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(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 515. MODIFICATION OF EXCLUSION FOR CITIZENS LIVING ABROAD.

(a) INFLATION ADJUSTMENT OF FOREIGN EARNED INCOME LIMITATION.—Clause (ii) of section 911(b)(2)(D) (relating to inflation adjustment) is amended—

(1) by striking “2007” and inserting “2005”, and

(2) by striking “2006” in subclause (II) and inserting “2004”.

(b) MODIFICATION OF HOUSING COST AMOUNT.—

(1) MODIFICATION OF HOUSING COST FLOOR.—Clause (i) of section 911(c)(1)(B) is amended to read as follows:

“(i) 16 percent of the amount (computed on a daily basis) in effect under subsection (b)(2)(D) for the calendar year in which such taxable year begins, multiplied by”.

(2) MAXIMUM AMOUNT OF EXCLUSION.—

(A) IN GENERAL.—Subparagraph (A) of section 911(c)(1) is amended by inserting “to the extent such expenses do not exceed the amount determined under paragraph (2)” after “the taxable year”.

(B) LIMITATION.—Subsection (c) of section 911 is amended by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and by inserting after paragraph (1) the following new paragraph:

“(2) LIMITATION.—

“(A) IN GENERAL.—The amount determined under this paragraph is an amount equal to the product of—

“(i) 30 percent (adjusted as may be provided under subparagraph (B)) of the amount (computed on a daily basis) in effect under subsection (b)(2)(D) for the calendar year in which the taxable year of the individual begins, multiplied by

“(ii) the number of days of such taxable year within the applicable period described in subparagraph (A) or (B) of subsection (d)(1).

“(B) REGULATIONS.—The Secretary may issue regulations or other guidance providing for the adjustment of the percentage under subparagraph (A)(i) on the basis of geographic differences in housing costs relative to housing costs in the United States.”.

(C) CONFORMING AMENDMENTS.—

(i) Section 911(d)(4) is amended by striking “and (c)(1)(B)(ii)” and inserting “, (c)(1)(B)(ii), and (c)(2)(A)(ii)”.

(ii) Section 911(d)(7) is amended by striking “subsection (c)(3)” and inserting “subsection (c)(4)”.

(c) RATES OF TAX APPLICABLE TO NONEXCLUDED INCOME.—Section 911 (relating to exclusion of certain income of citizens and residents of the United States living abroad) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

“(f) DETERMINATION OF TAX LIABILITY ON NONEXCLUDED AMOUNTS.—For purposes of this chapter, if any amount is excluded
from the gross income of a taxpayer under subsection (a) for any
taxable year, then, notwithstanding section 1 or 55—
“(1) the tax imposed by section 1 on the taxpayer for
such taxable year shall be equal to the excess (if any) of—
“(A) the tax which would be imposed by section 1
for the taxable year if the taxpayer’s taxable income were
increased by the amount excluded under subsection (a)
for the taxable year, over
“(B) the tax which would be imposed by section 1
for the taxable year if the taxpayer’s taxable income were
equal to the amount excluded under subsection (a) for
the taxable year, and
“(2) the tentative minimum tax under section 55 for such
taxable year shall be equal to the excess (if any) of—
“(A) the amount which would be such tentative min-
imum tax for the taxable year if the taxpayer’s taxable
excess were increased by the amount excluded under sub-
section (a) for the taxable year, over
“(B) the amount which would be such tentative min-
imum tax for the taxable year if the taxpayer’s taxable
excess were equal to the amount excluded under subsection
(a) for the taxable year.
For purposes of this subsection, the amount excluded under sub-
section (a) shall be reduced by the aggregate amount of any deduc-
tions or exclusions disallowed under subsection (d)(6) with respect
to such excluded amount.”.
(d) EFFECTIVE DATE.—The amendments made by this section
shall apply to taxable years beginning after December 31, 2005.

SEC. 516. TAX INVOLVEMENT OF ACCOMMODATION PARTIES IN TAX
SHELTER TRANSACTIONS.

(a) IMPOSITION OF EXCISE TAX.—
(1) IN GENERAL.—Chapter 42 (relating to private founda-
tions and certain other tax-exempt organizations) is amended
by adding at the end the following new subchapter:

“Subchapter F—Tax Shelter Transactions

“Sec. 4965. Excise tax on certain tax-exempt entities entering into prohibited tax
shelter transactions.

“SEC. 4965. EXCISE TAX ON CERTAIN TAX-EXEMPT ENTITIES ENTERING
INTO PROHIBITED TAX SHELTER TRANSACTIONS.

“(a) BEING A PARTY TO AND APPROVAL OF PROHIBITED TRAN-
SACTIONS.—
“(1) TAX-EXEMPT ENTITY.—
“(A) IN GENERAL.—If a transaction is a prohibited tax
shelter transaction at the time any tax-exempt entity
described in paragraph (1), (2), or (3) of subsection (c)
becomes a party to the transaction, such entity shall pay
a tax for the taxable year in which the entity becomes
such a party and any subsequent taxable year in the
amount determined under subsection (b)(1).
“(B) POST-TRANSACTION DETERMINATION.—If any tax-
exempt entity described in paragraph (1), (2), or (3) of
subsection (c) is a party to a subsequently listed transaction
at any time during a taxable year, such entity shall pay