such as technology, healthcare, and renewable

energy, will enable young people to acquire practical and highly sought-after skills. Partnerships between schools, universities, and businesses are essential to prepare students concretely and effectively for the workforce, reducing unemployment risks and enhancing the country's economic competitiveness (Freiberger, 2024).

However, it is not just about education: supporting entrepreneurship and innovation is equally crucial. Portugal possesses extraordinary potential to become a hub for start-ups and innovative enterprises, particularly in the technology and digital services sectors. To achieve this goal, the government must implement targeted fiscal incentives, grants, and investment opportunities for young entrepreneurs, while fostering dynamic and collaborative ecosystems. The connection between businesses, universities, and research institutions can serve as the engine for sustainable innovation and long-term economic growth (Startup Genome, 2024).

Another area requiring immediate intervention is housing policy, which is fundamental to improving quality of life and providing young people with a stable foundation to build their future. Data-driven and evidence-based solutions are needed to effectively address rising housing prices. Improving data transparency is crucial for identifying and resolving constraints in housing supply. At the same time, the gradual elimination of rent controls, which often reduce the availability of new housing, must be balanced with targeted measures to support vulnerable families. Introducing quotas for social housing (e.g., 30%) in new urban development projects can help create more inclusive communities and alleviate economic pressures on low-income households (Franco et al., 2022).

3.6.2 Looking Beyond: A Commitment to the Future

Intergenerational equity must guide this transition: supporting young people cannot come at the expense of retirees, older workers, or generations yet to come. This is the central challenge of the IRS Jovem policy: achieving a delicate balance between social justice and fiscal

sustainability to avoid perpetuating new forms of inequality. This concept is not merely an ethical issue; it represents a structural challenge. True intergenerational equity requires targeted investments, not isolated measures. Opportunities for young people must be built through a system that redistributes resources fairly and avoids temporary benefits. Only in this way can Portugal transform this policy into a true investment in the collective future, ensuring lasting progress and social cohesion across all generations. Ultimately, the success of this measure will depend on the ability to combine long-term vision with fiscal responsibility. Looking beyond the immediate is the key to ensuring that every generation can feel part of a prosperous and shared future, thereby building a fairer and more sustainable country for all.

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