

**New Cap on Section 911 Housing Cost Exclusion:
Need for Substantial Adjustment to Reflect High Housing Costs in Bermuda**

Background:

Section 911 of the Internal Revenue code provides U.S. citizens living and working outside the United States with an exclusion from U.S. tax for income earned and housing costs abroad. The recently-enacted changes to section 911 include a new cap on the amount of housing costs that U.S. persons may exclude. Under the new cap, the housing cost amount that may be taken into account in determining the exclusion generally is limited to 30% of the amount of the foreign earned income limitation. For 2006, the foreign earned income limitation is \$82,400 and therefore the housing cost cap is \$24,720. The actual exclusion from U.S. tax is the excess of housing costs (subject to the cap) over the specified base housing amount. The base housing amount is 16% of the foreign earned income limitation, which is \$13,184 for 2006. Consequently, for 2006, without any adjustment to the housing cost cap, the maximum exclusion for housing costs is \$11,536.

The new legislation provides the Treasury Department with authority to adjust the aforementioned 30% figure used in computing the housing cost cap on the basis of differences in housing costs, relative to housing costs in the United States. The legislative history indicates that the conferees intend that these adjustments be made annually. The legislative history also indicates that it is intended that Treasury use publicly available data, such as reports published by the State Department or any other reliable information to make the adjustments.

Because of the impact these changes will have both on U.S. citizens living in Bermuda, as well as the companies that employ them, the Association of Bermuda Insurers and Reinsurers (ABIR) has undertaken an in-depth project of collecting, analyzing and evaluating relevant statistics related to Bermuda housing costs. A position paper has been submitted to Treasury outlining the results of the analysis and evaluation, emphasizing the merit and importance of adjusting the housing cost cap for Bermuda. Following is a recap of one aspect of the project: the collection of individual company data.

Collection of Company Data:

Preparatory to data collection, a survey form was developed to distribute to companies in Bermuda that employ U.S. citizens. These companies were requested to complete this survey. Twenty of those canvassed provided sufficient responses to create and prepare a credible statistical analysis. The information captured contemplates the number of employees and the amount of allowance each company subsidizes individuals in a given category. The salary in each category corresponds to U.S. State Department housing cost ranges.

The results of the survey of companies conducted by ABIR shows average housing cost amounts as follows:

Salary Ranges	Number of companies in analysis		Average Annual Housing Allowance	Number of employees in analysis		Weighted Average Annual Housing Allowance
Over \$165,000	Companies:	16	\$ 112,715.83	Employees:	119	\$ 116,462.29
\$152,000 - \$165,000	Companies:	7	\$ 76,571.43	Employees:	14	\$ 81,428.57
\$ 77, 793 - \$151,999	Companies:	14	\$ 63,392.86	Employees:	63	\$ 60,047.62
\$ 49,632 - \$ 77,792	Companies:	4	\$ 30,000.00	Employees:	8	\$ 32,250.00