Midijob reforms and employer response: Employment effects of a sudden payroll tax increase

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Abstract

Subsidized forms of employment - e.g., with reduced income or payroll taxes - are a popular policy to render employment more attractive and increase labor supply, particularly among those with low labor market attachment. In Germany, jobs with gross monthly earnings of up to 2,000 € are subsidized: Jobs earning up to 520 € per month (as of 2023) are called Minijobs and are exempt from social security contributions and income taxes for employees. Jobs earning between 520,01 and 2,000 € per month are called Midijobs. Midijob employees benefit from reduced social insurance contributions that rise on a sliding scale. These subsidized employments are very popular: as of December 2024, in a workforce of about 46 million, 7.6 million employees worked in Minijobs and 5.1 million employees worked in Midijobs (BA 2025). Due to the popularity and general nature of the subsidies, which are not restricted to age groups or occupations, Germany provides an interesting test case for the labor market effects of subsidized employment.

Midijob payroll taxes were reformed on Oct. 1, 2022. Before the reform, employee payroll taxes rose from about 10 to 20 percent in the Midijob earnings range; since the reform, they start at 0 percent and then rise to 20 percent. Before the reform, employer payroll taxes dropped from 28 percent for Minijobs to 20 percent for jobs earning more than Minijobs; since the reform, employer payroll taxes continued at 28 percent for employment at the start of the Midijob earnings range, and declined on a sliding scale to reach 20 percent at the end of the Midijob earnings range (see Figure 1). Thus, the reform reduced Midijob payroll taxes for workers and newly raised them for employers.

Besides payroll taxes, over time the Midijob earnings range was adjusted. It was 450-1,300 € before Oct. 1, 2022, 520-1,600 € immediately post-reform, and shifted to 520-2,000 € three months later, i.e., starting Jan. 1, 2023. Employers knew about rising payroll taxes since June 2022 and about the increasing Midijob earnings range since October 2022. Therefore, it is plausible to expect labor demand responses as early as June 2022.

The shift in payroll taxes can cause two types of adjustments in employer behavior. First, employers may shift labor demand from Midijobs to alternative job types that are not affected by the increase in payroll taxes, such as Minijobs or regular jobs beyond the Midijob earnings range. Second, for affected workers, employers may reduce wages: with rising payroll taxes for employers and falling payroll taxes for workers, there likely is an adjustment that keeps both sides equally well off. Employers may pay slightly lower wages (or increase working hours for given monthly earnings) such that employees do not actually benefit from their reduced payroll taxes. In that case, the net effect

of the reform may be small, and its incidence may fall fully on employees. In our analyses, we start by investigating the first set of employer responses.

We exploit reliable administrative data covering workers and establishments to address two main research questions: (1) Do employers adjust their hiring behavior after the reforms? If so, do we observe reduced Midijob hiring and instead more hiring in the earnings ranges below (Minijobs) and above Midijobs? (2) Which employers respond? Are there heterogeneities by firm size, e.g., because large firms are more aware of the changes and/or have sufficient churning to show immediate responses? Is there evidence of adjustment frictions?

Our study connects to the literature on employment effects of payroll tax subsidies (e.g., Saez et al. 2019), the literature on labor demand responses to payroll tax shifts (e.g., Collischon et al. 2021), and the literature on frictions in firm responses to tax changes (e.g., Gudgeon and Trenkle 2024 and Tazhitdinova 2020).

While the reform aimed at increasing labor supply beyond the Minijob earnings limit, employers may have responded in a countervailing manner, shifting labor demand from Midijobs to Minijobs. Our first results based on the IEB and SIEED datasets covering the period until the end of 2023 suggest indeed that after the reform, employers reduced hiring in the Midijobs earnings range.

We plan to use panel data on establishments (BHP, SIEED, 2003-2023, ideally covering 2024). A challenge in studying firm hiring behavior over time is that the nominal boundaries of Mini- and Midijobs changed several times. In a first step, we pursue a descriptive analysis; in the second step, we apply a (more) causal identification strategy.

In step one, we describe the earnings-range-specific firm hiring behavior over time. For each establishment i, we code two annual outcomes (Y) that indicate for each bracket j of monthly earnings (e.g., 0-100, 101-200, 201-300, …, 500-600, 601-700, …, 2401-2500 €) whether (Y1) and how many (Y2) hirings were made by a given establishment in that earnings bracket in calendar year t. Using linear regression, we then inspect whether we observe average adjustments in hiring patterns that correlate with the reform dates. We regress both outcomes (Y1 and Y2) on establishment and year fixed effects. A plot of the annual fixed effects by earnings bracket will show behavioral adjustments that exceed inflation adjustments. These analyses can be executed by firm size. Alternatively, instead of using establishment fixed effects, it can be interesting to study the immediate correlation patterns of firm size, industry, and regional labor markets.

In step two, we apply a regression discontinuity in time (RDiT) approach, similar to Herget and Riphahn (2024). This allows a separate perspective on whether establishments shifted their hiring behavior exactly when payroll tax increases were announced.

The evidence from both steps indicates the combined employer responses regarding the number of hours worked and hourly wages. We expect a drop in Midijob hirings, more Minijobs, and increases in the relevance of hirings beyond the Midijob earnings range. In additional analyses, we plan to replicate the analyses of Gudgeon and Trenkle (2024), which characterized establishments that respond with more or less friction to changes in payroll taxes.

The results might indicate that a side-effect of the 2022 Midijob reform invalidates the main reform objective, i.e., to reduce Minijob employment and to abolish the Minijob trap. These findings are relevant for many national labor markets where governments attempt to shift the burden of labor market subsidies to employers.

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Table: Reform of gross monthly earnings thresholds

Reform date (date of the legislative change)	Minijobs	Midijobs
July 1, 2019 (November 8, 2018)	0 – 450 Euro	450,01 – 1300 Euro
October 1, 2022 (June 28, 2022)	0 – 520 Euro	520,01 – **1600** Euro
January 1, 2023 (October 7, 2022)	0 – 520 Euro	520,01 – **2000** Euro

Figure 1.1: Payroll tax rates for employers and employees before October 1, 2022



Figure 1.2: Payroll tax rates for employers and employees after October 1, 2022

