

Part III — Administrative, Procedural, and Miscellaneous

Interim Guidance Regarding Interest on Loans Secured by Rural or Agricultural Real Property under Section 139L of the Internal Revenue Code

Notice 2025-71

SECTION 1. OVERVIEW

This notice announces that the Department of the Treasury (Treasury Department) and the Internal Revenue Service (IRS) intend to publish a notice of proposed rulemaking (forthcoming proposed regulations) addressing the exclusion of interest on loans secured by rural or agricultural real property under § 139L of the Internal Revenue Code (Code).¹ Section 139L was added to the Code by Public Law 119-21, 139 Stat. 72 (July 4, 2025), commonly known as the One, Big, Beautiful Bill Act (OBBBA). The Treasury Department and the IRS intend to propose rules in the forthcoming proposed regulations similar to the interim guidance provided in section 3 of this notice. Taxpayers may rely on the interim guidance in section 3 of this notice in accordance with section 4 of this notice. Section 5 of this notice requests comments on issues addressed in this notice and certain additional issues, as well as other issues on which taxpayers believe guidance would be helpful.

¹ Unless otherwise specified, all “section” or “§” references are to sections of the Code or the Income Tax Regulations (26 CFR part 1).

SECTION 2. BACKGROUND

.01 Partial exclusion for certain interest income.

(1) Overview. Section 139L(a) excludes from gross income 25 percent of the interest received by a qualified lender on any qualified real estate loan.

(2) Qualified lender. For purposes of § 139L, § 139L(b) defines the term qualified lender to mean--

(a) any bank or savings association the deposits of which are insured under the Federal Deposit Insurance Act (12 U.S.C. 1811 et seq.);

(b) any State- or federally-regulated insurance company;

(c) any entity wholly owned, directly or indirectly, by a company that is treated as a bank holding company for purposes of section 8 of the International Banking Act of 1978 (12 U.S.C. 3106) if such entity is organized, incorporated, or established under the laws of the United States or any State, and the principal place of business of such entity is in the United States (including any territory of the United States);

(d) any entity wholly owned, directly or indirectly, by a company that is considered an insurance holding company under the laws of any State if such entity is organized, incorporated, or established under the laws of the United States or any State, and the principal place of business of such entity is in the United States (including any territory of the United States); and

(e) with respect to interest received on a qualified real estate loan secured by real property which is substantially used for the production of one or more agricultural products, any federally chartered instrumentality of the United States established under section 8.1(a) of the Farm Credit Act of 1971 (12 U.S.C. 2279aa-1(a)).

(3) Qualified real estate loan.

(a) In general. For purposes of § 139L, § 139L(c)(1) defines a qualified real estate loan as any loan secured by rural or agricultural real estate, or a leasehold mortgage (with a status as a lien) on rural or agricultural real estate; made to a person other than a specified foreign entity (as defined in § 7701(a)(51)); and made after the date of the enactment of § 139L (July 4, 2025). The determination of whether a property securing a loan is rural or agricultural real estate must be made as of the time the interest income on such loan is accrued.

(b) Refinancings. Pursuant to § 139L(c)(2), a loan is not treated as made after the date of the enactment of § 139L to the extent that the proceeds of such loan are used to refinance a loan which was made on or before the date of the enactment of § 139L (or, in the case of any series of refinancings, the original loan was made on or before such date).

(c) Rural or agricultural real estate. For purposes of § 139L, § 139L(c)(3) defines the term rural or agricultural real estate as any real property which is substantially used for the production of one or more agricultural products; any real property which is substantially used in the trade or business of fishing or seafood processing; and any aquaculture facility. Such term does not include any property which is not located in a State or a possession of the United States.

(d) Aquaculture facility. Section 139L(c)(4) defines the term aquaculture facility to mean any land, structure, or other appurtenance that is used for aquaculture (including any hatchery, rearing pond, raceway, pen, or incubator).

.02 Effective date. Section 139L applies to taxable years ending after July 4, 2025

(that is, the date of the enactment of the OBBBA).

SECTION 3. INTERIM GUIDANCE REGARDING THE APPLICATION OF § 139L

.01 Purpose of this notice. The Treasury Department and the IRS are issuing this notice to provide interim guidance regarding the application of § 139L prior to the publication of the forthcoming proposed regulations.

.02 Defined terms. Any term not defined in this notice has the meaning provided in § 139L. For purposes of this notice:

(1) Interest received. The term interest received means the interest, including amounts treated as interest under the Code, that is includible in gross income by a qualified lender. For purposes of the preceding sentence, the amount of interest includible in gross income by a qualified lender is determined without regard to § 139L, and the time at which interest is includible in gross income is determined under the qualified lender's overall method of accounting (for example, the cash receipts and disbursements method of accounting or an accrual method of accounting) or, if applicable, under a special method of accounting (for example, § 1272 for original issue discount).

(2) Pre-enactment loan. The term pre-enactment loan means any debt instrument with an issue date (within the meaning of § 1.1273-2) on or before July 4, 2025, or in the case of a refinancing or any series of refinancings, any debt instrument for which the issue date of the original loan was on or before July 4, 2025.

(3) Qualified rural or agricultural property. The term qualified rural or agricultural property means rural or agricultural real estate or a leasehold mortgage (with a status as a lien) on rural or agricultural real estate.

.03 Interest received by a qualified lender under § 139L(a).

(1) Allocation of exclusion. For purposes of applying § 139L(a), a qualified lender excludes from gross income 25 percent of the interest received on a qualified real estate loan in a taxable year and includes in gross income 75 percent of the interest received on a qualified real estate loan in the taxable year.

(2) No origination requirement. A qualified lender is not required to have been the original holder of a qualified real estate loan on the issue date of the qualified real estate loan in order to exclude interest income under § 139L(a). For example, a qualified lender may include a subsequent holder of a qualified real estate loan, if the subsequent holder is a qualified lender.

.04 Qualified real estate loan.

(1) Determining whether a loan is secured by qualified rural or agricultural property.

(a) A qualified real estate loan is secured by qualified rural or agricultural property only if, at the time interest income on such loan accrues, the qualified lender holds a valid and enforceable security interest with respect to the qualified rural or agricultural property under applicable law.

(b) Subject to the safe harbor described in section 3.04(2) of this notice, the amount of a loan that is a qualified real estate loan is limited to the fair market value of the qualified rural or agricultural property securing the loan, determined as of the issue date of the loan. If the amount of the loan, that is, the issue price of the loan, exceeds the fair market value of the qualified rural or agricultural property securing the loan, determined as of the issue date of the loan, only the portion of the loan that does not exceed such value is a qualified real estate loan. For example, if, on the issue date of a

loan, the loan is secured by qualified rural or agricultural property with a fair market value of \$10x and the amount of the loan is \$100x, then only \$10x of the loan is a qualified real estate loan.

(c) A qualified lender that is a subsequent holder may apply section 3.04(1)(b) of this notice either based on the fair market value of the qualified rural or agricultural property securing the loan and the issue price of the loan on the issue date, or based on the fair market value of such property and the adjusted issue price of the loan on the date the qualified lender acquires the loan.

(2) Safe harbor for determining whether a loan is secured by qualified rural or agricultural property.

(a) Notwithstanding section 3.04(1) of this notice, a qualified lender may treat a loan as fully secured by qualified rural or agricultural property for purposes of § 139L(c) if the terms of the loan provide the qualified lender an interest described in section 3.04(1)(a) of this notice with respect to the property and the fair market value of the qualified rural or agricultural property securing the loan is at least 80 percent of the issue price of the loan on the issue date. For example, if, on the issue date of a loan, the loan is secured by qualified rural or agricultural property with a fair market value of \$85x and the issue price of the loan is \$100x, then the entire loan is treated as a qualified real estate loan.

(b) A qualified lender that is a subsequent holder may apply section 3.04(2)(a) of this notice either based on the fair market value of the qualified rural or agricultural property securing the loan and the issue price of the loan on the issue date, or based on the fair market value of such property and the adjusted issue price of the loan on the

date the qualified lender acquires the loan.

(3) Determining fair market value.

(a) For purposes of this section 3.04, a qualified lender may determine the fair market value of property by using any commercially reasonable valuation method. A commercially reasonable valuation method includes a method the qualified lender uses in the ordinary course of its trade or business for valuing property that secures loans. A commercially reasonable valuation method may take into account expectations regarding the rural or agricultural real estate's production of income from the activities conducted on such real estate, as described in § 139L(c)(3). For example, a qualified lender's commercially reasonable valuation method may take into account the value of crops on or the projected income from harvesting crops on the rural or agricultural real estate securing the loan.

(b) For purposes of this section 3.04, a qualified lender may, subject to the limitation in the following sentence, add to the fair market value of the rural or agricultural real estate the fair market value of any personal property used in the course of the activities conducted on such real estate, as described in § 139L(c)(3), such as farm equipment and machinery or livestock. A qualified lender may include the value of personal property in such determination only if the qualified lender holds a valid and enforceable security interest with respect to such personal property under applicable law, and only if the relevant loan is secured to a substantial extent by rural or agricultural real estate. For example, if real property substantially used for the production of corn is valued at \$500x, and farm equipment and machinery used for the production of corn on such real property is valued at \$50x, the total value that may be

used to determine the fair market value of the qualified rural and agricultural property for purposes of section 3.04(1) and (2) of this notice would be \$550x.

(4) Subsequent fair market value testing not required. For purposes of section 3.04(1) and (2) of this notice, so long as the qualified real estate loan continues to be secured by the qualified rural or agricultural property and there is not a subsequent significant modification of such loan under § 1.1001-3, retesting of the fair market value of such property other than on the relevant date provided by section 3.04(1) or (2) of this notice is not required.

(5) Reasonable belief. If a qualified lender initially determined a loan was secured by qualified rural or agricultural property under section 3.04(1) or (2) of this notice, and reasonably believes in good faith that the loan continues to be so secured, then the qualified lender may rely on that initial determination at the time interest income on such loan accrues for purposes of § 139L(c) and this section 3.04. A reasonable, good-faith belief exists only if the qualified lender reasonably believes in good faith both that the security interest remains in place and that the rural or agricultural real estate continues to be used in a manner that qualifies it as rural or agricultural real estate. A qualified lender may base this reasonable, good-faith belief on covenants or other certifications made by the borrower of the loan or other parties that have actual knowledge or reason to know that the loan is secured by qualified rural or agricultural property.

(6) Later discovery that a loan is not secured under § 139L(c).

(a) Except as provided in section 3.04(6)(b) of this notice, if, despite the qualified lender's previous reasonable, good-faith belief described in section 3.04(5) of this notice, the qualified lender, on a later date, learns or has reason to believe that a loan is

no longer secured by qualified rural or agricultural property, the loan will lose its status as a qualified real estate loan under § 139L on that date.

(b) A loan will be treated as not losing its status as a qualified real estate loan under section 3.04(6)(a) of this notice if the qualified lender, borrower, or other party causes the loan to be secured by qualified rural or agricultural property within 90 days following the date on which the qualified lender learns or has reason to believe that the loan is not secured by qualified rural or agricultural property.

(7) Use of loan proceeds. For purposes of section 3.04(1) or (2) of this notice, a borrower's use of loan proceeds does not affect whether a loan may be treated as a qualified real estate loan.

.05 Refinancings, significant modifications, and pre-enactment loans.

(1) Partial refinancing. For purposes of § 139L(c)(2), if the proceeds of a loan (new loan) are used in part to refinance a pre-enactment loan and in part for other purposes, the portion of the new loan used to refinance the pre-enactment loan is treated as made on or before July 4, 2025 (that is, the date of enactment of § 139L). The amount of the new loan that may be treated as a qualified real estate loan is limited to the portion of the new loan that exceeds the outstanding balance of the pre-enactment loan as of the date of the refinancing. In such case, a qualified lender must allocate the principal of the new loan between amounts used to refinance any pre-enactment loan and amounts borrowed for other purposes accordingly. Any payments of interest or principal on the new loan are allocated to the portion of the new loan that is a pre-enactment loan and the portion that may be a qualified real estate loan on a pro rata basis.

(2) Significant modifications. A significant modification within the meaning of

§ 1.1001-3 of a pre-enactment loan is treated as a refinancing of the pre-enactment loan for purposes of § 139L(c)(2).

(3) Additional borrowings. A borrowing after the date of the enactment of § 139L that is added to the principal amount of any pre-enactment loan or a borrowing after the date of enactment of § 139L pursuant to a line of credit or similar agreement entered into on or before the date of enactment that allows the borrower to borrow periodically under the agreement (post-enactment amount), is not treated as a pre-enactment loan to the extent of the post-enactment amount. For purposes of this section 3.05(3), the post-enactment amount does not include any amount that is used to refinance a pre-enactment loan. In cases where the outstanding principal includes both a pre-enactment loan and a post-enactment amount, a qualified lender must allocate the principal amount between the pre-enactment loan and the post-enactment amount and must allocate payments of principal or interest on a pro rata basis.

.06 Use described in § 139L(c)(3). For purposes of § 139L(c)(3) and section 3.04(1) or (2) of this notice, the presence of a residence on qualified rural or agricultural property, or intermittent periods when such property is not used for the purposes described in § 139L(c)(3) due to seasonality, fallowing, or similar circumstances, does not prevent such property from being qualified rural or agricultural property as long as the property satisfies the substantial use requirement. By contrast, property with only minimal or incidental agricultural activity generally would not be considered to be used for the purposes described in § 139L(c)(3), including for this purpose a small personal garden, backyard beekeeping, and keeping chickens to produce eggs for household use.

SECTION 4. APPLICABILITY DATES

It is anticipated that the forthcoming proposed regulations will include proposed rules consistent with the interim guidance provided in section 3 of this notice and that the proposed regulations, when finalized, will apply for taxable years beginning after final regulations are published in the *Federal Register*. Taxpayers may rely on the interim guidance set forth in section 3 of this notice for loans made after July 4, 2025, and on or before the date that is 30 days after the forthcoming proposed regulations are published in the *Federal Register*.

SECTION 5. REQUEST FOR COMMENTS

.01 Comments regarding § 139L. The Treasury Department and the IRS request comments on the issues addressed in this notice as well as other issues on which taxpayers believe guidance would be helpful. The Treasury Department and the IRS also request comments on the following specific issues:

(1) To what extent should the forthcoming proposed regulations address the meaning of the terms rural or agricultural real estate, real property, agricultural products, fishing or seafood processing, or aquaculture facility? Should the forthcoming proposed regulations consider definitions and guidance relating to similar terms, including under § 2032A, § 1.199A-8, and § 1.856-10?

(2) To what extent should the forthcoming proposed regulations address whether property is substantially used for the production of one or more agricultural products, or in the trade or business of fishing or seafood processing? For example, are factors such as time spent, amount of land used, or revenue relevant, and to what extent should seasonality or periods of non-use be further considered?

(3) To what extent should the forthcoming proposed regulations address how the substantial use requirement applies to properties with mixed uses, such as farmland that is used to host events or other non-agricultural activity, or properties that are also used (in whole or part) for personal purposes?

(4) How should the forthcoming proposed regulations address changes involving qualified rural or agricultural property following the issuance of a qualified real estate loan, including changes in the use of the property, changes to the property, or changes affecting the collateral of a loan?

(5) How should the forthcoming proposed regulations address how a qualified lender determines whether the loan remains secured by qualified rural or agricultural property?

(6) To what extent should the forthcoming proposed regulations address how § 139L applies in securitization structures, including a securitization involving a trust for which holders of trust certificates are treated as holding an interest in the underlying loan assets?

(7) To what extent should the forthcoming proposed regulations address § 139L(d), regarding the application of § 265 to any qualified real estate loan?

.02 Procedures for submitting comments.

(1) Deadline. Written comments should be submitted by January 20, 2026. Consideration will also be given to any written comment submitted after January 20, 2026, though such comments may not be considered in the development of the forthcoming proposed regulations if such consideration would delay the publication of the forthcoming proposed regulations.

(2) Form and manner. The subject line for the comments should include a reference to Notice 2025-71. All commenters are strongly encouraged to submit comments electronically. Comments may be submitted in one of two ways:

(a) electronically via the Federal eRulemaking Portal at <https://www.regulations.gov> (type IRS-2025-0400 in the search field on the <https://www.regulations.gov> homepage to find this notice and submit comments); or

(b) by mail to: Internal Revenue Service, CC:PA:01:PR (Notice 2025-71), Room 5503, P.O. Box 7604, Ben Franklin Station, Washington, D.C., 20044.

(3) Publication of comments. The Treasury Department and the IRS will publish for public availability any comment submitted electronically and on paper to the IRS's public docket on <https://www.regulations.gov>.

SECTION 6. DRAFTING AND CONTACT INFORMATION

The principal author of this notice is Matthew DeBenedetto of the Office of the Associate Chief Counsel (Financial Institutions & Products). For further information regarding this notice, please contact Mr. DeBenedetto at (202) 317-3998 (not a toll-free number).