



GES NewsFlash

United States – Treasury Releases Updated Housing Cost Amounts for 2010

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March 23, 2010

Summary

The IRS has released Notice 2010-27, which provides adjustments to the limitations on housing expenses that are eligible for exclusion or deduction in specific locations in 2010.

As provided by the tax code, a qualified individual is allowed to exclude from gross income the foreign earned income and housing costs of that individual. Housing costs for exclusion or deduction purposes are limited to the allowed “housing cost amount” over a base housing amount. The housing cost amount is limited to 30% of the foreign earned income limitation. For 2010, the foreign earned income limitation is \$91,500, so the housing cost amount is limited to \$27,450. The base housing amount is 16% of the foreign earned income limitation, or 16% * \$91,500, which equals \$14,640. Therefore, the housing exclusion for 2010 is limited to \$12,810 (\$27,450-\$14,640).

Notice 2010-27 provides guidance for specific locations in 2010 where a taxpayer can claim a housing cost amount above this 30% limitation.

Election to apply 2010 adjusted limitations to 2009

Location amounts were not published by the IRS for 2009. As a result, qualified individuals incurring housing expenses in 2009 should use the amounts published in 2008. For the 2008 amounts, see Notice 2008-107 (included in our attached newsflash dated December 2, 2008). These amounts were republished in the 2009 instructions to Form 2555, Foreign Earned Income.

In Notice 2010-27, the limitation on housing expenses in some locations is higher than the prior limitations published in 2008. An option has been added that allows a qualified individual incurring housing expenses during 2009 in one of these locations

to apply the adjusted limitation provided in this notice on the 2009 tax return. Treasury and the IRS anticipate that this election to apply housing expense limitations in the immediately preceding year will be made available in future annual notices adjusting the housing limitations as well.

Notice 2010-27 is attached for your reference.

Deloitte's View

This update from Treasury is consistent with the authority granted it with the tax law changes that occurred in 2006. By updating the housing cost amounts in certain locations, Treasury is recognizing the increasing costs of housing around the world, and adjusting the limitation to provide equity to US taxpayers in these locations. The added election to apply these limitations to the first prior year will continue to provide flexibility to US taxpayers incurring increased housing costs while on international assignment.

People to Contact

If you have any questions concerning the issues in this GES NewsFlash, please contact one of the tax professionals as follows:

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