

Germany's New Coalition Agreement Impacts Labor Law and Social Policy: 10 Key Takeaways for Employers

Insights

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Germany's recent federal election signaled a shift in the country's politics – and employers will surely feel the impact. The center-right Christian Democratic Union and its sister party, the Christian Social Union, won the largest share of seats in Parliament and formed a new coalition with the center-left Social Democratic Party (Germany's oldest party). Notably, the parties published the country's new coalition agreement last month outlining a comprehensive agenda for labor law and social policy reform – and now Chancellor Friedrich Merz and other party leaders signed the agreement on May 5. It is important to note that the agreement is aspirational for now, and further legislative clarification and stakeholder negotiations are expected in the coming months. In the meantime, here are the 10 key components of the agreement and how they could impact the workplace in Germany.

1. Reforming Working Hours Weekly Maximum Hours:

- **Weekly Maximum Hours:** One of the most debated reforms involves replacing the **daily maximum** work time with a **weekly cap**. This move aims to align German law with the European Working Time Directive and could mark the end of the traditional eight-hour workday. Currently, employees may work up to eight hours per day (or 10 in exceptional cases). But the new proposal would allow more flexibility in setting the standard 40-hour workweek.
- **Potential for Four-Day Work Weeks:** Theoretically, employees could work 10-hour shifts from Monday to Thursday, enjoying a longer weekend. However, the coalition agreement leaves the specifics open, emphasizing that high standards in occupational health and safety must be maintained and existing rest period regulations must be preserved.
- **Trade Unions and Employer Associations Respond:** Trade unions have reacted skeptically and with criticism. They argue that moving from a daily to a weekly maximum opens the door to abuse, particularly for those in precarious employment situations. They warn that the current law protects vulnerable workers and should not be weakened. Employers' associations welcome the reform as a long-overdue step toward more flexibility for both businesses and employees, especially in sectors like retail and hospitality where variable demand is common.

Aligning with EU Law: If adopted, Germany would be in line with EU law, which limits working time to 48 hours per week (including overtime) but does not set a daily maximum. Employees could theoretically work up to 12-hour shifts, provided they receive the required 11-hour rest

period after their shift. However, the coalition agreement is non-committal on the exact upper daily limit, leaving room for future negotiation.

2. Electronic Time Recording

The coalition plans to require electronic recording of working hours, with transitional rules for small- and medium-sized enterprises (SMEs). This reflects a broader trend toward digitalization and compliance with recent court decisions. Employers should begin assessing suitable digital systems.

3. No Legal Right to Home Office

Despite the pandemic-driven rise in remote work, the coalition agreement does not grant employees a statutory right to work from home. Instead, flexible arrangements are to be negotiated individually between employers and employees.

4. Digitalization of Co-Determination

The agreement includes provisions to promote online works council meetings and elections. This initiative aims to adapt to the increasing use of digital tools in the workplace. A German works council (Betriebsrat) is a statutory employee-elected body within a company that represents workers' interests and has legal rights to be informed and consulted and to co-determine workplace matters.

Additionally, the coalition agreement seeks to enable unions digital access to workplaces. This is intended to make co-determination fit for hybrid and decentralized work environments. Companies must ensure technical and data protection compliance.

5. Tax Incentives and “Active Retirement”

- **Tax-Free Overtime:** Overtime pay above collectively agreed full-time hours will be tax-exempt.
- **Incentives for Part-Time to Full-Time:** Employers can offer tax-advantaged bonuses to part-time staff who increase their hours.
- **Active Retirement:** From 2026, retirees who continue working can earn up to €2,000 per month tax-free, and the legal ban on re-employment with the same employer after retirement will be lifted.

6. Minimum Wage and Collective Bargaining

The coalition remains committed to a minimum wage set by an independent commission, targeting €15 an hour by 2026. A new Federal Collective Bargaining Compliance Act will require federal contracts to be awarded to companies adhering to sectoral agreements. Tax incentives are planned to encourage union membership.

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7. Securing Skilled Labor

A new digital agency is intended to streamline skilled worker immigration and the recognition of foreign qualifications, aiming for decisions on visa applications within eight weeks. Increasing female labor force participation is also a priority, supported by measures to legalize and promote household services.

8. Targeting “Sham Self-Employment”

The agreement identifies “sham self-employment” as a problem the coalition says can result in substantial back payments of social security contributions for employers. While most sectors will see little change, the coalition plans to take measures to reduce differences between temporary workers and the permanent workforce. Notably, however, critics argue that the coalition missed an opportunity to introduce more practical and balanced regulations that protect both workers and legitimate small business models.

9. Artificial Intelligence in the Workplace

The coalition wants to ensure the fair use of AI at work, particularly regarding employee monitoring and performance evaluation. As a best practice, employees should be involved in decisions about AI deployment and receive relevant training. However, no concrete new co-determination rights have been introduced at this stage.

10. Occupational Pensions and Other Measures

The coalition aims to expand digital, simplified, and portable occupational pension schemes, especially for SMEs and low earners. Plans include reducing paperwork requirements, improving occupational safety (especially for high-stress professions), and enhancing mental health prevention and reintegration management.

How Can Employers Prepare?

- Assess your current wage structure, especially for lower-wage employees, to ensure compliance with the planned minimum wage increase to €15 by 2026.
- Prepare to support online works council meetings, elections, and union access, including secure digital platforms and data protection measures.
- Review internal policies and shift schedules to accommodate a potential shift from daily to weekly working time limits and prepare for simplified electronic timekeeping.
- Track developments in collective bargaining law (Bundestariftreuegesetz) and ensure your company’s public contract bids comply with new collective agreement requirements.
- Audit and digitize HR documentation and contract management processes, ensuring readiness for “text form” contracts and streamlined reporting requirements.

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Conclusion

We will continue to monitor developments related to legal changes in Germany and any new rules or guidelines that affect the workplace. Make sure you are subscribed to [Fisher Phillips' Insight System](#) to get the most up-to-date information. If you have questions, contact your Fisher Phillips attorney, the author of this Insight, or any attorney in our [International Practice Group](#).

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