Tax Concessions for Brainpower – Tax Policy as a Measure in the Competition for Brainpower

Knowledge-based societies, as in Western Europe or Northern America, are based on highly-skilled workers. The constantly increasing scope of knowledge means that all countries are experiencing growing demand, especially for highly-skilled human resources in science and technology (HRST). To safeguard and improve the situation of a country in international competition – in economics, science, technology and any other fields - it is therefore essential to promote scientific exchange and make the country attractive for highly-qualified immigrants. For that reason concessions have been introduced in a number of countries to reduce the effect of tax on migration decisions. This has particularly been the case in high-tax countries aiming to become more competitive destinations for high-skilled workers, and in countries concerned about particular tax rules discouraging high-skilled workers from locating in a country. Meanwhile, other countries have used tax concessions to actively attract and/or retain highly-skilled workers. As of 2010, targeted tax concessions for highly-skilled workers have been introduced in 15 OECD countries (see Table 1). The OECD's Taxation and Employment analyses the taxation of mobile highly-skilled workers, and especially the tax concessions for this group.

The OECD finds that, in countries which introduced concessions, the design has generally been driven by the particular policy goal of the concession, and hence varies significantly across countries. Ten of the 16 reviewed countries have clear skill requirements. Belgium, Italy, the Netherlands, Portugal and Sweden want immigrants to hold a tertiary education degree and to engage in activities in research or science. Additionally, the Italian law demands documented research activities for at least two years. Finland and Denmark offer tax concession for highly-skilled migrants only if they earn a certain amount per month. In Poland immigrants engaged in artistic, sport or expert activities can also join the concession for highly-skilled workers. People who achieve their earnings from high-value-added scientific or even artistic or technical activities are invited to enjoy the tax concessions that Portugal offers to migrants. Switzerland requires its migrants to be managers or specialists. In New Zealand the concession is available to all migrants and to returning nationals. There are no further skill requirements. The governments of France, Ireland, Spain, the United Kingdom and Australia do not demand any skill requirements either.

Most countries exempt the migrants partially from the tax burden. In Belgium, for example, the state grants a 75% exemption from wage withholding tax for temporary and permanent foreign migrants if they are research workers. The Italian government offers the migrants a 90% exemption from personal income tax on earned income for three years. In additional to a tax exemption of 25% in Sweden, the social security contributions are also exempted by the same amount. Switzerland enables foreign migrants – if they remain temporary – to deduct migration related costs from their tax burden. The two non-European countries considered – Australia and New Zealand – exempt migrants from income tax on foreign sourced income. That measure addresses concerns about the taxation of capital income affecting migration decisions. These measures exempt all (unearned) foreign sourced income from taxation.

In most of the countries the concessions are subject to time restrictions. An obvious consequence of a time restriction is that it will limit the fiscal cost of the measure. However, this must then be traded off against the likely effectiveness of the concession in encouraging highly-skilled workers to migrate to, or remain in, a specific country. A time restriction may also be imposed on equity grounds, while in some cases a permanent concession may not be considered necessary once migration has been induced. Providing reduced taxation for one group of taxpayers, and not others will clearly raise equity concerns. These concerns must be balanced against the expected benefits of attracting and/or retaining high-skilled workers. Limiting duration of availability is a way of reducing the long-term inequities of such differential tax treatment, but of still having an impact on migration decisions. This is especially the case if the concession becomes less necessary and therefore has less impact on migration decisions in later years. With respect to duration France is most restrictive: the partial exemption from income tax for payments for installation costs is granted on just a one-off basis. The Netherlands and Portugal offer their concessions for up to 10 years, while in

Table 1

Tax Concessions for High-skilled Workers, 2010

	Type of concession	Time restriction on eligibility for concession	Worker type	Skill requirement
Belgium	75% exemption from wage withholding tax	-	Temporary and permanent foreign migrants	Research workers only
	Income tax exemption for expatriate allowances or expense reimbursements	-	Temporary foreign migrants	Must perform activi-ties that require special knowledge or responsibility
Denmark	Reduced tax rate on labour income (25% for 3 years, or 33% for 5 years at workers discretion)	3 or 5 years	Temporary foreign migrants (if the migrant stays beyond 3-5 years, they may be required to pay back some of the tax advantage)	Foreign scientists and key staff earning over DKK 63,800 per month
Finland	35% withholding tax on earned income, rather than state and municipal taxes	4 years	Foreign migrant who has not been resident in Finland in the previous 5 years	Employees with special expertise who earn over EUR 5,800 per month
France	Partial exemption from income tax for payments for installation costs	One-off	Foreign migrant sent by a foreign company to France	-
Ireland	Reduction in personal income tax due to earned income	-	Foreign migrant sent by a foreign company to Ireland	-
Italy	90% exemption from personal income tax on earned income; this income is also not included in the IRAP tax base	3 years	Foreign migrants or Italian nationals returning to Italy	Researchers that have carried out document-ted research activities for at least two years
	80% (women) and 70% (men) exemption from personal income tax on earned income	3 years	EU or Italian nationals returning to work in Italy after at least two years abroad, having previously lived in Italy for at least two years	Tertiary educated; employed or self-employed for at least two years or studied abroad for at least two years
Netherlands	Tax free allowance equal to 30% of earned income	10 years	Temporary and per-manent foreign migrants	Knowledge workers
	Tax free reimbursement of school fees for children atten-ding international schools	10 years	Temporary and per-manent foreign migrants	-
Poland	Deduction of 50% of income from artistic, scientific, sport or expert activities	-	-	Engaged in artistic, scientific, sport or expert activities
	Deduction of 20% of income from work involving transfer of copyright	-	-	Engaged in work involving transfer of copyright
Portugal	20% flat rate on earned income	10 years	Migrants (including Portuguese nationals) that have not been tax resident in Portugal in the previous five years	Income derived in high value-added scientific, artistic or technical activities defined by Ministerial order
Spain	Taxation under non-resident rules (reduced personal income and capital gains tax rates)	6 years	Non-resident migrants that have not been resident in Spain in the last 10 years	-
Sweden	25% exemption from income tax and SSC	3 years	Temporary foreign migrants (max. stay 5 years)	Experts/specialists, researchers, managers and other key personnel; also require some difficulty in recruiting such expertise in Sweden

(Table continued)

	Type of concession	Time restriction on eligibility for concession	Worker type	Skill requirement
United Kingdom	Remittance basis taxation of foreign sourced income	-	Non-domiciled tax residents	-
Switzerland	Deduction of expatriate related expenses	5 years	Temporary foreign migrants (max. stay 5 years)	Managers or specialists
Australia	Exemption from income tax on foreign sourced income	4 years	Temporary and permanent foreign migrants	-
Korea	50% tax exemption on earned income	2 years	Temporary and permanent foreign migrants	High-skilled working for foreign investment corporation in a high-tech field
New Zealand	Exemption from income tax on foreign sourced income	4 years	Temporary and permanent foreign migrants or returning (after more than 10 years) New Zealand nationals	Available to all migrants or returning nationals (but only once in a lifetime)
IRAP: Regional business tax (imposta regionale sulle attività produttive)				

Source: OECD (2011), Taxation and Employment, Paris, p. 138.

Belgium, Ireland, Poland and the United Kingdom there are no time restrictions on the eligibility for tax concessions.

The countries also target specific types of highly-skilled workers. Most tax concessions are aimed at permanent foreign migrants, but a number of countries also target either temporary foreign migrants, or their own nationals. Temporary migrants may be targeted to address short-run skill shortages, while equity considerations may also influence the decision to target temporary rather than permanent highly-skilled migrants. Belgium, Denmark, Sweden and Switzerland grant tax concessions particularly to temporary foreign highly-skilled migrant workers. While most countries restrict their concessions to foreign nationals, Italy, New Zealand and Portugal also target their own citizens. The 90% exemption from personal income tax on earned income in Italy is also granted to Italian researchers returning to their home country. New Zealand also grants the exemption from income tax to New Zealand nationals that have not been resident in the country for at least ten years. The French and the Irish policy target foreign migrants sent by foreign companies to their countries.

N.H.

Reference

OECD (2007), Taxation and Employment, Paris, pp. 124 - 147.