

March 8, 2016
2016-036

**United States – New 2016
Adjusted Sec. 911-Related
Housing Cost Limitations**

by KPMG LLP's Washington
National Tax practice,
Washington, D.C. (KPMG LLP
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flash Alert

A Publication for Global Mobility and Tax Professionals by KPMG's Global Mobility Services Practice

The Internal Revenue Service (IRS) has released the list of 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 Internal Revenue code (I.R.C.). (For prior coverage on the list of foreign locations for 2015, see [GMS Flash Alert 2015-052](#), April 15, 2015).

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.

In general, more than 80 percent of the limitation amounts listed in Notice 2016-21 (the "Notice") were unchanged or slightly decreased from the prior year. Of the limitations that decreased, the limitation for five cities within France decreased significantly by \$9,700 (to \$68,600 for 2016, down from \$78,300 for 2015), including the cities of Paris and Versailles. Further, Zweibrueken (Germany) and Milan (Italy) experienced considerable limitation decreases of \$9,700 (to \$41,200 for 2016, down from \$50,900 for 2015) and \$9,600 (to \$68,300 for 2016, down from \$77,900 for 2015), respectively. In addition, the limitations for Toronto and Montreal (Canada) decreased by \$8,300 (to \$41,400 for 2016, down from \$49,700 for 2015) and \$8,100 (to \$43,900 for 2016, down from \$52,000 for 2015), respectively.

Doha (Qatar) and Pyontaek (S. Korea) experienced the largest limitation increases of \$6,480 (to \$42,744 for 2016, up from \$36,264 for 2015) and \$4,000 (to \$38,500 for 2016, up from \$34,500 for 2015), respectively.

Moreover, 27 locations were eliminated and six new locations were added (Butzbach, Germany; Koblenz, Germany; Conakry, Guinea; Muscat, Oman; Ljubljana, Slovenia; and Huntingdon, United Kingdom).

Background

I.R.C. section 911 allows qualifying individuals whose tax home is in a foreign country, and who meet specified requirements as to the residence or presence in a foreign country, to exclude certain amounts of foreign earned income and foreign housing costs from U.S. tax. The foreign earned income exclusion amount is indexed annually and the maximum amount for 2016 is \$101,300. The housing cost exclusion generally is equal to the housing expenses of the taxpayer to the extent they exceed a base amount equal to 16 percent of the foreign earned income exclusion (thus, \$16,208 for 2016), subject to a limitation equal to

30 percent of the foreign earned income exclusion (therefore, \$30,390 for 2016). However, for certain foreign locations with high housing costs (see below) the 30-percent limitation can be adjusted by the U.S. Department of the Treasury (the "Treasury")

Notice 2016-16

The notice provides a table that identifies locations within foreign countries with high housing costs relative to the 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 2016. Thus, a qualified individual incurring housing expenses in one or more of the high-cost locations identified in the table for 2016 may use the adjusted limit provided (in lieu of \$30,390) 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 limit of \$30,390 for 2016.

Election to Use 2016 Amounts for 2015 Tax Year

Section 4 of Notice 2016-21 provides that in cases where the 2016 housing limitation amounts provided in the Notice are higher than those provided in 2015 (e.g., Doha, Qatar and Pyontaek, South Korea)², taxpayers can elect to use the higher 2016 amounts on their 2015 income tax returns. Additionally, the Notice advises that the IRS and Treasury anticipate that future annual notices will allow a similar election.

Footnotes:

1 Notice 2016-21 is effective for taxable years beginning on or after January 1, 2016. For Notice 2016-21, see <https://www.irs.gov/pub/irs-drop/n-16-21.pdf>. Notice 2016-21 will appear in a future issue of the *Internal Revenue Bulletin*.

2 Notice 2015-33, 2015-18 I.R.B.934, May 4, 2015. This notice provides the table of adjusted housing cost limitations applicable to tax year 2015. The list also appears in the Instructions to Form 2555 (2015).

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The above information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230 as the content of this document is issued for general informational purposes only.

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