



RELOCATION ADVISORY

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Expatriates Receive Partial Tax Relief on Housing from the U.S. Treasury Department

On May 17, 2006, President Bush signed into law the "Tax Increase Prevention and Reconciliation Act of 2005" (TIPRA). This act made changes to Section 911 (Earned Income Exclusion) which would be costly for many expats and their employers. After lobbying by U.S. expatriate groups, the U.S. Treasury Department and IRS issued "Notice 2006-87" on October 6, 2006.¹

Housing Relief

The U.S. Department of the Treasury has increased how much in housing costs Americans overseas can deduct or exclude on their U.S. returns. Under a recent law, expats generally were allowed to exclude a maximum of \$11,536 for 2006. Below, are some selected locations and their new maximum housing exclusion amount.

Location	Housing Exclusion
Hong Kong	\$114,300
Tokyo	\$85,700
Milan	\$79,800
Paris	\$79,300
London	\$72,100
Seoul	\$56,200
Berlin	\$48,200
Singapore	\$42,900
Moscow	\$27,500

Source: U.S. Treasury

Notice 2006-87 permits individuals who work outside of the United States and live in specific high cost foreign cities to deduct or exclude a greater portion of their housing costs than the original law allowed. According to a memorandum published by Worldwide ERC's Coalition, this list is based on the U.S. State Department's Table of Living Quarters Allowances. The increased deductions are retroactive to January 1, 2006.

The revised rule offsets only a fraction of the higher tax bills that many individuals must pay this year. Among those hit the hardest are Americans with relatively high incomes working in places with high housing costs and low taxes, such as Hong Kong, and whose employers may not fully protect them from the additional tax cost of working abroad.

As an example, employees can exclude up to \$114,300, the maximum amount, in housing subsidies from income subject to tax if they live in Hong Kong, \$72,100 if they live in London, and \$79,300 for accommodations in Paris. Adjustments for other cities are included in the notice and may be reviewed on-line at <http://www.treas.gov/press/releases/hp133.htm>.² The Treasury Department has said the cost table will be updated annually, which is positive news since the law signed in May would have set the cap at \$11,536.

There are additional areas that are not included such as locations in China other than Hong Kong, the United Arab Emirates, India and Australia. With many U.S. workers in these countries, each of which is high cost, the Treasury Department has received requests to expand the list.

It is estimated that more than 300,000 Americans living abroad may be subject to \$2.1 billion in tax increases over the next ten years with new or additional taxes on housing, education and other subsidies that are provided by employers to expatriate workers.

¹ The Department of the Treasury – treasury.gov

² The New York Times - Bloomberg News – nytimes.com

