United States: IRS releases 2017 adjusted limitations for foreign housing exclusion or deduction

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In brief

The Internal Revenue Service (IRS) has issued Notice 2017-21 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, 2017. Taxpayers may also elect to apply the 2017 adjusted limitations to tax years beginning in 2016. In practice, an increase in the limitation for a particular location may result in more favorable 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 2017-21 supersedes previously released notices, including Notice 2016-21.

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 is $14,294 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 = $30,630* ($102,100 x 30%)
- *Less: Base housing cost of $16,336* ($102,100 x 16%)
- *Maximum housing exclusion = $14,294* ($30,630 - $16,336)

Note that this amount should be prorated if the individual only qualifies for part of the year. Notice 2017-21 was published to increase the housing expense limitation (the $30,630 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:

- Only one location has been added to the 2017 list as compared to 2016 – Al Udeid (All Cities), in Qatar.

- Several cities were eliminated in this year's list. Similar to 2016, many of these cities were located in Germany. They include:

  Montpellier, France
  Butzbach, Germany
  Garmish-Partenkirchen, Germany
  Heidelberg, Germany
  Leimen, Germany
  Mannheim, Germany
  Oberammergau, Germany
  Rheinau, Germany
  Schwetzingen, Germany
  Seckenheim, Germany
  Shannon Area, Ireland

  Taxpayers residing in the above cities (other than Shannon Area, Ireland) do not need to use the regular 2017 housing expense limitation amount because there is a catch all category for 'all cities other than' that applies for both France and Germany.

  Ireland, however, does not have an 'all cities other than' category within this year's list. As a result, individual taxpayers residing in the Shannon Area must use the regular 2017 housing expense limitation.

- Almost all European countries listed for 2017 either had widespread drops or no change in the limitations for their listed cities. Countries that experienced decreases include Belgium, France, Germany, Greece, The Holy See, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovenia, Spain, Switzerland, and the United Kingdom.

- Most cities within the United Kingdom (UK) experienced larger drops in their limitations. London, in particular, had a significant drop of $13,300 – from $82,000 in 2016 to $68,700 in 2017. Twenty other UK cities had decreased limitations. Among the largest - Loudwater experienced a $10,400 decrease; Lakenhealth and Mildenhall both had $8,500 decreases.

- In comparison to other European cities – Naples and Vicenza in Italy, as well as Oslo, Norway experienced modest increases in their limitations to $44,300, $36,000, and $35,200 respectively.

- Limitations for listed countries in Asia-Pacific, Africa, North and South America, the Middle East, as well as Russia, generally remained the same, with some countries experiencing a modest increase. The latter includes: Australia, Bahrain, Canada, Chile, Japan, Korea, and the Philippines. Singapore and Cavite in the Philippines saw a modest decrease.

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

The takeaway

Taxpayers should not make assumptions about the housing expense limitation from year to year. Cities come on and off the list and limitations are adjusted based on housing costs annually – resulting in significant increases and decreases to expense limitations. Notice 2017-21 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 2017-21 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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