

# Germany's Bureaucracy Reduction Act IV Will Begin the Process of Streamlining Formal Requirements of Employment Law

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The coalition agreement of the recently dissolved "Traffic Light Coalition" government in Germany had provided for counteracting the trend of increasing bureaucratic burdens, especially for companies.

One component of this—the so-called "Bureaucracy Reduction Act IV" (BEG IV)—was promulgated in the *Federal Law Gazette* on October 29, 2024, and it will come into effect on January 1, 2025. Accordingly, it is worthwhile to take a closer look at the changes relevant to employers.

## Quick Hits

- ***Simplifying employment documentation:*** The Bureaucracy Reduction Act IV (BEG IV) allows essential employment terms and conditions to be transmitted in digital form rather than written form (hard copy), significantly reducing administrative burdens for companies, particularly international ones.
- ***Age and parental leave flexibility:*** BEG IV removes the need for handwritten signatures on age limitations and parental leave applications, permitting these to be handled electronically via digital form, thus easing processes for both employers and employees.
- ***Embracing digital solutions:*** Under BEG IV, employee leasing agreements and reference letters can now be concluded and issued electronically, streamlining operations and modernizing documentation practices in the employment sector.

From an employment law perspective, the purpose of easing strict written form requirements—i.e., hard copy—to digital form is particularly noteworthy. The digital form does not require a handwritten signature, thus allowing declarations to be made via email or text message.

The following summarizes the most significant changes introduced by BEG IV from an employment law perspective.

## The Verification Act of 2022

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With the Verification Act of 2022, the legislature arguably created, rather than eliminated, bureaucratic hurdles for companies. The formal requirements introduced under that act are now being partially mitigated by BEG IV. Essential employment terms and conditions, as well as changes, no longer need to be handed over in written form but can now be drafted and transmitted in digital form—which is a significant relief, particularly for international companies. The corresponding document must be downloadable and storable by the recipient and its receipt must be confirmed. However, the recipient may still request that the terms and conditions be provided in written form. These simplifications of formal requirements do not apply to companies operating in sectors particularly affected by undeclared work and illegal employment.

## **Age-Related Limitations in Employment Contracts**

Age-related limitations in employment contracts will no longer be required to be in written form. This refers to clauses that stipulate that the employment relationship will automatically terminate when the individual reaches the statutory retirement age as defined by law. Whereas a handwritten signature from both parties had previously been required, now a digital form is sufficient for age limitations. This simplification of formal requirements also applies to the extension of the agreed retirement age. Employers may want to be cautious regarding the new flexibility allowing for digital forms, as any regular fixed-term agreement still must be in written form with wet ink signatures. There is no planned change in this regard.

## **Parental Leave Application in Digital Form**

The bureaucratic burden is eased not only for employers, but also for employees. Henceforth, a digital form will suffice to apply for parental leave and part-time parental leave.

## **Employee Leasing Contracts**

Changes introduced by BEG IV also affect the area of employee leasing. The mandatory written form requirement for employee leasing contracts between lending and borrowing companies has been abolished, allowing such agreements to be concluded in digital form.

## **Electronic Reference Letters**

A novelty is introduced for reference letters. Previously, reference letters had to be issued in written form, with any electronic form excluded by law. Now, with the recipient's consent, reference letters can be issued electronically. It remains to be seen whether the electronic form will be broadly accepted. Additionally, technical follow-up questions come up: it is common for final reference letters to include the date of employment termination. Now, when reference letters are electronically signed, the time of the electronic signature is identifiable, revealing any discrepancy between the stated issue date and the signature date. Conclusions could be drawn from this (e.g., about a longer-lasting labor court dispute with the previous employer).

## **Conclusion**

The reduction of bureaucracy in the employment context has only been achieved to a limited extent with BEG IV. We believe that further steps are urgently required. While the form and procedural simplifications represent a step in the right direction and are to be welcomed, they are not consistently implemented across all areas of employment law. Key areas still require adherence to

traditional written form requirements, which can create new sources of error and confusion.

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