

## Determination of Housing Cost Amount Eligible for Exclusion or Deduction

### Notice 2006-87

This notice provides adjustments to the limitation on housing expenses for purposes of section 911 of the Internal Revenue Code (Code) for specific locations, on the basis of geographic differences in housing costs relative to housing costs in the United States.

Section 911(a) of the Code allows a qualified individual to elect to exclude from U.S. gross income the foreign earned income and housing cost amount of such individual. Section 911(c)(1), as amended by section 515 of the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), defines the term "housing cost amount" as an amount equal to the excess of (A) the housing expenses of an individual for the taxable year to the extent such expenses do not exceed the amount determined under section 911(c)(2), over (B) 16 percent of the exclusion amount (computed on a daily basis) in effect under section 911(b)(2)(D) for the calendar year in which such taxable year begins (\$67.73 per day for 2006, or \$82,400 for the full year), multiplied by the number of days of that taxable year within the applicable period described in section 911(d)(1). The applicable period is the period during which the individual meets the tax home requirement of section 911(d)(1) and either the *bona fide* residence requirement of section 911(d)(1)(A) or the physical presence requirement of section 911(d)(1)(B). Assuming that the entire taxable year of a qualified individual is within the applicable period, the section 911(c)(1)(B) amount for 2006 is \$13,184 (\$82,400 x .16).

Section 515 of TIPRA also added a new section 911(c)(2)(A) of the Code, which limits the housing expenses taken

into account in section 911(c)(1)(A) to an amount equal to the product of — (i) 30 percent (adjusted as may be provided under the Secretary's authority under section 911(c)(2)(B)) of the amount in effect under section 911(b)(2)(D) for the calendar year in which the taxable year of the individual begins, multiplied by (ii) the number of days of that taxable year within the applicable period described in section 911(d)(1). Thus, for the year 2006, a qualified individual whose entire taxable year is within the applicable period is limited to maximum housing expenses of \$24,720 (\$82,400 x .30). Accordingly, the maximum housing cost amount a qualified individual may exclude from income in year 2006 is \$11,536 (\$24,720 - \$13,184). The TIPRA changes apply to taxable years beginning after December 31, 2005.

To the extent the housing cost amount of any individual for any taxable year is not attributable to employer provided amounts, section 911(c)(4)(A) of the Code provides that such amount shall be treated as a deduction in computing adjusted gross income. Under section 911(c)(4)(B), however, the amount of this deduction is limited to the excess of the foreign earned income of the individual for the taxable year over the amount of such income excluded from gross income under section 911(a).

In addition, section 911(d)(7) of the Code prohibits the total amount excluded or deducted under section 911 for the taxable year from exceeding the individual's foreign earned income for such year. Further, section 911(b)(1)(B) excludes from the definition of foreign earned income certain amounts, including amounts paid by the United States or an agency thereof to an employee of the United States or an agency thereof. As a result, the exclusion or deduction from gross income of the housing cost amount under section 911 is not available to an individual whose earned income consists solely of amounts

paid by the United States or an agency thereof to an employee of the United States or an agency thereof.

Section 911(c)(2)(B) of the Code authorizes the Secretary to issue regulations or other guidance to adjust the percentage under section 911(c)(2)(A)(i) based on geographic differences in housing costs relative to housing costs in the United States. The Joint Explanatory Statement of the Committee of Conference accompanying TIPRA states the conferees' intent that the Secretary be permitted to use publicly available data, such as the Quarterly Report Indexes published by the U.S. Department of State or any other information that the Secretary deems reliable, in making adjustments. See H.R. Conf. Rep. No. 304, 109<sup>th</sup> Cong., 1<sup>st</sup> Sess. 309 (2005).

Accordingly, the following table, which was derived from the Living Quarters Allowance table prepared by the Office of Allowances of the U.S. Department of State as of August 20, 2006, identifies locations within countries with high housing costs relative to housing costs in the United States, and provides an adjusted limitation on housing expenses for a qualified individual incurring housing expenses in one or more of these high cost localities in 2006 to use (in lieu of the otherwise applicable limitation of \$24,720) in determining his or her housing expenses under section 911(c)(2)(A) of the Code. The table will be updated each year by administrative pronouncement (e.g., through issuing a notice, amending Form 2555 or the instructions thereto, or by making a revised table available on the IRS website at <http://www.irs.gov>), beginning in 2007, based on the living quarters allowance for employees of the U.S. Department of State who are in Group 2, with family, contained in the first Living Quarters Allowance table released in that calendar year by the Office of Allowances of the U.S. Department of State.

Country	Location	Limitation on Housing Expenses (daily)	Limitation on Housing Expenses (full year)
Argentina	Buenos Aires	120.27	43,900
Austria	Vicna	74.52	27,200
Bahamas, The	Nassau	136.16	49,700
Bahrain	Bahrain	120.55	44,000

Country	Location	Limitation on Housing Expenses (daily)	Limitation on Housing Expenses (full year)
Barbados	Barbados	103.29	37,700
Belgium	Brussels	124.93	45,600
Belgium	SHAPE/Chievres	91.23	33,300
Bermuda	Bermuda	71.78	26,200
Bosnia-Herzegovina	Sarajevo	74.52	27,200
Brazil	Brasilia	86.30	31,500
Brazil	Rio de Janeiro	96.16	35,100
Brazil	Sao Paolo	127.40	46,500
Canada	Ottawa	107.40	39,200
Canada	Calgary	73.42	26,800
Canada	Halifax	68.49	25,000
Canada	London, Ontario	70.41	25,700
Canada	Montreal	138.90	50,700
Canada	Toronto	113.70	41,500
Canada	Vancouver	106.85	39,000
Canada	Victoria	76.71	28,000
Canada	Winnipeg	68.22	24,900
Chile	Santiago	96.71	35,300
Colombia	Bogota	148.22	54,100
Colombia	All cities other than Bogota and Barranquilla	123.01	44,900
Costa Rica	San Jose	71.78	26,200
Dominican Republic	Santo Domingo	110.96	40,500
Ecuador	Quito	81.92	29,900
Ecuador	Guayaquil	84.38	30,800
El Salvador	San Salvador	69.04	25,200
France	Paris	217.26	79,300
France	Le Havre	97.26	35,500
France	Lyon	139.45	50,900
France	Marseille	117.81	43,000
France	Montpellier	115.34	42,100
Germany	Berlin	132.05	48,200
Germany	Bad Aibling	92.05	33,600
Germany	Baumholder	98.08	35,800
Germany	Berchtesgaden	70.14	25,600
Germany	Darmstadt	107.67	39,300
Germany	Frankfurt am Main	112.88	41,200
Germany	Friedberg	86.03	31,400
Germany	Garmisch-Partenkirchen	93.15	34,000

Country	Location	Limitation on Housing Expenses (daily)	Limitation on Housing Expenses (full year)
Germany	Geilenkirchen	73.97	27,000
Germany	Germersheim	81.64	29,800
Germany	Giessen	84.38	30,800
Germany	Grafenwoehr	69.86	25,500
Germany	Hanau	116.44	42,500
Germany	Hannover	80.55	29,400
Germany	Heidelberg	107.40	39,200
Germany	Kaiserslautern, Landkreis	121.64	44,400
Germany	Munich	115.62	42,200
Germany	Nuernberg	68.22	24,900
Germany	Stuttgart	113.97	41,600
Germany	Wiesbaden	129.04	47,100
Germany	Wuerzburg	93.42	34,100
Germany	All cities other than Augsburg, Bad Aibling, Bad Kreuznach, Baumholder, Berchtesgaden, Berlin, Bonn, Bremen, Bremerhaven, Cologne, Darmstadt, Duesseldorf, Flensburg, Frankfurt am Main, Friedberg, Garmisch-Partenkirchen, Geilenkirchen, Germersheim, Giessen, Grafenwoehr, Hamburg, Hanau, Hannover, Heidelberg, Heilbron, Kaiserslautern, Landkreis, Karlsruhe, Kerpen, Koblenz, Leipzig, Muenster, Munich, Nuernberg, Osterholz-Scharmbeck, Rheinberg, Stuttgart, Wiesbaden, Worms, and Wuerzburg.	92.60	33,800
Greece	Athens	86.85	31,700
Greece	Thessaloniki	84.11	30,700
Guatemala	Guatemala City	103.01	37,600
Holy See, The	Holy See, The	146.58	53,500
Hong Kong	Hong Kong	313.15	114,300
Hungary	Budapest	89.04	32,500
Ireland	Limerick	69.04	25,200
Italy	Rome	146.58	53,500
Italy	Catania	75.89	27,700
Italy	Genoa	103.29	37,700
Italy	Gioia Tauro	85.48	31,200

Country	Location	Limitation on Housing Expenses (daily)	Limitation on Housing Expenses (full year)
Italy	Leghorn	91.78	33,500
Italy	Milan	218.63	79,800
Italy	Naples	120.82	44,100
Italy	Pordenone-Aviano	100.82	36,800
Italy	Sardinia	74.79	27,300
Italy	Turin	109.32	39,900
Italy	Verona	69.86	25,500
Italy	Vicenza	101.92	37,200
Italy	All cities other than Avellino, Brindisi, Catania, Florence, Gaeta, Genoa, Gioia Tauro, Leghorn, Milan, Naples, Nettuno, Pordenone-Aviano, Rome, Sardinia, Turin, Verona, and Vicenza.	84.11	30,700
Jamaica	Kingston	112.88	41,200
Japan	Tokyo	234.79	85,700
Japan	Akizuki	69.04	25,200
Japan	Gotemba	75.07	27,400
Japan	Misawa	69.32	25,300
Japan	Nagoya	80.00	29,200
Japan	Okinawa Prefecture	123.56	45,100
Japan	Osaka-Kobe	78.08	28,500
Japan	Sasebo	81.10	29,600
Japan	Tokyo-to	99.73	36,400
Japan	Yokohama	131.23	47,900
Japan	Yokosuka	113.42	41,400
Korea	Seoul	153.97	56,200
Korea	Chinhae	78.90	28,800
Korea	Chunchon	73.70	26,900
Korea	Kwangju	78.08	28,500
Korea	Osan AB	88.77	32,400
Korea	Pusan	81.92	29,900
Korea	Taegu	92.88	33,900
Korea	Tongduchon	72.33	26,400
Korea	Uijongbu	101.92	37,200
Korea	Waegwan	74.25	27,100

Country	Location	Limitation on Housing Expenses (daily)	Limitation on Housing Expenses (full year)
Korea	All cities other than Changwon, Chinhae, Chunchon, Kunsun, Kwangju, Osan AB, Pusan, Seoul, Taegu, Tongduchon, Uijongbu, and Waegwan.	83.29	30,400
Kuwait	Kuwait City	163.84	59,800
Kuwait	All cities other than Kuwait City	146.85	53,600
Luxembourg	Luxembourg	120.27	43,900
Macedonia	Skopje	96.99	35,400
Malaysia	Kuala Lumpur	96.71	35,300
Malaysia	All cities other than Kuala Lumpur	92.33	33,700
Malta	Malta	100.00	36,500
Mexico	Mexico City	102.74	37,500
Netherlands	Hague, The	150.41	54,900
Netherlands	Amsterdam	144.93	52,900
Netherlands	Brunssum	83.01	30,300
Netherlands	Rotterdam	105.48	38,500
Netherlands	All cities other than Amsterdam, Brunssum, Coevorden, the Hague, Margraten, and Rotterdam.	76.71	28,000
Netherlands Antilles	Aruba	90.41	33,000
New Zealand	Wellington	73.15	26,700
New Zealand	Auckland	77.26	28,200
Norway	Oslo	70.96	25,900
Norway	Stavanger	90.41	33,000
Norway	All cities other than Oslo and Stavanger.	91.78	33,500
Panama	Panama City	88.22	32,200
Peru	Lima	74.79	27,300
Portugal	Lisbon	133.70	48,800
Russia	Moscow	75.34	27,500
Rwanda	Kigali	86.30	31,500
Singapore	Singapore	117.53	42,900
Spain	Madrid	99.18	36,200
Spain	Rota	85.48	31,200
Spain	Valencia	102.74	37,500
Switzerland	Bern	139.45	50,900
Switzerland	Geneva	192.60	70,300

Country	Location	Limitation on Housing Expenses (daily)	Limitation on Housing Expenses (full year)
Switzerland	All cities other than Bern and Geneva.	90.14	32,900
Thailand	Bangkok	100.27	36,600
Turkey	Ankara	84.93	31,000
Turkey	Izmir-Cigli	86.58	31,600
Ukraine	Kiev	76.99	28,100
United Kingdom	London	197.53	72,100
United Kingdom	Bath	103.84	37,900
United Kingdom	Bristol	78.08	28,500
United Kingdom	Cambridge	109.32	39,900
United Kingdom	Caversham	187.40	68,400
United Kingdom	Cheltenham	111.51	40,700
United Kingdom	Fairford	88.49	32,300
United Kingdom	Farnborough	130.14	47,500
United Kingdom	Felixstowe	110.96	40,500
United Kingdom	Harrogate	110.41	40,300
United Kingdom	High Wycombe	157.53	57,500
United Kingdom	Lakenheath	140.00	51,100
United Kingdom	Loudwater	133.42	48,700
United Kingdom	Oxfordshire	79.18	28,900
United Kingdom	Rochester	101.37	37,000
United Kingdom	Wiltshire	96.16	35,100
United Kingdom	All cities other than Bath, Belfast, Birmingham, Bristol, Brough, Bude, Cambridge, Caversham, Chelmsford, Cheltenham, Chicksands, Dunstable, Edinburgh, Edzell, Fairford, Farnborough, Felixstowe, Ft. Halstead, Glenrothes, Harrogate, High Wycombe, Hythe, Lakenheath, London, Loudwater, Nottingham, Oxfordshire, Rochester, Welford, West Byfleet, and Wiltshire.	96.16	35,100
Venezuela	Caracas	143.56	52,400
Vietnam	Hanoi	128.22	46,800

A qualified individual incurring housing expenses in one or more of the high cost localities identified above for the year 2006 may use the adjusted limit provided in the table (in lieu of \$24,720) in deter-

mining his or her housing cost amount on Form 2555, *Foreign Earned Income*. A qualified individual who does not incur housing expenses in a locality identified above for the year 2006 is limited to max-

imum housing expenses of \$67.73 per day (\$24,720 per year) in determining his or her housing cost amount.