Eurogroup

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Structural reform agenda - thematic discussions on growth and jobs -

Common principles for reforms reducing the tax burden on labour

Following our discussion on reducing the tax wedge on labour at our July meeting, today the Eurogroup discussed common principles for reducing the tax burden on labour.

The overall tax burden in the euro area is above the OECD average and is skewed towards labour. In view of the need for fiscal consolidation, the tax burden on labour has also been growing over the last few years. This is a clear impediment to an efficient and smooth functioning of euro area labour markets and runs counter to the objective of boosting economic activity and increasing employment, in particular given the high unemployment level in several euro area Member States.

Reducing the tax burden on labour has the potential to support consumption, stimulate labour supply and employment, as well as to improve cost-competitiveness and firms' profitability. It will therefore increase demand, growth and support job creation, and contribute to the smooth functioning of the EMU.

Against this background, the Eurogroup reaffirms its commitment to effectively reduce the tax burden on labour. The following common principles should guide Member States when implementing reforms in this area:

- **Design of reforms** – the reforms should be targeted at the country specific challenges, so as to maximise the impact of the reforms. To that end, they should be aimed at the relevant components of the tax burden and at specific groups facing the greatest employment challenges. It should also be ensured that the reforms do not make the tax system overly complicated for tax payers and the tax administration.

- **Financing reforms** – given the overall limited fiscal space in the euro area, reductions of the tax burden on labour need to be duly compensated, while taking into account the country specific fiscal margin for manoeuvre. To this end, reforms for reducing the tax burden on labour should be accompanied by either a compensatory reduction in (non-productive) expenditure, or by shifting labour taxes towards taxes less detrimental to growth, with a view to respecting fiscal targets in line with the Stability and Growth Pact.

- **Broader policy context** – The positive effects of labour tax reforms can only materialise fully in well-functioning labour markets. Therefore, the impact of reducing the tax burden on labour can be significantly enhanced when they are part of a broader package of labour market reforms.

- **Political and societal support** – the implementation of labour tax reforms with offsetting tax or expenditure measures can affect income distribution. To ensure a successful reform strategy, it is important to ensure broad societal and political support. This may be achieved inter alia through sharing impact assessments and consulting all the relevant stakeholders, as well as a gradual phasing in of the reforms.

The Eurogroup reaffirms that reducing the tax burden on labour is a clear policy priority. Ministers are determined to take this work forward, while maintaining the agreed strategy of differentiated growth-friendly fiscal consolidation.

A coordinated euro area approach to the implementation of the necessary reforms will provide a strong impetus for carrying out reforms across the euro area. To this end, the exchange of best practices can provide valuable support for further labour tax reform initiatives across the euro area.

The Eurogroup will take stock of the plans for reductions of the tax burden on labour on the basis of these common principles when discussing the draft budgetary plans of Member States in November, based on a Commission assessment. The Eurogroup will also monitor the implementation of these reforms in spring 2015 as part of a broader stock-taking exercise on the implementation of the recommendations to the euro area.