



GMS Flash Alert



2023-056 | March 16, 2023

United States - IRS Releases 2023 Sec. 911-Related Housing Costs Limitations

On March 14, 2023, the United States Internal Revenue Service (IRS) released an advance copy of Notice 2023-26, which updates the list of foreign locations with high housing costs relative to the United States.¹ The Notice is effective for taxable years beginning on or after January 1, 2023. However, if the 2023 housing limitation amounts are higher than those provided in 2022, taxpayers may elect to use the higher 2023 amounts on their 2022 federal income tax returns.²

WHY THIS MATTERS

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.).

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 2023 housing limitation amounts are higher than those provided in 2022, taxpayers may elect to use the higher 2023 amounts on their 2022 federal income tax returns, resulting in additional U.S. tax savings. Amended returns can be filed in situations where this would be beneficial.

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 2023 is \$120,000. 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, \$19,200 for 2023), subject to a limitation equal to 30 percent of the foreign earned income exclusion (therefore, \$36,000 for 2023). 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.

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Notice 2023-26

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 2023. Thus, a qualified individual incurring housing expenses in one or more of the high-cost locations identified in the table for 2023 may use the adjusted limit provided (in lieu of \$36,000) 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 \$36,000 for 2023.

Notable Changes

Similar to last year, the adjusted limitations for a significant number of locations listed in the table provided in Notice 2023-26 have been decreased for tax year 2023 as compared to tax year 2022 (for prior coverage, see [GMS Flash Alert 2022-047](#), March 8, 2023). Out of 142 total locations listed for 2023, 54 locations experienced a decrease in the adjusted limitation amount, 80 remained unchanged, and the amounts for eight locations increased when compared to the prior year.

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As a result, many taxpayers will find that the election to use the higher 2023 limitation on their 2022 tax returns will not be beneficial as the majority of the adjusted limitation amounts for the 2023 tax year either decreased or remained the same when compared to 2022. Interestingly, locations that are usually associated with a high cost of living experienced some of the largest decreases for tax year 2023.

Some of the noteworthy increases and decreases are noted below:

Increases

Warsaw, Poland (increase of \$9,300)	Zurich, Switzerland (increase of \$5,619)
Vancouver, Canada (increase of \$7,100)	Singapore, Singapore (increase of \$600)
Riyadh, Saudi Arabia (increase of \$6,400)	

Decreases

Sakhalin Island, Russia (decrease of \$41,500)	Beijing, People's Republic of China (decrease of \$6,800)
Vladivostok, Russia (decrease of \$41,500)	Seoul, Republic of Korea (decrease of \$5,900)
Tokyo, Japan (decrease of \$15,400)	London, United Kingdom (decrease of \$4,900)

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After being removed from last year's list, both Riyadh, Saudi Arabia, and Zurich, Switzerland, returned to the list for 2023, which represented the only additions to the list for 2023. Conversely, 90 locations were removed from the list for 2023, reflecting a significant increase from the 33 locations that were removed from the list in the prior year. For areas deleted from the list, which include many cities in Germany, the United Kingdom, and Japan, the general housing limitation for 2023 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.

FOOTNOTES:

- 1 Notice 2023-26 will appear in the *Internal Revenue Bulletin* 2023-13 for Monday, March 27, 2023. See: <https://www.irs.gov/pub/irs-drop/n-23-26.pdf>.
- 2 For prior coverage on the list of foreign locations for 2022, see [GMS Flash Alert 2022-047](#) (March 8, 2022).

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