

GMS Flash Alert

2018-073 | May 8, 2018



United States - IRS Releases Sec. 911-Related Housing Cost Limitations for 2018

The U.S. Internal Revenue Service (IRS) has released Notice 2018-44, which updates 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.). Notice 2018-44 replaces the list for 2018 that was previously announced in Notice 2018-33², which contained a number of errors. (For prior coverage on the list of foreign locations for 2017, see [GMS Flash Alert 2017-050](#), March 13, 2017).

Notice 2018-44 is effective for taxable years beginning on or after January 1, 2018.

Although the housing limitation amounts remained the same or changed only slightly in many regions, other regions saw relatively large increases, particularly in Europe. Numerous cities were added to the list, and a few were removed.

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 2018 housing limitation amounts are higher than those provided in 2017, taxpayers may elect to use the higher 2018 amounts on their 2017 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

and foreign housing costs from U.S. tax. The foreign earned income exclusion amount is indexed annually and the maximum amount for 2018 is \$103,900. 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, \$16,624 for 2018), subject to a limitation equal to 30 percent of the foreign earned income exclusion (therefore, \$31,170 for 2018). 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 2018-44

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 2018. Thus, a qualified individual incurring housing expenses in one or more of the high-cost locations identified in the table for 2018 may use the adjusted limit provided (in lieu of \$31,170) 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 \$31,170 for 2018.

Election to Use 2018 Amounts for 2017 Tax Year

Section 4 of Notice 2018-44 provides that in cases where the 2018 housing limitation amounts provided in the Notice are higher than those provided in 2017, taxpayers can elect to use the higher 2018 amounts on their 2017 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

Although many limitation amounts listed in Notice 2018-44 were the same as those allowed for the prior year, many others changed, some significantly. Some of the largest increases were due to the appearance on the list of locations that were not there the year before. In general, the largest increases were in Europe and Korea, with significant increases also seen in Japan and Panama.

Large increases for places appearing on the list for the first time included:

- Canada: Victoria (increase of \$9,870)
- Israel: Beer Sheva (increase of \$25,570)
- Israel: Jerusalem (increase of \$18,370)
- Israel: the West Bank (increase of \$18,370)
- Romania: Bucharest (increase of \$10,570).

Increases were also seen across Europe, particularly:

- France: Garches, Paris, Sevres, Suresnes, and Versailles (increase of \$7,200)
- Italy: Milan (increase of \$7,200).

In addition to those mentioned above, other locations appearing on this list for 2018 that were not listed in 2017 include:

- Belgium: Antwerp and Hoogbull
- France: Montpelier
- Germany: Garmisch-Partenkirchen, Heidelberg, Kitzingen, Leimen, Mannheim, Oberammergau, Rheinau, Schwetzingen, Seckenheim, and Wertheim
- Ireland: Shannon area
- Japan: Iwakuni and Misawa
- Korea: Camp Carroll, Kimhae, Pohang, Pusan, Uijongbu, and Waegwan
- Romania: Bucharest.

Finally, six locations were eliminated. In those locations, the general housing limitation amount should be used in 2018:

- The Bahamas: Grand Bahama Island
- Ecuador: Guayaquil
- Hungary: Papa
- Mexico: Mazatlan
- Paraguay: Asuncion
- Qatar: Al Udeid (all cities).

Limitations fell in only five specific locations around the world:

- Hungary: Papa (decrease of \$13,300 due to its having been eliminated from the 2018 list)
- Philippines: Cavite (decrease of \$500)
- Qatar: Al Udeid (all cities) (decrease of \$1,230 due to its having been eliminated from the 2018 list)
- United Kingdom: Cambridge (decrease of \$4,600)
- United Kingdom: Cheltenham (decrease of \$5,700).

FOOTNOTES:

1 [Notice 2018-44](#) will appear in Internal Revenue Bulletin 2018-21, dated May 21, 2018.

2 Notice 2018-33, 2018-17 IRB 508, issued on April 23, 2018, was revoked by Notice 2018-44.

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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