



GMS Flash Alert



2021-072 | March 1, 2021

United States - IRS Releases 2021 Sec. 911-Related Housing Cost Limitations

The U.S. Internal Revenue Service (IRS) has released Notice 2021-18 (“the Notice”), 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. federal income tax returns under section 911 of the Internal Revenue Code (I.R.C.).²

The Notice is effective for taxable years beginning on or after January 1, 2021. However, in cases where the 2021 housing limitation amounts are higher than those provided in 2020, taxpayers may elect to use the higher 2021 amounts on their 2020 federal income tax returns.

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 2021 housing limitation amounts are higher than those provided in 2020, taxpayers may elect to use the higher 2021 amounts on their 2020 federal 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 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 2021 is \$108,700. 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, \$17,392 for 2021), subject to a limitation equal to 30 percent of the foreign earned income exclusion (therefore, \$32,610 for 2021). 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.

Notice 2021-18

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 2021. Thus, a qualified individual incurring housing expenses in one or more of the high-cost locations identified in the table for 2021 may use the adjusted limit provided (in lieu of \$32,610) 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 \$32,610 for 2021.

KPMG NOTE

Notable Changes

Although many of the limitation amounts listed in Notice 2021-18 were the same as those allowed for the prior year, the majority of locations saw their 2021 limitation amounts increase from the prior year. Furthermore, no location experienced a decrease to their 2021 limitation amount when compared to the prior year. As a result, many taxpayers will find it advantageous to elect to use the higher 2021 limitation amounts on their 2020 federal income tax returns. The locations that experienced the greatest increases to their limitation amounts from 2020 to 2021 are mostly located in areas that have a high cost of living, as depicted below:

- Geneva, Switzerland (increase of \$10,500);
- Bern, Switzerland (increase of \$7,300);
- Various cities in France (Garches, Paris, Sevres, Suresnes, Versailles) (increases of \$6,900);
- Milan, Italy (increase of \$6,900);
- Toronto, Canada (increase of \$6,600);
- Tokyo, Japan (increase of \$6,500);
- Sydney, Australia (increase of \$6,100);
- Yokosuka, Japan (increase of \$5,700).

Additionally, thirteen cities that were removed from the list for 2020 have been put back on the list for 2021:

Perth, Australia	— Rheinau, Germany
Montpelier, France	— Schwetzingen, Germany
Garmisch-Partenkirchen, Germany	Seckenheim, Germany
Heidelberg, Germany	Shannon Area, Ireland
Leimen, Germany	Munsan, South Korea
Mannheim, Germany	Uijongbu, South Korea
Oberammergau, Germany	

Additionally, Liverpool, United Kingdom was added to the list for 2021.

Conversely, only three locations were deleted from the list for 2021, reflecting a significant decrease from the more than 15 locations that were removed from the list in the prior year. The locations that were deleted from the list for 2021 include Budapest, Hungary, Jeddah, Saudi Arabia, and all cities in Qatar other than Doha. For areas deleted from the list, the general housing limitation for 2021 should apply.

The city with the highest limitation was Hong Kong, with its limitation unchanged at \$114,300, followed by Moscow, Russia, its limitation also unchanged at \$108,000. Limitations for notoriously expensive cities such as London, Singapore, and Osaka-Kobe, changed by less than \$1,200.

FOOTNOTES:

- 1 [Notice 2021-18](#) (PDF 195 KB) will appear in *Internal Revenue Bulletin* 2021-18, dated March 15, 2021.
- 2 For prior coverage on the list of foreign locations for 2020, see [GMS Flash Alert 2020-040](#) (February 26, 2020).

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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