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Germany: Bureaucracy Out, Digital In? The New Government’s Plans for Labour and Employment

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After long negotiations between the Christian Democrats and the Social Democrats, the parties agreed to establish a coalition to form the new government and Friedrich Merz was eventually elected on 6 May 2025 as new Chancelor of Germany. The coalition agreement published by the parties offers insight into their agenda. While not the primary focus of the agreement, there are several initiatives that aim to address certain labour and employment issues of relevance to the German market.

Streamlining the future of work

The coalition agreement outlines several key initiatives designed to enhance Germany’s competitiveness as a business hub, particularly by furthering digitalisation and streamlining bureaucracy. This commitment is also reflected in their plans for addressing L&E-related issues:

- **Promoting qualified immigration**, particularly by digitalising processes in an effort to accelerate the recognition of professional qualifications from other countries
- Further **reducing the written form requirements** in employment law, e.g. for contracts under the Part-Time and Limited Term Employment Act (*Teilzeit- und Befristungsgesetz*). For further details on the previous changes that took effect in January 2025, please refer to our recent blog post on the Bureaucracy Relief Act.

Digitalisation of collective labour rights

Collective labour law is particularly impacted by the effort to digitalise employment processes:

- Enabling the use of **online works council meetings** (*Betriebsratssitzung)* and **works meetings** (*Betriebsversammlung)* as an alternative to in-person meetings

- Implementing an **optional digital voting process** for the works council elections in 2026
- **Right to digital access**, i.e. the right to use existing digital communication channels as an alternative to the notice board for advertising among others collective labour events and opportunities

Improving Flexibility

The new government is also seeking to implement a change to the Working Hours Act (*Arbeitszeitgesetz*) that would **allow for maximum weekly instead of daily working hours**. The current position is a daily maximum of eight (or in exceptions, ten) working hours.

To comply with the EU Working Time Directive, a maximum of 48 weekly working hours would generally be permitted. Exceptions would have to be made for certain workers, e.g., for those working nightshift. Additionally, a new concept is required to allow for the increase in flexibility while still ensuring the workers' health, safety and adequate rest time. The coalition agreement does not provide any specifics as to how this will be achieved.

According to coalition parties, the adjustment is intended to enhance the compatibility of family and work. However, while the new regulations would not constitute an increase in weekly working hours, they are likely to benefit employers by allowing for more flexible schedules due to the decreased regulations. Examples could be agreeing on a permanent 4-day week with no reduction in pay or the option to offset short-term spikes in workload by ordering work for more than 10 hours a day. Once these changes are implemented, employee handbooks or works agreements referencing maximum working hours may require changes to comply with the new regulations.

The parties also plan to implement an **obligation to digitally record working hours** for employers. Following the implementation, a transition period will be established during which small and mid-size companies will be exempt from the new requirements. However, the obligation does not extend to trust-based working hours. Therefore, the decision to pursue this option remains at the discretion of employers.

A further initiative aimed squarely at increasing productivity is **exempting overtime income** of full-time employees **from income tax**. The definition of overtime in this context is any working time that exceeds 34 hours in the case of employees with a CBA, or 40 hours in the case of employees without a CBA.

If employers offer **bonuses to part-time employees for increasing their working hours**, these bonuses remain **tax-free** according to the parties' plans. It remains to be seen how the coalition will deal with attempts to exploit such bonuses.

Allowing for a smooth transition after reaching retirement age

Many employers and employees are interested in maintaining their existing employment relationship after the employee reaches the standard retirement age. However, given the restrictions in the Part-Time and Limited Term Employment Act, most flexible solutions are not viable. In most cases, employers are currently only able to establish long-term employment relationships that do not adequately address the challenges associated with such employment.

The coalition agreement now includes a plan **to lift the ban on pre-employment after reaching the standard retirement age** in the Part-Time and Limited Term Employment Act. This would allow employees to remain in a familiar work environment while transitioning to a reduced or limited role within their organisation. Lifting the ban would be a welcome change for both parties to an employment relationship as it would provide reliable planning and legal certainty.

The effort to encourage individuals to remain in the workforce after reaching the standard retirement age also includes plans to exempt up to EUR 2,000 of such employees' income from income taxes.

Strengthening unions

The coalition parties plan to make **compliance with collective bargaining agreements a prerequisite for the awarding of federal contracts** worth EUR 50,000 or more and for start-ups with "innovative services" in the first four years after their establishment for projects worth EUR 100,000 or more.

The parties also aim to enhance the **appeal of trade union memberships by offering tax incentives for their members**.

Other initiatives

While these initiatives are also part of the coalition agreement, how or even if they will be implemented is less certain for some than others:

- Raising the **minimum wage to EUR 15** per hour by 2026, which is explicitly labeled as something that may be feasible
- Implementing a **legal framework for AI at the workplace**

Summary

The agreement encompasses a combination of measures that are favourable to employers and those that are principally intended to strengthen employee rights. However, none of them legally binding. Thus, the agreement is, in essence, a mere collection of potential initiatives. It is not feasible for it to be realised in its entirety within the next four years. Immediate action is therefore not required. Nevertheless, it provides the most comprehensive insight into the incoming government's plans and as a result, what employers may expect in upcoming legislative periods.

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