

INTERNAL REVENUE BULLETIN



HIGHLIGHTS OF THIS ISSUE

These synopses are intended only as aids to the reader in identifying the subject matter covered. They may not be relied upon as authoritative interpretations.

EMPLOYMENT TAX

REG-132805-17, page 343.

These proposed regulations would provide guidance regarding determining an employer's line or lines of business for purposes of the section 132 exclusions from gross income for no-additional-cost services fringe benefits and qualified employee discounts fringe benefits.

Bulletin No. 2025-35
August 25, 2025

ESTATE TAX

Rev. Rul. 2025-16, page 342.

The 2025 interest rates to be used in computing the special use value of farm real property for which an election is made under section 2032A of the Code are listed for estate of decedents.

The IRS Mission

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

Introduction

The Internal Revenue Bulletin is the authoritative instrument of the Commissioner of Internal Revenue for announcing official rulings and procedures of the Internal Revenue Service and for publishing Treasury Decisions, Executive Orders, Tax Conventions, legislation, court decisions, and other items of general interest. It is published weekly.

It is the policy of the Service to publish in the Bulletin all substantive rulings necessary to promote a uniform application of the tax laws, including all rulings that supersede, revoke, modify, or amend any of those previously published in the Bulletin. All published rulings apply retroactively unless otherwise indicated. Procedures relating solely to matters of internal management are not published; however, statements of internal practices and procedures that affect the rights and duties of taxpayers are published.

Revenue rulings represent the conclusions of the Service on the application of the law to the pivotal facts stated in the revenue ruling. In those based on positions taken in rulings to taxpayers or technical advice to Service field offices, identifying details and information of a confidential nature are deleted to prevent unwarranted invasions of privacy and to comply with statutory requirements.

Rulings and procedures reported in the Bulletin do not have the force and effect of Treasury Department Regulations, but they may be used as precedents. Unpublished rulings will not be relied on, used, or cited as precedents by Service personnel in the disposition of other cases. In applying published rulings and procedures, the effect of subsequent legislation, regulations, court decisions, rulings, and procedures must be considered, and Service personnel and others concerned are cautioned

against reaching the same conclusions in other cases unless the facts and circumstances are substantially the same.

The Bulletin is divided into four parts as follows:

Part I.—1986 Code.

This part includes rulings and decisions based on provisions of the Internal Revenue Code of 1986.

Part II.—Treaties and Tax Legislation.

This part is divided into two subparts as follows: Subpart A, Tax Conventions and Other Related Items, and Subpart B, Legislation and Related Committee Reports.

Part III.—Administrative, Procedural, and Miscellaneous.

To the extent practicable, pertinent cross references to these subjects are contained in the other Parts and Subparts. Also included in this part are Bank Secrecy Act Administrative Rulings. Bank Secrecy Act Administrative Rulings are issued by the Department of the Treasury's Office of the Assistant Secretary (Enforcement).

Part IV.—Items of General Interest.

This part includes notices of proposed rulemakings, disbarment and suspension lists, and announcements.

The last Bulletin for each month includes a cumulative index for the matters published during the preceding months. These monthly indexes are cumulated on a semiannual basis, and are published in the last Bulletin of each semiannual period.

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Part I

Section 2032A.—Valuation of Certain Farm, Etc., Real Property

26 CFR 20.2032A-4: Method of valuing farm real property.

Rev. Rul. 2025-16

This revenue ruling contains a list of the average annual effective interest rates on new loans under the Farm Credit System. This revenue ruling also contains a list of the states within each Farm Credit System Bank Territory.

Under § 2032A(e)(7)(A)(ii) of the Internal Revenue Code, rates on new

Farm Credit System Bank loans are used in computing the special use value of real property used as a farm for which an election is made under § 2032A. The rates in Table 1 of this revenue ruling may be used by estates that value farmland under § 2032A as of a date in 2025.

Average annual effective interest rates, calculated in accordance with § 2032A(e)(7)(A) and § 20.2032A-4(e) of the Estate Tax Regulations, to be used under § 2032A(e)(7)(A)(ii), are set forth in the accompanying Table of Interest Rates (Table 1). The states within each Farm Credit System Bank Territory are set forth in the accompanying Table of Farm Credit System Bank Territories (Table 2).

Rev. Rul. 81-170, 1981-1 C.B. 454, contains an illustrative computation of an average annual effective interest rate. The rates applicable for valuation in 2024 are in Rev. Rul. 2024-16, 2024-35 I.R.B. 534. For rate information for years prior to 2024, see Rev. Rul. 2023-15, 2023-34 I.R.B. 559, and other revenue rulings that are referenced therein.

DRAFTING INFORMATION

The principal author of this revenue ruling is Lane Damazo of the Office of the Associate Chief Counsel (Passthroughs, Trusts, and Estates). For further information regarding this revenue ruling, contact Lane Damazo at (202) 317-4628 (not a toll-free number).

REV. RUL. 2025-16 TABLE 1	
TABLE OF INTEREST RATES	
(Year of Valuation 2025)	
Farm Credit System Bank Servicing State in Which Property is Located	Rate
AgFirst, FCB	6.25
AgriBank, FCB	5.80
CoBank, ACB	5.78
Texas, FCB.	6.21

REV. RUL. 2025-16 TABLE 2	
TABLE OF FARM CREDIT SYSTEM BANK TERRITORIES	
Farm Credit System Bank . . .	Location of Property
AgFirst, FCB.	Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, Pennsylvania, South Carolina, Virginia, West Virginia.
AgriBank, FCB	Arkansas, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Tennessee, Wisconsin, Wyoming.
CoBank, ACB	Alaska, Arizona, California, Colorado, Connecticut, Hawaii, Idaho, Kansas, Maine, Massachusetts, Montana, New Hampshire, New Jersey, New Mexico, New York, Nevada, Oklahoma, Oregon, Rhode Island, Utah, Vermont, Washington.
Texas, FCB.	Alabama, Louisiana, Mississippi, Texas.

Part IV

Notice of Proposed Rulemaking

Determination of Line of Business for Purposes of No-Additional-Cost Service and Qualified Employee Discount Fringe Benefits.

REG-132805-17

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking.

SUMMARY: This document contains proposed regulations that would provide guidance regarding an employer's line or lines of business for purposes of determining the exclusion from gross income for no-additional-cost services or qualified employee discounts provided to employees.

DATES: Written or electronic comments and requests for a public hearing must be received by November 4, 2025.

ADDRESSES: Commenters are strongly encouraged to submit public comments electronically via Federal eRulemaking Portal at <https://www.regulations.gov> (indicate IRS and REG-132805-17) by following the online instructions for submitting comments. Requests for a public hearing must be submitted as prescribed in the "Comments and Requests for a Public Hearing" section. Once submitted to the Federal eRulemaking Portal, comments cannot be edited or withdrawn. The Department of the Treasury (Treasury Department) and the IRS will publish for public availability any comments submitted to the IRS's public docket. Send paper submissions to: CC:PA:01:PR (REG-132805-17), Room 5203, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington DC, 20044.

FOR FURTHER INFORMATION CONTACT: Concerning the proposed

regulations, Andrew Holubeck at (202) 317-4774; concerning submissions of comments and/or requests for a public hearing, Publications and Regulations Section at (202) 317-6901 (not toll-free numbers) or by email to publichearings@irs.gov (preferred).

SUPPLEMENTARY INFORMATION:

Authority

This notice of proposed rulemaking contains proposed regulations that would amend the Income Tax Regulations (26 CFR part 1) under section 132(a) of the Internal Revenue Code (Code) related to no-additional-cost services and qualified employee discounts. The proposed regulations are issued under the authority conferred by Section 132(o), which provides the Secretary or his delegate (Secretary) with an express grant of regulatory authority to prescribe such regulations as may be necessary or appropriate to carry out the purposes of section 132. The proposed regulations are also issued under the authority of section 7805(a) of the Code, which authorizes the Secretary to prescribe all needful rules and regulations for the enforcement of the Code.

These proposed regulations would replace a business classification system that has not been updated since 1974 with a much more current classification system that is updated every five years. Under these proposed regulations, the application of the no-additional-cost benefit and employee discount exclusions from employee income under section 132(a) (1) and (2) would be determined under a classification system that more accurately reflects current economic activity than the system used under the existing regulations, thereby reducing burden in applying the exclusions from income under section 132(a)(1) and (2).

Background

Section 132(a)(1) and (2) exclude from the gross income of an individual any fringe benefit that qualifies as a no-addi-

tional-cost service or a qualified employee discount, respectively. Section 132(b) defines the term "no-additional-cost service," in part, as any service provided by an employer to an employee for use by such employee if such service is offered for sale to customers in the ordinary course of the line of business of the employer in which the employee is performing services. Section 132(c)(1) defines the term "qualified employee discount," in part, as any employee discount with respect to qualified property or services. Section 132(c) (4) defines the term "qualified property or services" as any property (other than real property and other than personal property of a kind held for investment) or services that are offered for sale to customers in the ordinary course of the line of business of the employer in which the employee is performing services.

Section 1.132-4(a)(1) provides that, for purposes of determining whether the exclusion under section 132(a)(1) or (2) applies, an individual to whom or on behalf of whom the fringe benefit is provided must have performed substantial services in the employer's line of business that offers such services or property for sale to customers in the ordinary course of business.

Section 1.132-4(a)(2)(i) states that an employer's line of business is determined by reference to the Enterprise Standard Industrial Classification Manual (ESIC Manual) prepared by the Statistical Policy Division of the U.S. Office of Management and Budget (OMB) and further provides that an employer is considered to have more than one line of business if the employer offers for sale to customers property or services in more than one two-digit code classification referred to in the ESIC Manual. Section 1.132-4(a)(2) (ii) lists as examples of two-digit classifications under the ESIC Manual general retail merchandise stores; hotels and other lodging places; auto repair, services, and garages; and food stores.

Section 1.132-4(a)(3) provides that, if pursuant to § 1.132-4(a)(2), an employer has more than a single line of business, such lines of business will be treated as a single line of business where and to the

extent that one or more of the following aggregation rules apply:

- (i) If it is uncommon in the industry of the employer for any of the separate lines of business of the employer to be operated without the others, the separate lines of business are treated as one line of business.
- (ii) If it is common for a substantial number of employees (other than those employees who work at the headquarters or main office of the employer) to perform substantial services for more than one line of business of the employer, so that determination of which employees perform substantial services for which line of business would be difficult, then the separate lines of business of the employer in which such employees perform substantial services are treated as one line of business.
- (iii) If the retail operations of an employer that are located on the same premises are in separate lines of business but would be considered to be within one line of business under § 1.132-4(a)(2) if the merchandise offered for sale in such lines of business were offered for sale at a department store, then the operations are treated as one line of business.

Section 132 (including section 132(a)(1) and (2)), was added to the Code as part of the Deficit Reduction Act of 1984, Public Law 98-369, 98 Stat. 494. Concerning the line of business limitation that applies to the no-additional-cost service and qualified employee discount exclusions in section 132(a), the House Report on this legislation noted that “[i]n providing guidance as to the treatment of an employer as consisting of separate lines of business for this purpose, Treasury regulations... may refer to the Standard Industrial Classifications used for other governmental purposes.” H. Rept. 98-432, 1594, 1984 U.S.C.C.A.N. 697, 1218.

First used in 1938, the Standard Industrial Classification (SIC) is an industry classification system developed by OMB

for use in the classification of establishments by type of activity in which the establishments are primarily engaged. *See* North American Industry Classification System (NAICS), United States, 2022, published by OMB, Executive Office of the President (hereinafter referred to as the “NAICS Manual”), pg. 13.¹ For purposes of the SIC, an establishment is an economic unit, generally at a single physical location, where business is conducted or where services or industrial operations are performed (such as a factory, mill, store, hotel, movie theater, mine, farm, ranch, bank, railroad depot, airline terminal, sales office, warehouse, or central administrative office). *See* Standard Industrial Classification Manual, 1987, published by OMB, Executive Office of the President (hereinafter referred to as the “SIC Manual”), Introduction, pg. 12.² The SIC is a hierarchical classification system that includes a two-digit major group, a three-digit industry group, or a four-digit industry code (the most specific classification). *Id.* Examples of four-digit industry code SIC classifications include metal mining, general building contractors – non-residential buildings, and knitting mills.

The ESIC Manual was developed by the Statistical Policy Division of OMB to supplement the SIC by providing a standard for use with statistics about enterprises (rather than “establishments,” the applicable unit for SIC) by kind of economic activity. *See* Announcement 86-6 (1986-4 IRB 52). For this purpose, the term “enterprise” consists of all establishments under common direct or indirect ownership. An enterprise, for this purpose, is generally defined to include all entities, including subsidiaries, if there is more than 50 percent common ownership. An enterprise may vary in composition ranging from a single legal entity (e.g., corporation, partnership, individual proprietorship) to a complex family of legal entities under common ownership. *Id.* Just like the SIC, the ESIC Manual uses a four-digit code for detailed classification (with a decimal between the second and third digits to visually distinguish an ESIC Manual classification from a SIC classification).

Id. “The first two digits of the code represent the Major Group, similar to that for the establishment SIC,” while “the third and fourth digits represent the enterprise subdivision.” ESIC Manual codes are similar, and sometimes identical to, SIC codes, but they aren’t necessarily defined in the same way. The last update of the ESIC Manual was in 1974.

In response to the House Report suggestion that the SIC could be used as a reference for determining line of business, Treasury and the IRS elected to use the ESIC Manual, a supplement to the SIC as described above, as a basis for defining line of business for purposes of section 132(a)(1) and (2) when they issued final regulations under section 132 in the **Federal Register** in 1989 (54 FR 28576). In the early 1990s, “[r]apid changes in both the U.S. and world economies brought the SIC under increasing criticism.” *See* NAICS Manual, Introduction, pg. 13. In 1992, the OMB began work on developing a new classification system to address these criticisms and coordinated this work with Mexico and Canada. *Id.* The product of these efforts was the NAICS, which would take the place of the existing classification systems in the United States, Canada, and Mexico. *Id.* The United States implemented NAICS for the first time in 1997. Since then, the NAICS has represented a continuing cooperative effort among Statistics Canada, Mexico’s Instituto Nacional de Estadística y Geografía (INEGI), and the Economic Classification Policy Committee (ECPC) of the United States, acting on behalf of OMB. *See* NAICS Manual, Preface, pg. 3. Since its inception, the countries have collaborated in revising the NAICS every five years in order to keep the classification system current with changes in economic activities. *See* 2022 NAICS Manual, Preface, pg. 3.

The NAICS is primarily a classification system for establishments, defined for this purpose as the “smallest operating entity for which records provide information on the cost of resources—materials, labor, and capital—employed to produce the units of output.” *See* NAICS Manual,

¹To access the 2022 NAICS Manual and other NAICS information, visit the U.S. Census website at <https://www.census.gov/NAICS>.

²To access the 1987 SIC Manual and other SIC information, visit the Library of Congress website at <https://guides.loc.gov/industry-research/classification-sic>.

Introduction, pg. 18. Similar to the SIC, an establishment for purposes of NAICS is typically “a single physical location where business is conducted or where services or industrial operations are performed (for example, a factory, mill, store, hotel, movie theater, mine, farm, airline terminal, sales office, warehouse, or central administrative office).” *Id.*

The structure of the NAICS is hierarchical. It classifies establishments into similar industries using a six-digit coding system. *Id.* The first two digits of the code designate the sector of an establishment, which represents general categories of economic activity (e.g., under the 2022 classification, sector codes 44 and 45 designate “Retail Trade”). *Id.* at pg. 17. The third digit des-

ignates the subsector (e.g., 449 designates the “Furniture, Home Furnishings, Electronics, and Appliance Retailers” subsector of “Retail Trade”); the fourth digit designates the industry group (e.g., 4491 designates the “Furniture and Home Furnishings Retailers” industry group in the “Furniture, Home Furnishings, Electronics, and Appliance Retailers” subsector); and the fifth digit designates the NAICS industry (e.g., 44912 designates the “Home Furnishings Retailers” industry of the “Furniture and Home Furnishings Retailers” industry group). *Id.* at pg. 18.

Any particular establishment is usually classified down to the NAICS five-digit industry level classification, using the classification of the industry that best matches

its primary activity. *Id.* at pg. 19. When applicable, the sixth digit is used to designate the national industry (e.g., 449122 designates the “Window Treatment Retailers” industry). *Id.* at pg. 18. “Typically the level at which comparable data will be available for Canada, Mexico, and the United States is the five-digit NAICS industry,” but where additional detail or clarifying classification is needed for a specific nation (Canada, Mexico, or the United States) the national industry classification can be used. *Id.* A zero as the sixth digit generally indicates that the NAICS industry and the U.S. industry are the same. *Id.*

Table I below provides a breakdown of the NAICS classification for a window treatment retail establishment.

Table I. NAICS Classification of Window Treatment Stores

<i>Hierarchical Classification</i>	<i>Description</i>	<i>Code</i>
Sector	Retail Trade	44
Subsector	Furniture, Home Furnishings, Electronics, and Appliance Retailers	449
Industry Group	Furniture and Home Furnishings Retailers	4491
NAICS Industry	Furniture and Home Furnishings Retailers	44912
National Industry	Window Treatment Retailers	449122

The NAICS is used by the IRS for various purposes under the Code. *See, e.g.,* Instructions for Form 1120, U.S. Corporation Income Tax Return (which asks that a “principal business activity code” based on the NAICS six-digit code be entered on line 2a on Schedule K of Form 1120); Instructions for Schedule C (Form 1040), Profit or Loss From Business (which requires that a six-digit Principal Business or Professional Activity Code based on the NAICS be entered on Line B); and section 15.10 of Rev. Proc. 2025-23 (2025 IRB 1476) (which uses the first three digits of NAICS codes in defining which taxpayers qualify as “specified transportation industry taxpayers” for purposes of accounting method change rules that apply specifically to specified transportation industry taxpayers).

Explanation of Provisions

These proposed regulations would replace the ESIC Manual with the NAICS

as the industry classification system used to determine an employer’s line of business for purposes of excluding no-additional-cost services and qualified employee discounts from employees’ gross income pursuant to section 132(a) (1) and (2) of the Code, respectively. The ESIC Manual has not been updated since 1974. Conversely, the NAICS was most recently updated in 2022, and is the most current classification system in the United States, making it a more accurate and detailed reflection of present economic realities.

In addition, because significant changes and advances in technology have occurred since 1974, many current industries are not accounted for in the ESIC Manual because they did not exist at the time it was last updated. Examples include internet service providers, cell phone manufacturers, cell phone service providers, and smart phone application designers. The NAICS, on the other hand, is updated regularly to take into

account new and developing industries. For instance, the 2022 NAICS specifically describes broadband internet service providers as falling under the four-digit category of Wired and Wireless Telecommunications (except Satellite) (5171). Under the ESIC Manual, this line of business could be considered under the two-digit code “Communication” (48), but none of the sub-categories in the Communication category include the broadband internet service provider industry, making determination of the appropriate ESIC Manual category for broadband internet service providers unclear. Replacing the ESIC Manual with the NAICS as the industry classification system used to determine an employer’s line of business will make determining the line of business for new and constantly evolving industries easier and more certain.

While the numeric NAICS and SIC codes are not related to each other, their organizational structures have some sim-

ilarities.³ SIC codes (as well as ESIC Manual codes) are grouped into “divisions” that are labeled with a letter (e.g., Division A is “Agriculture, Forestry, and Fishing”).⁴ This roughly corresponds with the NAICS two-digit “Sector” level of classification (e.g., the NAICS Sector 11 is Agriculture, Forestry, Fishing and Hunting”).⁵ Continuing down the classification levels of both systems, the SIC two-digit “Major Group” level roughly corresponds to the NAICS three-digit “Subsector” level, the SIC three-digit “Industry Group” level roughly corresponds to the NAICS four-digit “Industry Group” level, and the four-digit SIC “Industry” level roughly corresponds with the NAICS five-digit “NAICS Industry” level.⁶

Because the ESIC Manual is structured very similarly to the SIC codes, the comparison between ESIC Manual codes and NAICS codes largely parallels the comparison between SIC Codes and NAICS codes. Therefore, the NAICS three-digit “Subsector” level would roughly correspond with the ESIC Manual two-digit “Major Group” level used to determine line of business under the current § 1.132-4(a)(2)(i) regulations. However, the five-digit NAICS industry classification is intended to be applied to the primary activity of a single-location establishment, making it a more appropriate level for determining the line of business of an employer for whom the employee receiving the fringe benefit is performing services, since an employee typically performs services at a single location or establishment. Nevertheless, to account for the fact that some establishments may represent more than one NAICS industry, making determination of the most accurate NAICS industry classification challenging in certain situations, these proposed regulations would use the NAICS four-digit “Industry Group” classification in determining an employer’s line of business for purposes of section 132(a)(1) and (2).

An employer is considered to have more than one line of business if the employer offers for sale to customers

property or services in more than one four-digit NAICS industry group classification, according to the most recent version of the NAICS available on the first day of the taxable year in which the no-additional-cost service or qualified employee discount exclusion is being applied. Examples of four-digit NAICS industry groups are: General Merchandise Stores, including Warehouse Clubs and Supercenters; Traveler Accommodation; Automotive Repair and Maintenance; and Grocery Stores.

In situations where an employer has multiple primary activities corresponding to multiple four-digit NAICS industry group classifications causing it to have more than one line of business, the aggregation rules under § 1.132-4(a)(3) continue to apply under these proposed regulations. Minor modifications to the text of the aggregation rules under § 1.132-4(a)(3)(i) and (ii) have been proposed to accommodate the change from the ESIC Manual to the NAICS.

In addition, the proposed regulations would amend the aggregation rule under § 1.132-4(a)(3)(iii). Currently, this section provides that if the retail operations of an employer that are located on the same premises are in separate lines of business but would be considered to be within one line of business if the merchandise offered for sale in such lines of business were offered for sale at a department store, then the operations are treated as one line of business. The proposed regulations would amend this rule to replace “department store” with “general merchandise store, including warehouse clubs and super centers.” This update of the regulations reflects the pervasiveness of big-box stores, hypermarkets, super centers, and warehouse clubs in the current retail economy, especially in comparison to the traditional department store. These types of establishments sell an ever-increasing variety of merchandise but are still classified under one NAICS industry group (4552, Warehouse Clubs, Supercenters, and Other General Merchandise Retail-

ers, under the 2022 NAICS). Therefore, under the proposed regulations, employees working for these types of employers would be considered to be working in one line of business. The proposed amendment to this section provides equal treatment for employees working for other types of employers that similarly sell a variety of kinds of merchandise on their business premises, but the variety is more narrowly tailored to cater to a specific segment of the retail market (e.g., a store that primarily sells coffee and tea, but that also sells electric coffeemakers, electric tea kettles, and similar related small home appliances). Under the proposed amendment, employees working for such employers would still be considered to be working in one line of business, even if the sale of the various merchandise sold by the employer is classified under two or more NAICS industry groups (e.g., specialty food retailers and electronics and appliance retailers), as long as the sale of the merchandise would be considered to be one line of business if the merchandise was being sold at a general merchandise store, warehouse club, or super center.

Finally, the proposed regulations provide updated examples of the application of the aggregation rules reflecting the use of NAICS classifications.

The Treasury Department and the IRS request comments on all aspects of the proposed rules, including on the use of the NAICS four-digit industry group code, whether additional changes are necessary to the aggregation rules under § 1.132-4(a)(3), whether the proposed applicability date could pose any challenges, and whether transition or other rules are necessary to accommodate the change in the standard for determining lines of business.

Proposed Effective/Applicability Dates

These regulations are proposed to be effective on the date these rules are published in the **Federal Register** as final regulations and would apply to taxable years beginning on or after that date.

³ U.S. Bureau of Labor Statistics website titled “Industrial Classification Overview” accessed at <https://www.bls.gov/ces/naics/#2> on March 20, 2024.

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

Statement of Availability of IRS Documents

IRS guidance cited in this preamble is published in the Internal Revenue Bulletin and is available from the Superintendent of Documents, U.S. Government Publishing Office, Washington, DC 20402, or by visiting the IRS website at <https://www.irs.gov>.

Special Analyses

I. Regulatory Planning and Review—Economic Analysis

The Office of Management and Budget's Office of Information and Regulatory Analysis has determined that these regulations are not significant and not subject to review under section 6(b) of Executive Order 12866, as amended.

II. Paperwork Reduction Act

These proposed regulations do not create new collection requirements, as defined under the Paperwork Reduction Act (44 USC 35), and do not alter any previously approved OMB information collection requirements and their associated burden.

III. Regulatory Flexibility Act

It is hereby certified that these proposed regulations will not have a significant economic impact on a substantial number of small entities pursuant to the Regulatory Flexibility Act (5 U.S.C. chapter 6). This certification is based on the fact that these proposed regulations do not impose any new requirements on small entities. The proposed regulations would apply only to employers that provide no-additional-cost services and/or qualified employee discount fringe benefits to their employees and, therefore, would affect a relatively small number of taxpayers. In addition, these proposed regulations are very unlikely to affect employment tax reporting or require any additional substantiation. Rather, the proposed regulations affect the industry classification system used to determine an employer's line of business for purposes of the exclusions from gross income under section 132(a)

(1) and (2) and for this reason do not add any economic burden to affected entities. Therefore, a Regulatory Flexibility Analysis under the Regulatory Flexibility Act (5 U.S.C. chapter 6) is not required.

Notwithstanding this certification that the proposed regulations would not have a significant economic impact on a substantial number of small entities, the Treasury Department and the IRS invite comments on the impacts these proposed regulations may have on small entities.

IV. Section 7805(f)

Pursuant to section 7805(f) of the Code, these proposed regulations will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

V. Unfunded Mandates Reform Act

Section 202 of the Unfunded Mandates Reform Act of 1995 requires that agencies assess anticipated costs and benefits and take certain other actions before issuing a final rule that includes any Federal mandate that may result in expenditures in any one year by a State, local, or Tribal government, in the aggregate, or by the private sector, of \$100 million in 1995 dollars, updated annually for inflation. These proposed regulations do not include any Federal mandate that may result in expenditures by State, local, or Tribal governments, or by the private sector, in excess of that threshold.

VI. Executive Order 13132: Federalism

Executive Order 13132 (Federalism) prohibits an agency from publishing any rule that has federalism implications if the rule either imposes substantial, direct compliance costs on State and local governments, and is not required by statute, or preempts State law, unless the agency meets the consultation and funding requirements of section 6 of the Executive order. These proposed regulations do not have federalism implications, do not impose substantial direct compliance costs on State and local governments, and do not preempt State law within the meaning of the Executive order.

Comments and Requests for Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any comments that are submitted timely to the IRS as prescribed in this preamble under the **ADDRESSES** heading. The Treasury Department and the IRS request comments on all aspects of the proposed regulations. Any comments submitted will be available at <https://www.regulations.gov> or upon request. A public hearing will be scheduled if requested in writing by any person who timely submits electronic or written comments. Requests for a public hearing are also encouraged to be made electronically. If a public hearing is scheduled, notice of the date and time for the public hearing will be published in the **Federal Register**.

Drafting Information

The principal author of these regulations is Andrew Holubeck of the Office of the Associate Chief Counsel (Employee Benefits, Exempt Organizations, and Employment Taxes). However, other personnel from the IRS and the Treasury Department participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and record-keeping requirements.

Proposed Amendments to the Regulations

Accordingly, the Treasury Department and IRS propose to amend 26 CFR part 1 as follows:

PART 1-INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by revising an entry for §§ 1.132-0 through 1.132-8T in numerical order to read in part as follows:

Authority: 26 U.S.C. 7805 * * *
* * * * *

Sections 1.132-0 through 1.132-8T also issued under 26 U.S.C. 132(o).

* * * * *

Par 2. Section 1.132-4 is amended by revising paragraphs (a)(2) and (3) and adding paragraph (a)(4) to read as follows:

§ 1.132-4 Line of business limitation.

(a) * * *

(2) *Definition of line of business*—(i) *In general.* An employer's line of business is determined by reference to the most recent version of the North American Industry Classification System (NAICS), as prepared by Statistics Canada, Mexico's Instituto Nacional de Estadística y Geografía, and the Economic Classification Policy Committee of the United States, acting on behalf of the Office of Management and Budget (OMB) (or successor organizations), that is available on the first day of the taxable year in which the no-additional-cost service or qualified employee discount exclusion is being applied. An employer is considered to have more than one line of business if the employer offers for sale to customers goods or services in more than one four-digit code classification referred to in the NAICS (i.e., NAICS industry group).

(ii) *Examples.* Examples of the four-digit industry group classifications are: General Merchandise Stores, including Warehouse Clubs and Supercenters; Traveler Accommodation; Automotive Repair and Maintenance; and Grocery Stores.

(3) *Aggregation of four-digit classifications.* If, pursuant to paragraph (a)(2) of this section, an employer has more

than one line of business, such lines of business will be treated as a single line of business where and to the extent that one or more of the following aggregation rules apply:

(i) If it is uncommon in the industry of the employer for any of the separate lines of business of the employer to be operated without the others, the separate lines of business are treated as one line of business.

(ii) If it is common for a substantial number of employees (other than those employees who work at the headquarters or main office of the employer) to perform substantial services for more than one line of business of the employer, so that determination of which employees perform substantial services for which line of business would be difficult, then the separate lines of business of the employer in which such employees perform substantial services are treated as one line of business. For example, assume that an employer operates a delicatessen (i.e., a specialty food store) with an attached service counter at which food is sold for consumption on the premises (i.e., a restaurant or eating place). Assume further that most but not all employees work both at the delicatessen and at the service counter. Under the aggregation rule of this paragraph (a)(3)(ii), the delicatessen and the

service counter are treated as one line of business.

(iii) If the retail operations of an employer that are located on the same premises are in separate lines of business but would be considered to be within one line of business under paragraph (a)(2) of this section if the merchandise offered for sale in such lines of business were offered for sale at a general merchandise store, including a warehouse club or super center, then the operations are treated as one line of business. For example, assume that on the same premises an employer sells both specialty foods (i.e., specialty food retailers) and small kitchen appliances (i.e., electronics and appliance retailers). Because, if sold together at a general merchandise store, the operations would be part of the same line of business, the operations are treated as one line of business.

(4) *Applicability date.* Paragraphs (a)(2) and (3) of this section apply to taxable years beginning on or after [DATE OF PUBLICATION OF THE FINAL RULE IN THE **FEDERAL REGISTER**].

Edward T. Killen,
Acting Chief Tax Compliance Officer.

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Definition of Terms

Revenue rulings and revenue procedures (hereinafter referred to as "rulings") that have an effect on previous rulings use the following defined terms to describe the effect:

Amplified describes a situation where no change is being made in a prior published position, but the prior position is being extended to apply to a variation of the fact situation set forth therein. Thus, if an earlier ruling held that a principle applied to A, and the new ruling holds that the same principle also applies to B, the earlier ruling is amplified. (Compare with *modified*, below).

Clarified is used in those instances where the language in a prior ruling is being made clear because the language has caused, or may cause, some confusion. It is not used where a position in a prior ruling is being changed.

Distinguished describes a situation where a ruling mentions a previously published ruling and points out an essential difference between them.

Modified is used where the substance of a previously published position is being changed. Thus, if a prior ruling held that a principle applied to A but not to B, and the

new ruling holds that it applies to both A and B, the prior ruling is modified because it corrects a published position. (Compare with *amplified* and *clarified*, above).

Obsoleted describes a previously published ruling that is not considered determinative with respect to future transactions. This term is most commonly used in a ruling that lists previously published rulings that are obsoleted because of changes in laws or regulations. A ruling may also be obsoleted because the substance has been included in regulations subsequently adopted.

Revoked describes situations where the position in the previously published ruling is not correct and the correct position is being stated in a new ruling.

Superseded describes a situation where the new ruling does nothing more than restate the substance and situation of a previously published ruling (or rulings). Thus, the term is used to republish under the 1986 Code and regulations the same position published under the 1939 Code and regulations. The term is also used when it is desired to republish in a single ruling a series of situations, names, etc., that were previously published over a period of time in separate rulings. If the

new ruling does more than restate the substance of a prior ruling, a combination of terms is used. For example, *modified* and *superseded* describes a situation where the substance of a previously published ruling is being changed in part and is continued without change in part and it is desired to restate the valid portion of the previously published ruling in a new ruling that is self contained. In this case, the previously published ruling is first modified and then, as modified, is superseded.

Supplemented is used in situations in which a list, such as a list of the names of countries, is published in a ruling and that list is expanded by adding further names in subsequent rulings. After the original ruling has been supplemented several times, a new ruling may be published that includes the list in the original ruling and the additions, and supersedes all prior rulings in the series.

Suspended is used in rare situations to show that the previous published rulings will not be applied pending some future action such as the issuance of new or amended regulations, the outcome of cases in litigation, or the outcome of a Service study.

Abbreviations

The following abbreviations in current use and formerly used will appear in material published in the Bulletin.

A—Individual.
Acq.—Acquiescence.
B—Individual.
BE—Beneficiary.
BK—Bank.
B.T.A.—Board of Tax Appeals.
C—Individual.
C.B.—Cumulative Bulletin.
CFR—Code of Federal Regulations.
CI—City.
COOP—Cooperative.
Ct.D.—Court Decision.
CY—County.
D—Decedent.
DC—Dummy Corporation.
DE—Donee.
Del. Order—Delegation Order.
DISC—Domestic International Sales Corporation.
DR—Donor.
E—Estate.
EE—Employee.
E.O.—Executive Order.
ER—Employer.

ERISA—Employee Retirement Income Security Act.
EX—Executor.
F—Fiduciary.
FC—Foreign Country.
FICA—Federal Insurance Contributions Act.
FISC—Foreign International Sales Company.
FPH—Foreign Personal Holding Company.
FR—Federal Register.
FUTA—Federal Unemployment Tax Act.
FX—Foreign corporation.
G.C.M.—Chief Counsel's Memorandum.
GE—Grantee.
GP—General Partner.
GR—Grantor.
IC—Insurance Company.
I.R.B.—Internal Revenue Bulletin.
LE—Lessee.
LP—Limited Partner.
LR—Lessor.
M—Minor.
Nonacq.—Nonacquiescence.
O—Organization.
P—Parent Corporation.
PHC—Personal Holding Company.
PO—Possession of the U.S.
PR—Partner.
PRS—Partnership.

PTE—Prohibited Transaction Exemption.
Pub. L.—Public Law.
REIT—Real Estate Investment Trust.
Rev. Proc.—Revenue Procedure.
Rev. Rul.—Revenue Ruling.
S—Subsidiary.
S.P.R.—Statement of Procedural Rules.
Stat.—Statutes at Large.
T—Target Corporation.
T.C.—Tax Court.
T.D.—Treasury Decision.
TFE—Transferee.
TFR—Transferor.
T.I.R.—Technical Information Release.
TP—Taxpayer.
TR—Trust.
TT—Trustee.
U.S.C.—United States Code.
X—Corporation.
Y—Corporation.
Z—Corporation.

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¹ A cumulative list of all revenue rulings, revenue procedures, Treasury decisions, etc., published in Internal Revenue Bulletins 2025–27 through 2025–52 is in Internal Revenue Bulletin 2025–52, dated December 22, 2025.

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