

GMS Flash Alert

2018-150 | November 21, 2018



United States - Inflation Adjustments for 2019, Change for Workers in Combat Zones

On November 15, 2018, the U.S. Internal Revenue Service (IRS) released the annual inflation adjustments¹ to be used by individual taxpayers on their 2019 returns.² Over 60 tax provisions were updated, including the foreign earned income exclusion, which increased from \$103,900 in 2018, to \$105,900 in 2019.³ In addition, the housing base amount increased from \$16,624 in 2018 to \$16,944 in 2019, while the maximum housing expense increased from \$31,170 in 2018 to \$31,770 in 2019.⁴

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 tax calculations to account for the increase in the foreign earned income exclusion and housing cost limitations.

Background on Foreign Earned Income and Housing Cost Exclusions

Section 911 of the Internal Revenue Code (I.R.C.) allows a qualifying individual whose tax home is in a foreign country, and who meets certain requirements related to residence and 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 for inflation, and will be \$105,900 for the 2019 tax year. The housing cost exclusion is generally equal to the housing expenses of the taxpayer to the extent these expenses exceed a base amount equal to 16 percent of the foreign earned income exclusion (thus, \$16,944 for 2019), subject to a limitation equal to 30 percent of the foreign earned income exclusion (thus, \$31,770 for 2019).

Change Regarding Individuals Working in Combat Zones

As reported in GMS [Flash Alert 2018-132](#) (October 12, 2018), a new law effective for tax year 2018 allows individuals working in designated combat zones supporting the U.S. Armed Forces to be considered to have a tax home abroad even if they have an abode in the United States. This change will enable such taxpayers to claim the foreign earned income exclusion and the housing cost exclusion beginning in tax year 2018. Previously, individuals working in combat zones were generally unable to qualify for the exclusion.

FOOTNOTES:

1 Please note that the *Tax Cuts and Jobs Act* (P.L. 115-97) passed in December 2017, altered the method of calculating inflation adjustments for tax years beginning after December 31, 2017, through its revision of I.R.C. §1(f)(3). Instead of using the traditional consumer price index (CPI-U) measure issued by the Labor Department each month that looks at fluctuations of prices of specific products over time, the figures and amounts for calculating taxes starting this year reflect the so-called "chained" consumer price index (C-CPI-U). Chained CPI takes into account consumers' preferences for cheaper substitute goods during periods of inflation resulting in smaller annual increases to indexed amounts. This could mean, over time, many individuals could be paying more in taxes than if the old CPI measure was still in use. For more information, see: The Joint Committee on Taxation "Estimated Revenue Effects of The 'Tax Cuts and Jobs Act' as Ordered Reported by The Committee On Finance on November 16, 2017." (JCX-59-17) and "Macroeconomic Analysis of The 'Tax Cut and Jobs Act' as Ordered Reported by the Senate Committee on Finance on November 16, 2017"; Congressional Research Service, "The Distribution of the Tax Policy Changes in H.R. 1 and the Senate's Tax Cuts and Jobs Act" (November 21, 2017); "[Tax Reform – KPMG Report on New Tax Law](#)," published February 6, 2018, by the KPMG International member firm in the United States; and [Rev. Rul. 2018-11](#).

2 See: [Rev. Proc. 2018-57](#).

3 I.R.C. §911(c)(1).

4 I.R.C. §911(c)(2).

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