Eurogroup

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Structural reform agenda - thematic discussions on growth and jobs -

Reduction of the tax wedge

The Eurogroup is fully committed to the EU's agenda for growth and jobs. The Euro Area Country Specific Recommendations (CSRs) in the context of the European Semester show clearly which areas of reform are the most pressing in order to boost growth and jobs. We intend to discuss these recommendations and their follow up at each of the upcoming Eurogroup meetings. Reform areas that will figure prominently on the Eurogroup's agenda in the coming months include the labour and services markets.

As a first step, we discussed plans and experiences with reducing the tax wedge on labour, an area explicitly addressed in the specific policy recommendations for many Member States and the euro area as a whole.

The tax wedge is an important issue for the euro area given that the tax burden on labour in the euro area Member States is among the highest in the world. A high tax burden on labour is an impediment to the objective of supporting economic activity and increasing employment. Within the euro area, 11 Member States in particular are facing challenges with regard to the high tax burden on labour, in particular on low-wage earners. As reflected in the CSRs, these Member States are: Austria, Belgium, Estonia, France, Germany, Italy, Latvia, Luxembourg, the Netherlands, Portugal and Spain.

While several Member States have undertaken - or are in the process of undertaking - reforms to address the high tax wedge on labour, the Eurogroup is conscious that more efforts are needed. We also recognise that, although the main challenges across Member States are comparable, country-specific circumstances need to be taken into account.

Furthermore, the Eurogroup underlined that tax wedge reductions need to be compensated, while taking into account Member States' fiscal margin of manoeuvre, respecting the fiscal targets. This may be achieved, preferably, by expenditure cuts, or through revenue-neutral tax shifts, away from labour to revenue sources that are less detrimental to growth such as consumption taxes, recurrent property taxes and/or environmental taxes.

Against this background, 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 growth-friendly fiscal consolidation.

The Eurogroup concurs that a coordinated approach to the implementation of the necessary reforms, notably through the exchange of best practices, will provide an impetus for carrying reforms forward across the euro area.

At its September meeting, the Eurogroup intends to have a discussion on common principles for implementing reforms on the basis of best practices identified by the Commission. The Eurogroup will also take stock of the plans for tax wedge reductions and other structural reforms, and the progress in their implementation, as appropriate, when discussing the draft budgetary plans of Member States in the autumn. The Eurogroup will follow up on this issue in early spring 2015 and undertake an ex-post assessment of the implementation of reforms aimed at reducing the tax wedge, based on a Commission analysis.