



2025 Midyear HR Trends to Monitor

Provided by Parrott Benefit Group

In today's rapidly evolving employment market, HR is crucial in shaping and driving organizational success. The HR function and workplaces in general are being impacted by compliance requirements, evolving economic pressures and shifting employee needs. By staying current on the latest workplace trends, HR teams and leaders can contribute meaningfully to their organizations by better attracting, developing and retaining talent; driving employee engagement; and fostering innovation.

The middle of the year is a great time to evaluate HR progress and recalibrate any efforts to close the year strong or inform forward-thinking strategies to maintain a competitive edge moving into 2026. This article explores the latest HR trends to watch during the second half of 2025, discussing how they'll likely impact employers and exploring how savvy organizations can address them.

Current State of Attraction and Retention

Employee attraction and retention remain top challenges for employers across industries. In fact, Zywave's 2025 State of the Market Survey revealed that employers ranked attraction and retention as their fourth-highest business challenge, right behind economic uncertainty, inflation and rising health care costs. Furthermore, around 60% of respondents still at least somewhat struggle with attracting and retaining employees in 2025, down from previous surveys. Employment metrics from the U.S. Bureau of Labor Statistics are also similar to pre-pandemic numbers.

While attraction and retention are no longer the critical business challenges they were in recent years, they still are some of the most pressing issues facing employers today. Similarly, employers ranked labor market changes as the fourth most likely to have the biggest impact on their organization. These findings are consistent with market data and labor statistics, which show that the labor market has become more employer-friendly but still remains an operational challenge for most organizations.

Organizations generally struggle with similar market-driven challenges that make competing in the labor market challenging. Common challenges include:



Meeting employee demands for increased compensation



Offering employees competitive health care benefits amid rising costs



Attracting, retaining and upskilling employees with the necessary skills for a shifting market



Engaging employees who are unlikely to leave their jobs, but lack motivation and confidence



Navigating changes to immigration policies that may impact the labor market

The labor market continues to be competitive, with workers prioritizing flexibility, purpose and well-being more than ever.

Workers seek meaningful work, transparent leadership and a sense of belonging. Employers who actively listen to employee feedback and adapt their practices are seeing better retention outcomes.

For employers, this means rethinking traditional HR strategies. Competitive pay and benefits are just the baseline. To truly stand out, organizations are building strong employer brands, fostering strong workplace cultures and providing clear paths for career growth or advancement. Those who succeed in these areas are not only attracting top talent but also building more resilient and engaged workforces.

The Impact of Tariffs on the Labor Market

Tariffs are increasingly shaping the U.S. economy and workplaces. Although overall job growth has remained positive, the pace has slowed, and the effects of such growth have varied significantly across industries.

In June 2025, the U.S. economy added 147,000 jobs, demonstrating a more resilient market than expected. Government employment boosted this number, accounting for 73,000 jobs, as a result of increased state and local hiring. Health care, social assistance, leisure and hospitality, and construction sectors also reported strong hiring for the month. Despite defying slowdown expectations, analysts argue that employment outside those top sectors remains challenging.



The most recent tariffs, which the Budget Lab at Yale said **raised the average effective tariff rate of 18%**—the highest since 1934—have contributed to a projected **loss of 538,000 jobs by the end of 2025** and a 0.4 percentage point increase in the unemployment rate.

These tariffs have disproportionately affected sectors like apparel and durable goods manufacturing, where companies are either freezing hiring or laying off workers due to rising costs and disrupted supply chains.

Moreover, trade policy uncertainty has led many employers to adopt a “wait and see” approach, further dampening hiring momentum. According to Deloitte, while some reshoring of production may occur, the benefits will take time to materialize. In the short term, inflationary pressures and reduced consumer spending will likely weigh on job creation.

Even though the labor market has shown resilience, tariffs have introduced significant headwinds, particularly for trade-sensitive industries, contributing to a more cautious hiring environment. As such, employers must remain agile amid this economic uncertainty. Every industry and role is unique, but employers can generally build or strengthen their workforce flexibility through cross-training, scenario planning and strategic reskilling to adapt to today’s shifting labor demands.

Layoffs on the Radar for More Employers

Layoffs are increasingly on the radar for U.S. employers in 2025, driven by a mix of economic uncertainty, artificial intelligence (AI) disruption and cost-cutting pressures.



A recent survey by ResumeTemplates found that **45% of companies anticipate layoffs this year**, with 11% confirming definite plans and another 34% saying reductions are likely. Many cite automation, economic concerns and shifting federal policies as key drivers for this decision.

Major corporations—including Microsoft, Procter & Gamble, and Citigroup—have already announced significant job cuts, with thousands of companies reporting mass layoffs since January. In the technology sector, hiring managers are particularly focused on AI-related skills, and workers lacking them are at higher risk of being let go. This trend reflects a broader shift in workforce strategy, where companies are prioritizing leaner, more tech-savvy teams.

Despite a still-resilient labor market, the tone around layoffs is changing. While some employers are hesitant to repeat the mass cuts of the pandemic era, others are quietly preparing for downturns with cost-cutting strategies like freezing hiring, reducing bonuses, cutting employee benefits or downsizing office space. At the same time, a cultural shift is emerging. Workers are becoming more vocal and less ashamed about layoffs, with communities forming to share experiences and support.

In this labor market, employers must balance short-term cost management with long-term talent strategy. The growing likelihood of layoffs means employers must be more strategic and transparent in workforce planning. Proactive steps include conducting skills assessments to identify reskilling opportunities, especially around AI, and communicating openly with employees to maintain trust and morale. Employers may also be exploring alternatives like furloughs, job sharing or redeployment before resorting to permanent cuts.

How AI Is Changing the Workplace

AI is rapidly transforming the workplace, reshaping how organizations operate, how employees work and what skills are most valued. AI is no longer a futuristic concept in 2025; it's a core part of daily business operations.

AI is driving a shift toward data-driven decision-making, enabling faster insights and personalized employee experiences. Employees are also using such tools in their daily work to perform tedious tasks, analyze data and increase overall productivity. However, this transformation also brings challenges. A recent KPMG study found that 57% of workers admitted to making AI-related errors, and many are using AI tools without proper oversight or training. This highlights a growing gap between AI adoption and governance, raising concerns about data security, compliance and fairness.

Many of today's workers are confident that they can increase their AI or machine learning (ML) fluency if only their organization provided upskilling support. IBM estimates that the half-life of general skills is now just five years. That figure is even worse for IT skills, which is less than three years.



Furthermore, according to the World Economic Forum, **more than one-third (39%) of workers' skills will become outdated over the next five years.**

Closing the AI and technology skills gap doesn't require starting from scratch, but it does require intention, structure and support from employers. Despite AI and ML's advantages, there's a disconnect between how employers view them and how workers do. Some employees may lack confidence about integrating the tools into their workflows, while others may be worried about job security and being replaced by advanced technologies. As such, successful employers will be able to help employees understand how AI tools work, how to use them responsibly and how they can enhance—not replace—their work.

Alongside this adoption, regulatory scrutiny is also growing as states increasingly pass laws. For example, a law may require companies to prevent algorithmic discrimination in AI-driven employment decisions, which can signal a broader trend toward accountability and ethical AI use in the workplace. AI is a powerful tool, but HR professionals must harness its full potential carefully. Organizations can invest in training, ethical frameworks and inclusive cultures that prioritize both innovation and human well-being.

AI is reshaping the workplace by automating repetitive tasks, streamlining operations and enabling faster data-driven decisions. For employers, this means prioritizing employee training, auditing AI tools for fairness and compliance, and adapting job roles to align with evolving technologies and regulations. Proactive planning now can help organizations stay agile, competitive and compliant in an AI-driven future.

Current State of Federal Enforcement

So far in 2025, the enforcement priorities of the U.S. Equal Employment Opportunity Commission (EEOC) reflect a sharpened focus on illegal and discriminatory diversity, equity and inclusion (DEI) practices and compliance with federal labor standards. Simultaneously, immigration enforcement—particularly compliance with the Employment Eligibility Verification form (Form I-9)—has become a central priority for the federal government under the Trump administration.

DEI-related Discrimination Guidance

On March 19, 2025, the EEOC and the U.S. Department of Justice (DOJ) issued joint [guidance](#) on illegal and discriminatory DEI practices. The EEOC also issued [frequently asked questions \(FAQs\)](#) regarding DEI-related discrimination.

Under Title VII of the Civil Rights Act (Title VII), employers with 15 or more employees may not discriminate on the basis of an individual's protected trait (e.g., race, color, religion, sex or national origin). The EEOC FAQs and the EEOC and DOJ joint guidance state that DEI programs may be unlawful under Title VII if they are motivated, in whole or in part, by an employee's protected trait. The guidance identifies specific instances of potential DEI-related discrimination in the workplace, including:

- Engaging in **disparate treatment** in employment actions (e.g., hiring, firing, compensation, access to training, mentoring or workplace networking, and selection for interviews, including inclusion in a candidate pool) that is motivated by a protected trait
- **Limiting, segregating or classifying** employees based on a protected trait in a way that deprives them of employment opportunities (e.g., limiting membership in workplace groups, such as employee resource groups or affinity groups, to members of a particular protected class)
- Engaging in workplace **harassment** based on a protected trait (e.g., DEI training may constitute illegal harassment if it is so severe or frequent as to be intimidating, hostile or abusive)
- **Retaliating** against employees who engage in protected activity (e.g., objecting to DEI-related discrimination, participating in an investigation or filing a charge).

The guidance further clarifies that unlawful discrimination occurs even if a protected trait is just one factor among several rather than the sole factor. Additionally, employers may not justify taking an employment action on the basis of a protected trait because they have a business interest in diversity, including a client or customer preference. Finally, the guidance provides steps employees may take to file a claim of discrimination with the EEOC.

Immigration Compliance and Form I-9

The federal government has increased its enforcement efforts to identify and prosecute employers who violate the Immigration Reform and Control Act (IRCA), believing illegal immigration can be reduced by actively targeting employers who employ individuals unauthorized to work in the country. This trend will likely continue in the foreseeable future, increasing employers' potential risk of being subject to worksite enforcement action.

Each year, the federal government recovers millions of dollars in fines and citations for IRCA violations. To enforce immigration laws in the workplace, the federal government may take certain actions. The most common enforcement actions include:

- U.S. Immigration and Customs Enforcement (ICE) worksite enforcement actions (commonly referred to as immigration raids);
- U.S. Citizenship and Immigration Services (USCIS) on-site inspections; and
- Form I-9 audits.

Therefore, immigration enforcement may be a reality for some employers. However, employers who take steps to prepare minimize potential disruptions and remain compliant. Due to the legal complexities of immigration enforcement, employers are encouraged to seek legal counsel to discuss specific issues and concerns.



OBBBA Eliminates Taxes on Qualified Tips and Overtime Compensation

On July 4, 2025, President Donald Trump signed a tax and spending bill, commonly referred to as the [One Big Beautiful Bill Act](#) (OBBBA), into law. Among other provisions, the OBBBA would allow certain workers an above-the-line deduction for “qualified tips” and “qualified overtime compensation” for taxable years beginning after Dec. 31, 2024, and ending for taxable years beginning after Dec. 31, 2028.

Tip Deductions

Section 70201 of the OBBBA creates a new above-the-line tax deduction for qualified tips. Individuals must earn \$150,000 or less (\$300,000 if married filing jointly) in 2025 to be eligible for the tip deduction. The maximum deduction for tip income is capped at \$25,000 per year, and the deduction only applies to cash tips, which include tips that are charged and tips received under a tip-sharing agreement. To be considered a qualified tip, the tip must be paid voluntarily without any consequence in the event of nonpayment, not be subject to negotiation, and be determined by the payor

To qualify for the tip deduction, individuals must work in occupations where receiving tips is customary (e.g., servers, bartenders, hotel staff, hairstylists) on or before Dec. 31, 2024. The Treasury Department will publish a list of qualifying occupations within 90 days of the OBBBA’s enactment. Qualified tips must be reported on statements furnished to the individual as required under the Internal Revenue Code (e.g., Form W-2) or on Form 4137. The OBBBA does not change the requirement that employees and employers report all tips to the IRS. Individuals must include their Social Security number (and, if married and filing jointly, their spouse’s Social Security number) on their tax return to receive the deduction.

Overtime Deductions

Section 70202 of the OBBBA establishes a new above-the-line tax deduction for qualified overtime compensation. The OBBBA defines “qualified overtime compensation” as overtime compensation paid to an individual required under Section 7 of the Fair Labor Standards Act (FLSA) that is in excess of the regular rate at which the individual is paid. The maximum deduction for overtime income is capped at \$12,500 per year (\$25,000 per year if married filing jointly). The deduction decreases for those earning over \$150,000 per year. Employers must include the total amount of qualified overtime compensation as a separate line item on employees’ Form W-2. Qualified tips cannot be claimed as qualified overtime compensation. Similar to qualified tips, individuals must include their Social Security number (and, if married and filing jointly, their spouse’s Social Security number) on their tax return to receive the deduction.

Next Steps for Employers

Employers may need to adjust their payroll systems to accurately track and report qualifying tips and overtime compensation on employees’ Forms W-2.



Employer Takeaway

Midyear is a great time to evaluate progress on HR efforts and pivot or amp up efforts to finish 2025 on a strong note. Employers should expect the work environment to continue to change quickly. No organization is immune to developments driven by a new presidential administration, the economy and technologies. As such, savvy employers are always monitoring the latest workplace trends and resonating with the workforce.

Contact us today for more information on the latest HR trends.