

United States: IRS releases 2015 adjusted limitations for foreign housing exclusion or deduction

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In brief

The Internal Revenue Service (IRS) has issued [Notice 2015-33](#) to provide adjustments to the foreign housing limitations provided under Section 911(c)(2)(B) of the Code. The adjusted limitations are based on geographical locations and are used to determine the maximum allowable annual housing exclusion or deduction for tax years beginning on or after January 1, 2015. Taxpayers may also elect to apply the 2015 adjusted limitations to tax years beginning in 2014. In practice, an increase in the limitation for a particular location may result in more favourable Section 911 tax benefits for those assignees residing in such locations, depending upon their specific situations – a potentially welcome result for global mobility programs.

The IRS releases this information on an annual basis. Notice 2015-33 supersedes previously released Notices 2006-87, 2007-25, 2007-77, 2008-107, 2010-27, 2011-8, 2012-19, 2013-31, and 2014-29.

In detail

What is the maximum housing exclusion?

Under the general rules of Section 911, a qualified individual may elect to exclude from gross income his or her foreign housing cost amount. However, the housing cost amount is limited. Without any adjustments to the limitations, the maximum foreign housing exclusion for 2015 is \$14,112 assuming the qualified individual's taxable year is entirely within the applicable period. This limitation is based on the annual foreign earned

income exclusion limitation and is calculated as follows:

Housing expense limitation = \$30,240 (\$100,800 x 30%)

Less: Base housing cost of \$16,128 (\$100,800 x 16%)

Maximum housing exclusion for 2015 = \$14,112 (\$30,240 - \$16,128)

Note that this amount should be prorated if the individual only qualifies for part of the year.

Notice 2015-33 was published to increase the housing expense limitation (the \$30,240 amount noted in the formula above) for

geographic areas with higher housing costs when compared to housing costs in the United States.

What are some key observations?

The following are a few key observations from this year's adjusted limitations:

- Many cities remain unchanged and two new locations have been added to the 2015 list. They are Kinshasa (Democratic Republic of the Congo), and San Salvador (El Salvador).

- In a number of countries, smaller cities whose housing costs are generally higher than the standard – but are not specifically listed with a housing expense limitation amount may fall under a catch all for ‘all cities other than,’ with a corresponding housing expense limitation provided.

In this way, these cities are provided with an expense limitation that is higher than the general limitation amount.

This year, Spain no longer has this catch-all category. Thus, smaller cities not specifically listed will no longer be eligible for higher expense limitations. In addition, some cities that appeared on the 2014 list were removed from the 2015 list, meaning that those cities must use the regular 2015 housing expense limitation amount unless there is a catch all for ‘all cities other than’ that applies. For example, Akashi in Japan was listed in 2014 but was removed from the 2015 list. Because there is no category in Japan for ‘all cities other than,’ a taxpayer resident in Akashi must use the regular 2015 housing expense limitation.

If a city is not specifically listed and there is a catch-all category

‘all cities other than’ for that country, taxpayers should check that category to see if they are able to claim a slightly higher expense amount.

- Sydney, Australia had the largest limitation increase from \$32,782 in 2014 to \$70,000 in 2015, with the limitation for other Australian cities decreasing by moderate amounts.
- Most of the other cities had decreases in their housing limitation amounts when compared to 2014. For example, many cities in Europe had moderate to significant decreases in their housing limitation amounts ranging from \$1,500 up to \$8,800. Similarly, most Japanese cities saw moderate to significant decreases ranging from \$4,500 to \$12,500. Tokyo, Japan had the largest decrease in the housing limitation amount from \$96,000 in 2014 to \$83,500 in 2015.

In addition, Brasilia (Brazil) decreased from \$41,100 in 2014 to \$35,500 in 2015 while the housing limitations in other Brazilian cities remained the same. Most Canadian cities also had decreases in the \$500 to \$4,500 range.

- Hong Kong, China has the highest limitation of \$114,300, which remains unchanged from last year's limitation amount.

The takeaway

It is important that taxpayers make no assumptions about the housing expense limitation from year to year. Cities come on and off the list based on housing costs annually – resulting in significant increases and decreases to expense limitations. Notice 2015-33 should be consulted to ensure that the appropriate housing expense limit has been taken into account.

The US tax reductions attributable to Section 911 can provide an important benefit for multinational companies that tax equalize their employees working overseas. Practitioners should be aware of the additional relief provided under Notice 2015-33 for US citizens and residents who qualify for the foreign housing exclusion or deduction under Section 911.

It is important to note that taxpayers should consider whether Section 911 as compared to the foreign tax credit will provide the greatest tax benefit – an often complex determination due to the various limitations.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact your PwC Global Mobility Services engagement team or one of the following professionals in the United States:

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