

GMS Flash Alert

2017-050 | March 14, 2017



United States - IRS Releases Sec. 911-Related Housing Cost Limitations for 2017

With the issuance of Notice 2017-21 on March 13, 2017, the U.S. Internal Revenue Service (IRS) updated 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 2016, see [GMS Flash Alert 2016-036](#), March 8, 2016).

The Notice is effective for taxable years beginning on or after January 1, 2017.

In general, there were only slight changes in the housing limitation amounts listed in the Notice as compared with last year. While limitations in Europe generally decreased, it is notable that some locations within the U.K. decreased most significantly. The limitation was increased for a number of locations in Australia, Canada, Japan, and South Korea. (More on the changes below.)

WHY THIS MATTERS

Employers seeking to accurately estimate the tax cost of an assignment from the United States to a foreign location may need to update their calculations to account for changes to the adjusted housing cost limitations.

In locations where the 2017 housing limitation amounts are higher than those provided in 2016, taxpayers may elect to use the higher 2017 amounts on their 2016 income tax returns resulting in additional U.S. tax savings.

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

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and foreign housing costs from U.S. tax. The foreign earned income exclusion amount is indexed annually and the maximum amount for 2017 is \$102,100. 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, \$16,336 for 2017), subject to a limitation equal to 30 percent of the foreign earned income exclusion (therefore, \$30,630 for 2017). 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 2017-21

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 excludable housing expenses for individuals who qualify to claim the section 911 exclusions for 2017. Thus, a qualified individual incurring housing expenses in one or more of the high-cost locations identified in the table for 2017 may use the adjusted limit provided (in lieu of \$30,630) in determining the excludable 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 \$30,630 for 2017.

Election to Use 2017 Amounts for 2016 Tax Year

Section 4 of Notice 2017-21 provides that in cases where the 2017 housing limitation amounts provided in the Notice are higher than those provided in 2016 (e.g., Montreal, Canada, and Tokyo, Japan)², taxpayers can elect to use the higher 2017 amounts on their 2016 income tax returns. Additionally, the Notice advises that the IRS and Treasury anticipate that future annual notices will allow a similar election.

KPMG NOTE: Notable Changes

In general, most of the limitation amounts listed in Notice 2017-21 changed only slightly from the prior year. Limitations in Europe generally decreased, with some locations within the U.K. decreasing most significantly. For example, the limitation for London decreased by \$13,300 (down from \$82,000 for 2016 to \$68,700 for 2017).

Although the limitations for several other locations in the U.K. remained the same, the average decrease for those locations that did change was approximately \$6,900 from 2016 amounts. Further, The Hague (Netherlands) and Rome (Italy) experienced considerable limitation decreases: of \$9,500 (down from \$62,200 for 2016 to \$52,700 for 2017) and \$7,900 (down from \$52,100 for 2016 to \$44,200 for 2017), respectively.

The limitations for many locations in Australia, Canada, Japan, and South Korea increased, in some cases significantly. For example, Montreal (Canada) increased by \$7,400 (up from \$43,900 for 2016 to \$51,300 for 2017) and Tokyo (Japan) increased by \$4,400 (up from \$81,300 for 2016 to \$85,700 for 2017).

The limitations for most locations in Central and South America did not change.

Finally, 11 European locations were eliminated including:

- 9 locations in Germany;
- Montpellier, France; and
- Shannon Area, Ireland.

One location in the Middle East was added: Al Udeid (in All Cities), Qatar.

FOOTNOTES:

1 See [Notice 2017-21](#). Notice 2017-21 will appear in *Internal Revenue Bulletin* 2017-13 dated March 27, 2017.

2 Notice 2016-21, 2016-12 I.R.B. 465, March 21, 2016. This Notice provides the table of adjusted housing cost limitations applicable to tax year 2016. The list also appears in the Instructions to Form 2555 (2016).

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New Article in KPMG's *The Expatriate Administrator*!

["Tax Reform Is on the Agenda: What It May Mean for International Assignees"](#)

This recently-published article addresses the significant possibility of tax reform under the new U.S. administration and considers the potential impact on international assignees and their employers.

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