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2014-047

**United States – IRS
Releases 2014 Adjusted
Sec. 911-Related Housing
Cost Limitations**

by KPMG LLP's Washington
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flash International Executive Alert

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The U.S. Internal Revenue Service (IRS) has released the list of certain foreign locations with high housing costs relative to the United States.¹ This list is used for individuals living in foreign locations and claiming the foreign housing cost exclusion on their U.S. income tax returns under section 911 of the U.S. Internal Revenue Code (I.R.C.). (For prior coverage of this topic, see [Flash International Executive Alert 2013-072](#), May 3, 2013.)

Why This Matters

Employers seeking to accurately estimate the tax cost of an assignment from the U.S. to a foreign location may need to update their calculations to account for changes to the adjusted housing cost limitations. While Notice 2014-29 (the "Notice") does not contain many significant changes, over 60 percent of the locations were updated – the limitations either increased or decreased from the 2013 amounts. In particular, the housing cost limitation for Tokyo (Japan) was reduced from \$117,100 for 2013 to \$96,000 for 2014, and Brisbane, Canberra, and Gold Coast (Australia) have been deleted from the list of high cost locations. Pfullendorf (Germany), Asuncion (Paraguay), and all cities in Spain not otherwise specifically identified have been added to the list.

Background

I.R.C. section 911 allows qualifying individuals whose tax home is in a foreign country, and who meet specified requirements as to residence or presence in a foreign country, to exclude certain amounts of foreign earned income and housing amounts from U.S. tax. The foreign earned income exclusion amount is indexed annually and the maximum amount for 2014 is \$99,200. The housing cost exclusion generally is equal to the housing expenses of the taxpayer to the extent they exceed a base equal to 16 percent of the foreign earned income exclusion (\$15,872 for 2014), subject to a limitation, or cap, equal to 30 percent of the foreign earned income exclusion (therefore \$29,760 for 2014). However, for certain foreign localities with high housing costs (see below), the 30-percent limitation can be adjusted by the U.S. Department of the Treasury ("Treasury").

Notice 2014-29

The Notice provides a table that identifies localities within foreign countries with high housing costs relative to housing costs in the United States. The table provides an adjusted limitation to the excludible housing expenses for individuals who qualify to claim the section 911 exclusions for 2014. Thus, a qualified individual incurring housing expenses in one or more of the high-cost localities identified in the table for 2014, may use the adjusted limit provided (in lieu of \$29,760) in determining the excludible housing cost amount. A qualified individual who incurs housing expenses in a locality other than one of those listed in the table is subject to the housing expense cap of \$29,760 for 2014.

Use of 2014 Amounts for 2013

Section 4 of Notice 2014-29 provides that in cases where the 2014 housing limitation amounts provided in the Notice are higher than those provided for 2013², taxpayers can elect to use the higher 2014 amounts on their 2013 income tax returns. Additionally, the Notice advises that the IRS and Treasury anticipate that future annual notices will allow a similar election. To make sure that the maximum housing exclusion possible is claimed, both the 2013 and 2014 tables should be checked.

Footnotes:

1 Notice 2014-29 is effective for taxable years beginning on or after January 1, 2014. Notice 2014-29 will appear in *Internal Revenue Bulletin* 2014-18 dated April 28, 2014. For Notice 2014-29, see: <http://www.irs.gov/pub/irs-drop/n-14-29.pdf>

2 Notice 2013-31 provides the table of adjusted housing cost limitations applicable to tax year 2013, and that list also appears in the instructions to Form 2555 (2013).

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The information contained in this newsletter was submitted by KPMG LLP's Washington National Tax practice. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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