



# Mobility Matters

## War in the Middle East: Selected U.S. Tax Implications of Crisis-Driven Relocations

March 2026 | By Sam Rusher, Yoori Sohn, Carly Rhodes, and John Seery, KPMG LLP (U.S.)

**On February 28, 2026, the U.S. and Israeli governments launched major military strikes on Iran. The current conflict is the largest direct military confrontation involving the United States in the Middle East in decades, with ripple effects across the region and global markets.**

The conflict has caused full or partial airspace closures throughout the Middle East,<sup>1</sup> affecting global travel. In addition, the U.S. government issued Level 3 or Level 4 travel advisories for a majority of the Middle East, including Bahrain, Iran, Iraq, Israel, the West Bank, Gaza, Jordan, Kuwait, Lebanon, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). The U.S. government has urged Americans to depart these countries immediately, if possible.<sup>2</sup> As of March 8, 2026, over 32,000 American citizens have returned to the United States from the Middle East.<sup>3</sup>

As the conflict and uncertainty in the region continue, many multinational companies<sup>4</sup> are evacuating their employees from conflict-affected areas and scaling back operations. In addition to practical, safety, and security concerns, companies with U.S. assignees<sup>5</sup> in the conflict-affected areas are likely to face global mobility-related tax issues and increases in program costs. While tax issues may not be at the forefront of employers' minds in dangerous situations like the Middle East conflict, with evacuations and cross-border moves come tax consequences.

This article examines selected U.S. tax issues that may affect employers with U.S. assignees evacuated from the areas of conflict and does not address labor and immigration laws.

## Employer Relief for Employee Expenses Resulting from a U.S. Military Action

An employer's payment or reimbursement of an employee's personal expenses generally is taxable as additional wages to the employee.<sup>6</sup> However, **an employer may assist in covering certain personal employee expenses resulting from a qualified disaster on a tax-free basis under section 139.**<sup>7</sup> For this purpose, a qualified disaster includes expenses incurred due to a U.S. military action.

Qualified disaster relief payments that are excludable from income include amounts to reimburse or pay reasonable and necessary personal, family, living, or funeral expenses incurred as a result of a qualified disaster, and amounts to reimburse or pay reasonable and necessary expenses incurred to repair a personal residence or repair or replace its contents if the need is attributable to a qualified disaster.<sup>8</sup> While excludable from employee income, the payments remain deductible to the employer.<sup>9</sup> Qualified disaster relief payments do not include payments for expenses that are compensated by insurance (or otherwise) and generally do not include income replacement such as lost wages.<sup>10</sup> These amounts also, by definition, do not include payments made to assist employees with hardships that are not a result of a qualified disaster.

A "qualified disaster" for this purpose includes federally declared disasters (which often include various natural disasters) as well as disasters that result from a terroristic or military action.<sup>11</sup> For this purpose, "terroristic or military action" includes any military action involving the Armed Forces of the United States that results from actual or threatened violence or aggression against the United States or any of its allies.<sup>12</sup> **It is expected that the U.S.-Iran conflict meets the definition of "military action" and so it will be considered a qualified disaster for this purpose, allowing the possibility for tax-free payment or reimbursement of certain personal employee expenses that fit within the framework of qualified disaster relief under section 139.**<sup>13</sup> There is a process through which the IRS may issue a notice declaring if or when an event is determined to be terroristic or military action, including for purposes of this and other tax provisions; a notice of this determination for the conflict has not yet been issued.<sup>14</sup>

**Employers choosing to provide disaster relief payments without including them in employee income may want to implement a policy and procedures for administering the payments and documenting their qualification.** Although there are no explicit substantiation requirements for employers to exclude qualified disaster relief payments from employee income, employers generally will need to be able to demonstrate that the payments meet the requirements for exclusion under section 139, meaning the employer actually provided the benefit directly or the employer reimbursed an expense of the employee. Typically, employers approach this by requiring employees to attest to their qualifying expenses in order to receive the disaster relief payments. For example, employers should consider outlining a policy setting forth the requirements for reimbursements (which may include employer-established reimbursement limits) and adopt a process for the employee to attest to the amount and type of expense incurred, that the expense resulted from this military action, and that the expense is not subject to reimbursement through insurance. For example, the employee may attest that particular transportation expenses were incurred by the employee as part of his or her evacuation that resulted from the military action, and that the employee does not have insurance that would otherwise reimburse those amounts.

For more detail regarding qualified disaster relief payments under section 139 and practical considerations, see KPMG: [Employers Helping Employees—Disaster Relief \(kpmg.com\)](https://www.kpmg.com/US/issuesandinsights/articlespublications/employers-helping-employees-disaster-relief).

# Foreign Earned Income Exclusion and Failure to Meet Time Requirements

A U.S. person is taxed on his or her worldwide income without regard to where the income was earned.<sup>15</sup> If certain requirements are met, a qualifying individual may elect to claim a foreign earned income exclusion (FEIE) to mitigate double taxation by excluding income earned and taxed in another country.<sup>16</sup> A U.S. assignee on a long-term assignment meeting the requirements of FEIE in Saudi Arabia, for example, may elect to claim the FEIE up to the annual maximum limit (\$132,900 for 2026).<sup>17</sup>

## Minimum Time Requirement

To qualify for the FEIE, a U.S. taxpayer must be a “bona fide” resident of a foreign country for an entire calendar year or physically present for at least 330 days during any 12 consecutive months in a foreign country or countries.<sup>18</sup> However, a special exception allows the minimum time requirement to be waived if the taxpayer can establish that he or she would have been expected to have met the requirements but for war, civil unrest, or similar adverse conditions in the foreign country.<sup>19</sup> The exception to the minimum time requirement only applies to countries and time periods specified by the IRS.<sup>20</sup> Each year, usually in the first few months of the following year, the IRS publishes an Internal Revenue Bulletin specifying the countries and time periods for which the time waiver can be applied. A U.S. taxpayer claiming this exception will be treated as a qualified individual only for the actual period of residence, resulting in an allowable exclusion that is a pro rata portion of the annual maximum limit amount.

**U.S. assignees evacuated from the Middle East before meeting the time requirements are not qualifying individuals for purposes of the FEIE unless the IRS issues a waiver of the minimum time requirement for these countries.** Therefore, unless and until the IRS issues the waiver, these U.S. assignees cannot elect to claim the FEIE. In addition, those who left a listed country on or before the IRS’s listed date do not qualify for the special time waiver. For example, if the IRS were to waive the time requirement for Saudi Arabia and specifies the date to be February 28, 2026, then a U.S. assignee who left Saudi Arabia before February 28, 2026, would not qualify for the waiver. Any such waiver for 2026 would likely be announced in the early months of 2027. The most recent IRS-announced waiver was issued on March 4, 2026, in Revenue Procedure 2026-16 (see [GMS Flash Alert 2026-058](#), March 5, 2026).

## U.S. Travel Restrictions

A U.S. taxpayer who is physically present in a foreign country where the U.S. has issued travel restrictions is in violation of the U.S. law and the U.S. taxpayer will not be able to claim the FEIE for the period in which the restrictions are in effect. Presently, the U.S. government has not issued formal travel restrictions for Iran and so long as a U.S. taxpayer evacuated from Iran meets the minimum time requirement or qualifies for a waiver that may be issued by the IRS, the U.S. assignee could claim the FEIE, provided that all other requirements under the FEIE rules are met.



## Other Tax and Mobility Considerations

Although the immediate priority is employee safety, tax considerations often emerge after an evacuation has occurred. Beyond the U.S. income tax implications for U.S. assignees, employer level tax issues may also arise as workforces are relocated in response to the conflict. The additional tax and mobility considerations outlined below are highlighted at a high level and are not examined in detail, as they are beyond the scope of this article.



### Workforce Relocation

Employers should consider whether evacuated employees will:

- be shifted to a remote/telework arrangement,
- remain in the host location,
- relocate to a third country,
- return to Middle East, or
- repatriate back to the United States.

Employers may need to consider whether they are subject to the relevant withholding and reporting rules in a new jurisdiction. Other local requirements may also need to be considered, including, for example, participation in local retirement arrangements.



### Permanent Establishment

Relocating an employee's primary work location to a country where the employer is not registered to do business can result in additional corporate tax consequences. Employers should consider whether the relocation of an evacuated employee might create a permanent establishment, often referred to as a "PE" that can create a taxable nexus with another jurisdiction.



### Income Tax Treaty Considerations

The United States does not have income tax treaties with Iran, nor much of the Middle East besides Israel, that could provide tax advantages for workers who move between the United States and those countries. Employers should consider whether a treaty is applicable for workers who have resettled in other countries.



### Totalization Agreements

Social security totalization agreements help to prevent double social security tax when a worker is sent from one country to work in another. The United States does not have a totalization agreement with Iran, or any country within the Middle East, but it does have totalization agreements with 30 other countries. U.S. assignees who are reassigned from Iran to a country that has a totalization agreement with the United States may be able to benefit from that agreement.

# Conclusion

Sudden relocations often give rise to a range of operational, compliance, and planning considerations. While evacuation decisions are necessarily driven by safety concerns rather than tax outcomes, understanding the potential U.S. tax and mobility consequences can help assignees and program managers navigate the post evacuation period more effectively. The issues outlined in this article represent a selection of common tax considerations that may surface after emergency relocations, rather than an exhaustive list.

The current conflict highlights the importance of preparedness and agility within international assignment programs. Program managers may wish to revisit existing evacuation and emergency policies—or develop them where they do not already exist—to confirm they fit the intended purposes. If these policies form part of an assignment program, clear communication to assignees before deployment, and as circumstances evolve, is critical.

To learn more about KPMG's Global Mobility Services practice, visit [read.kpmg.us/GlobalMobilityServices](https://read.kpmg.us/GlobalMobilityServices).



## Footnotes

- <sup>1</sup> Airline Ratings, "Middle East airspace closures ground major airlines and disrupt flights worldwide," published on March 1, 2026 at <https://www.airlineratings.com/articles/middle-east-airspace-closures-still-impacting-airline-globally-with-flight-cancellations-mounting->.
- <sup>2</sup> Assistant Secretary Mora Namdar (@AsstSecStateCA), "The @SecRubio @StateDept urges Americans to DEPART NOW from the countries below using available commercial transportation, due to serious safety risks. Americans who need State Department assistance arranging to depart via commercial means, CALL US 24/7 at +1-202-501-4444 (from <https://state.gov>)," X (Oct. 26, 2023, 11:00 PM), <https://x.com/asstsecstateca/status/2028588420403241021>.
- <sup>3</sup> U.S. Department of State, Statement From Assistant Secretary Dylan Johnson on Successful Operations to Assist American Citizens in the Middle East (Mar. 8, 2026), <https://www.state.gov/releases/office-of-the-spokesperson/2026/03/statement-from-assistant-secretary-dylan-johnson-on-successful-operations-to-assist-american-citizens-in-the-middle-east-2/>.
- <sup>4</sup> The terms "company" and "companies" are used interchangeably with "employer" and "employers" throughout this article.
- <sup>5</sup> The term U.S. assignee in this article refers to an individual who is considered a U.S. person for U.S. tax purposes. A U.S. person is a U.S. citizen or resident under the Internal Revenue Code and subject to tax on their worldwide income. See I.R.C. § 7701(a)(30)(A).

- <sup>6</sup> See generally *Old Colony Trust Co. v. Commissioner*, 279 U.S. 716 (1929) (finding that an employer’s payment of its employee’s personal tax obligation constituted income to the employee).
- <sup>7</sup> See I.R.C. § 139 (excluding from gross income amounts received by an individual as a qualified disaster relief payment).
- <sup>8</sup> See I.R.C. § 139(b)(1) and (2). Qualified disaster relief payments may also include by a person engaged in the furnishing or sale of transportation as a common carrier by reason of the death or personal physical injuries incurred as a result of a qualified disaster, or if such amount is paid by a Federal, State, or local government, or agency or instrumentality thereof, in connection with a qualified disaster in order to promote the general welfare. See I.R.C. § 139(b)(3) and (4).
- <sup>9</sup> See General Explanation of Tax Legislation Enacted in the 107th Congress, Joint Committee on Taxation, JCS-1-03 No. 17 (Jan. 24, 2003) (discussing qualified disaster relief payments and stating that “it is intended that payments excludable from income under the provision are deductible to the same extent they would be if they were includable in income”).
- <sup>10</sup> See I.R.C. § 139(b).
- <sup>11</sup> See I.R.C. § 139(c)(1) and (2). Qualified disaster also includes a disaster resulting from an accident involving a common carrier or other event determined by the Secretary to be of a catastrophic nature, or with respect to amounts paid by the government to promote the general welfare, a disaster determined by an applicable Federal, State, or local authority to warrant assistance from the applicable government or agency or instrumentality. See I.R.C. § 139(c)(3) and (4).
- <sup>12</sup> See I.R.C. §§ 139(c)(1) and 692(c)(2)(B).
- <sup>13</sup> See, e.g., Peace Through Strength: President Trump Launches Operation Epic Fury to Crush Iranian Regime, End Nuclear Threat – The White House (Mar. 1, 2026), <https://www.whitehouse.gov/articles/2026/03/peace-through-strength-president-trump-launches-operation-epic-fury-to-crush-iranian-regime-end-nuclear-threat/> (describing the U.S. operation “executed in partnership with regional allies” as a “military campaign to eliminate the imminent nuclear threat posed by the Iranian regime [...] after 47 years of Iranian aggression — including attacks on U.S. citizens”).
- <sup>14</sup> See Rev. Proc. 2004-26, 2004-1 C.B. 890 (May 10, 2004).
- <sup>15</sup> See I.R.C. § 7701(a)(30)(A). See Treas. Reg. § 1.1-1(b).
- <sup>16</sup> See I.R.C. § 911(a), (d). To claim the FEIE, a U.S. citizen or resident must have a “tax home” in a foreign country and meet the minimum time requirement. This article discusses only the minimum time requirement and assumes that U.S. assignees established a tax home in the country they were evacuated from.
- <sup>17</sup> See Rev. Proc. 2025-32.
- <sup>18</sup> See I.R.C. § 911(d)(1).
- <sup>19</sup> See I.R.C. § 911(d)(4).
- <sup>20</sup> See I.R.C. § 911(d)(4)(B)(i).

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