



# GMS Flash Alert



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## United States - 2020 Sec. 911-Related Housing Cost Limitations Released by IRS

The U.S. Internal Revenue Service (IRS) has released Notice 2020-13, which updates the list of foreign locations with high housing costs relative to the United States.<sup>1</sup> This list is used for individuals living in foreign locations and claiming the foreign housing cost exclusion on their U.S. income tax returns under section 911 of the Internal Revenue Code (I.R.C.).<sup>2</sup>

Notice 2020-13 is effective for taxable years beginning on or after January 1, 2020.

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### 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 2020 housing limitation amounts are higher than those provided in 2019, taxpayers may elect to use the higher 2020 amounts on their 2019 income tax returns, resulting in additional U.S. tax savings.

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### 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 2020 is \$107,600. 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, \$17,216 for 2020), subject to a limitation equal to 30 percent of the foreign earned income exclusion (therefore, \$32,280).

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for 2020). 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 (the "Treasury").

## Notice 2020-13

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 2020. Thus, a qualified individual incurring housing expenses in one or more of the high-cost locations identified in the table for 2020 may use the adjusted limit provided (in lieu of \$32,280) 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 \$32,280 for 2020.

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### KPMG NOTE: Notable Changes

Although the majority of limitation amounts listed in Notice 2020-13 were the same as those allowed for the prior year,<sup>3</sup> many others changed, some significantly. However, other than numerous cities in the United Kingdom, the only cities that saw increased limitations in 2020 were:

- Sydney, Australia (increase of \$6,900);
- Vancouver, Canada (increase of \$1,600);
- Ottawa, Canada (increase of \$400);
- San Jose, Costa Rica (increase of \$5,800);
- Beer Sheva, Israel (increase of \$3,300);
- Yokosuka, Japan (increase of \$1,000);
- Aruba, Netherlands (increase of \$3,100);
- Cavite, Philippines (increase of \$6,800);
- Manila, Philippines (increase of \$1,920).

Additionally, while only one location was added to the list for 2019, the following four cities were added to the list for 2020:

- Canberra, Australia (2020 limitation of \$35,300);
- Warsaw, Poland (2020 limitation of \$40,900);
- Jeddah, Saudi Arabia (2020 limitation of \$30,667);
- Bristol, United Kingdom (2020 limitation of \$32,600).

## KPMG NOTE: Notable Changes continued

Since, in 2019, the same default limitation applied to each of the four new cities that were added to the list in 2020, Warsaw, Poland, experienced the largest increase, \$9,130, of the four new cities, as well as the largest increase for any location in 2020. Interestingly, the 2020 limitation amount for Jeddah, Saudi Arabia, is less than the 2020 default limitation amount; however, this also occurred the last time the city appeared on the list (in 2018), thus reflecting the fact that the IRS has the authority to either raise or lower the limitation on housing expenses for purposes of section 911. Other than Jeddah, Saudi Arabia, no other city contained in the list has a limitation amount for 2020 that is below the default limitation amount of \$32,280.

Several cities were deleted from the list for 2020, as well as the general increased limitation for locations in France not separately listed. For areas deleted from the list, the general housing limitation for 2020 should apply:

Perth, Australia	Garmisch-Partenkirchen, Germany
San Salvador, El Salvador	Oberammergau, Germany
Montpelier, France	Shannon Area, Ireland
Heidelberg, Germany	Uijongbu, South Korea
Leimen, Germany	Munsan, South Korea
Mannheim, Germany	Windhoek, Namibia
Rheinau, Germany	Christchurch, New Zealand
Schwetzingen, Germany	Managua, Nicaragua
Seckenheim, Germany	

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, Paris, and Tokyo, changed by less than \$3,000.

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## FOOTNOTES:

- 1 [Notice 2020-13](#) (PDF 114 KB) will appear in *Internal Revenue Bulletin* 2020-11, dated March 9, 2020.
- 2 For prior coverage on the list of foreign locations for 2019, see GMS [Flash Alert 2019-066](#) (April 2, 2019).
- 3 Ibid.

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