

110TH CONGRESS
1ST SESSION

S. 1626

To amend title IV of the Social Security Act to ensure funding for grants to promote responsible fatherhood and strengthen low-income families, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JUNE 14, 2007

Mr. BAYH (for himself and Mr. OBAMA) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend title IV of the Social Security Act to ensure funding for grants to promote responsible fatherhood and strengthen low-income families, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Responsible Fatherhood and Healthy Families Act of
6 2007”.

7 (b) TABLE OF CONTENTS.—The table of contents of
8 this Act is as follows:

- Sec. 1. Short title; table of contents.
 Sec. 2. Findings.

TITLE I—PROMOTING RESPONSIBLE FATHERHOOD AND
 STRENGTHENING LOW-INCOME FAMILIES

- Sec. 101. Healthy marriage promotion and responsible fatherhood programs.
 Sec. 102. Grants to healthy family partnerships for domestic violence prevention, for services for families and individuals affected by domestic violence, and for developing and implementing best practices.
 Sec. 103. Elimination of separate TANF work participation rate for 2-parent families.
 Sec. 104. Ban on recovery of medicaid costs for births.
 Sec. 105. Improved collection and distribution of child support.
 Sec. 106. Grants to States to conduct demonstration projects to promote economic opportunity for low-income parents.
 Sec. 107. State assessments of barriers to employment and financial support of children.
 Sec. 108. Collection of child support under the food stamp program.

TITLE II—REVENUE PROVISIONS

- Sec. 201. Modifications to the earned income tax credit.
 Sec. 202. Broker reporting of customer's basis in securities transactions.
 Sec. 203. Modification of effective date of leasing provisions of the American Jobs Creation Act of 2004.
 Sec. 204. Clarification of economic substance doctrine.

1 SEC. 2. FINDINGS.

2 Congress makes the following findings:

3 (1) The most important factor in a child's up-
 4 bringing is whether the child is brought up in a lov-
 5 ing, healthy, supportive environment.

6 (2) Children who grow up with two parents are,
 7 on average, more likely than their peers in single-
 8 parent homes to finish high school and be economi-
 9 cally self-sufficient.

10 (3) Father-child interaction, like mother-child
 11 interaction, has been shown to promote the positive
 12 physical, social, emotional, and mental development
 13 of children.

1 (4) Children typically live without both parents
2 when their parents are divorced or did not marry.
3 More than $\frac{1}{3}$ of all first marriages end in divorce,
4 and 60 percent of divorcing couples have children.
5 More than $\frac{1}{3}$ of all births are to unmarried women.

6 (5) More than 1 in 4 families with children
7 have only 1 parent present, and more than 1 in 3
8 children live absent their biological father.

9 (6) Recent studies demonstrate that most
10 unwed fathers in urban areas are highly involved
11 with the mother of their child before and after the
12 child's birth, with 80 percent involved during the
13 mother's pregnancy, and 50 percent living with the
14 child's mother at the time of the child's birth. How-
15 ever, the relationship between the parents often does
16 not last, and many fathers do not maintain contact
17 with their children as the children grow up.

18 (7) An estimated 40 percent of the children
19 who live in households without their father have not
20 seen their fathers in at least 1 year.

21 (8) The inability of parents to sustain a healthy
22 relationship with their child's other parent and re-
23 main involved in their child's life can have severe
24 negative consequences for the parents, the child,
25 their community, and taxpayers.

1 (9) Single-parent families are 5 times as likely
2 to be poor as married-couple families.

3 (10) Children raised in single-parent families
4 are more likely than children raised in 2-parent fam-
5 ilies to do poorly in school, have emotional and be-
6 havioral problems, become teenage parents, commit
7 crimes, smoke cigarettes, abuse drugs and alcohol,
8 and have poverty-level incomes as adults.

9 (11) High rates of unemployment and low
10 wages are primary reasons why parents do not
11 marry, why 2-parent families break up, and why fa-
12 thers fail to remain involved with their children.

13 (12) Domestic violence is also a significant
14 problem leading to the non-formation or break-up of
15 2-parent families.

16 (13) A history of incarceration is a major bar-
17 rier to employment. 60 percent of young African-
18 American men who dropped out of high school have
19 served time. When these men leave prison, they
20 often have difficulty finding a job and supporting
21 their children.

22 (14) Over $\frac{1}{2}$ of State prison inmates are par-
23 ents. When noncustodial parents go to prison, their
24 child support obligations continue, even though they
25 have little ability to pay the support. When these

1 parents leave prison, they typically owe more than
2 \$20,000 in child support debt. Noncustodial parents
3 leaving prison often re-enter the underground econ-
4 omy because of financial pressures or to avoid the
5 child support system, making it less likely that they
6 will successfully rejoin society and reunite with their
7 families.

8 (15) Children should receive the child support
9 paid by their parents, and the government should
10 not keep the money to recover welfare costs. Regular
11 child support income appears to have a greater posi-
12 tive impact on children dollar for dollar than other
13 types of income. Researchers in Wisconsin found
14 that when monthly child support was passed through
15 to families receiving assistance under the Temporary
16 Assistance for Needy Families program established
17 under part A of title IV of the Social Security Act
18 (TANF) and disregarded 100 percent in determining
19 assistance for the families, fathers paid more child
20 support, established their legal relationship with
21 their children more quickly, and worked less in the
22 underground economy. Moreover, the State costs of
23 a full pass-through and disregard of child support
24 were fully offset by increased payments by fathers
25 and decreased public assistance use by families.

1 (16) The Department of Health and Human
2 Services National Child Support Enforcement Stra-
3 tegic Plan for fiscal years 2005 through 2009 states
4 that “child support is no longer a welfare reimburse-
5 ment, revenue-producing device for the Federal and
6 State governments; it is a family-first program, in-
7 tended to ensure families’ self-sufficiency by making
8 child support a more reliable source of income”.

9 (17) Current law permits States to apply the
10 cost of passing through child support to families re-
11 ceiving assistance under the TANF program toward
12 their maintenance of effort (MOE) requirements,
13 but only to the extent that the State disregards the
14 child support payments in determining the amount
15 and type of TANF assistance.

16 (18) Programs that increase employment oppor-
17 tunity and reduce barriers by increasing employment
18 opportunity and reducing recidivism will benefit chil-
19 dren and families.

20 (19) Transitional jobs programs have shown
21 promise in reducing unemployment among chron-
22 ically unemployed or underemployed population
23 groups, including formerly incarcerated individuals,
24 the homeless, and young African-American men.

1 (20) To strengthen families it is important to
2 improve the upward economic mobility of the custo-
3 dial and noncustodial parent wage-earners, as well
4 as youth at risk of early parenthood or incarcer-
5 ation, by providing the skills and experience nec-
6 essary to access jobs with family-sustaining wages
7 and benefits. In families in which all the members
8 do not live together, this is important to enable the
9 prompt and consistent payment of adequate child
10 support.

11 (21) It is important and useful to foster local
12 and regional economic development and job advance-
13 ment for workers, especially young custodial and
14 noncustodial parents, by funding local collaborations
15 among business, education, and the community in
16 the development of pathways for preparing disadvan-
17 taged citizens to meet the workforce needs of the
18 local and regional economy.

19 (22) Employers benefit from working with and
20 being supported by the local education, post-sec-
21 ondary and workforce systems in identifying the aca-
22 demic and occupational skill sets needed to fill the
23 skilled jobs in the changing economy. Local eco-
24 nomic and community development is enhanced
25 when residents have access to higher wage employ-

1 ment, thus increasing the tax base, fueling the econ-
2 omy, and contributing to greater family economic se-
3 curity.

4 (23) Public-private career pathways partner-
5 ships are an important tool for linking employers
6 and workers with the workforce education services
7 they need and for integrating community economic
8 development and workforce education services. Tran-
9 sitional jobs programs can serve as the first step in
10 a career pathway by giving unemployed individuals
11 with multiple barriers to employment, valuable work
12 experience and related services.

13 (24) The purpose of child support is to provide
14 necessary income support for and increase the well-
15 being of children living apart from a parent. To im-
16 prove the ability of low-income noncustodial parents
17 to provide long-term support and care for their chil-
18 dren throughout their entire childhood, it is impor-
19 tant that child support polices support parental ef-
20 forts to pursue education and employment and to
21 stay involved with their children

22 (25) Responsible parenthood includes active
23 participation in financial support and child-rearing,
24 as well as the formation and maintenance of a posi-
25 tive, healthy, and nonviolent relationship between

1 parent and child and a cooperative, healthy, and
2 nonviolent relationship between parents.

3 (26) States should be encouraged to implement
4 voluntary programs that provide support for respon-
5 sible parenting, including by increasing the employ-
6 ment and financial security of parents, and the pa-
7 rental involvement of noncustodial parents.

8 (27) Promoting responsible parenthood saves
9 the government money by reducing the need for pub-
10 lic assistance, increasing the educational attainment
11 of children, reducing juvenile delinquency and crime,
12 reducing substance abuse, and lowering rates of un-
13 employment.

14 (28) Programs to encourage responsible father-
15 hood or responsible motherhood should promote and
16 provide support services for—

17 (A) fostering loving and healthy relation-
18 ships between parents and children;

19 (B) increasing responsibility of noncusto-
20 dial parents for the long-term care and finan-
21 cial well-being of their children;

22 (C) increasing employment of low-income,
23 noncustodial parents and improving compliance
24 with child support obligations; and

1 (D) reducing barriers to active 2-parent in-
 2 volvement and cooperative parenting.

3 (29) The promotion of marriage and responsible
 4 parenthood should not denigrate the standing or
 5 parenting efforts of single parents or other care-
 6 givers, lessen the protection of children from abusive
 7 parents, or compromise the safety or health of the
 8 custodial or noncustodial parent, but should increase
 9 the chance that children will have 2 caring parents
 10 to help them grow up healthy and secure.

11 **TITLE I—PROMOTING RESPON-**
 12 **SIBLE FATHERHOOD AND**
 13 **STRENGTHENING LOW-IN-**
 14 **COME FAMILIES**

15 **SEC. 101. HEALTHY MARRIAGE PROMOTION AND RESPON-**
 16 **SIBLE FATHERHOOD PROGRAMS.**

17 (a) ENSURING FUNDING FOR RESPONSIBLE FA-
 18 THERHOOD PROGRAMS.—Section 403(a)(2)(C) of the So-
 19 cial Security Act (42 U.S.C. 603(a)(2)(C)) is amended—

20 (1) in the subparagraph heading, by striking
 21 “LIMITATION ON USE OF” and inserting “REQUIRE-
 22 MENT TO USE CERTAIN”; and

23 (2) in clause (i), by striking “may not award
 24 more than \$50,000,000” and inserting “shall award
 25 at least \$100,000,000”.

1 (b) REQUIREMENTS TO ENSURE PROCEDURES TO
2 ADDRESS DOMESTIC VIOLENCE PREVENTION.—

3 (1) IN GENERAL.—Section 403(a)(2) of the So-
4 cial Security Act (42 U.S.C. 603(a)(2)) is amend-
5 ed—

6 (A) by redesignating subparagraph (D) as
7 subparagraph (G); and

8 (B) by inserting after subparagraph (C)
9 the following new subparagraphs:

10 “(D) REQUIREMENTS FOR RECEIPT OF
11 FUNDS.—An entity may not be awarded a grant
12 under this paragraph unless the entity, as a
13 condition of receiving funds under such a
14 grant—

15 “(i) consults with domestic violence
16 organizations that have demonstrated ex-
17 pertise working with survivors of domestic
18 violence in developing policies, procedures,
19 programs and training necessary to appro-
20 priately address domestic violence in fami-
21 lies served by programs and activities
22 funded under such grant;

23 “(ii) describes in the application for a
24 grant under this paragraph—

1 “(I) how the programs or activi-
2 ties proposed to be conducted will ap-
3 propriately address issues of domestic
4 violence; and

5 “(II) what the entity will do, to
6 the extent relevant, to ensure that
7 participation in such programs or ac-
8 tivities is voluntary, and to inform po-
9 tential participants that their involve-
10 ment is voluntary;

11 “(iii) establishes a written protocol for
12 providers and administrators of programs
13 and activities relevant to the grant that—

14 “(I) provides for helping identify
15 instances or risks of domestic violence;
16 and

17 “(II) specifies the procedures for
18 making service referrals and providing
19 protections and appropriate assistance
20 for identified individuals and families;
21 and

22 “(iv) submits the annual reports re-
23 quired under subparagraph (E).

24 “(E) ANNUAL REPORTS TO THE SEC-
25 RETARY.—Each entity awarded a grant under

1 this paragraph shall submit to the Secretary an
2 annual report on the programs and activities
3 funded under the grant that includes the fol-
4 lowing:

5 “(i) A description of the written pro-
6 tocols developed in accordance with the re-
7 quirements of subparagraph (D)(iii) for
8 each program or activity funded under the
9 grant and how such protocols are used, in-
10 cluding specific policies and procedures for
11 addressing domestic violence issues within
12 each program or activity funded under the
13 grant and how confidentiality issues are
14 addressed.

15 “(ii) The name of each individual, or-
16 ganization, or entity that was consulted in
17 the development of such protocols.

18 “(iii) A description of each individual,
19 organization, or entity (if any) that pro-
20 vided training on domestic violence for the
21 entity or for any subgrantees.

22 “(iv) A description of any implemen-
23 tation issues identified with respect to do-
24 mestic violence and how such issues were
25 addressed.

1 “(F) DOMESTIC VIOLENCE DEFINED.—In
 2 this paragraph, the term ‘domestic violence’ has
 3 the meaning given that term in section
 4 402(a)(7)(B).”.

5 (2) CONFORMING AMENDMENTS.—Section
 6 403(a)(2) of such Act (42 U.S.C. 603(a)(2)) is
 7 amended—

8 (A) in subparagraph (A)(i)—

9 (i) by striking “(B) and (C)” and in-
 10 serting “(B), (C), (D), and (E)”; and

11 (ii) by striking “subparagraph (D)”
 12 and inserting “subparagraph (G)”;

13 (B) in subparagraphs (B)(i) and (C)(i), by
 14 striking “(D)” each place it appears and insert-
 15 ing “(G)”; and

16 (C) in subparagraph (G) (as redesignated
 17 by paragraph (1)(A)), by striking
 18 “\$150,000,000 for each of fiscal years 2006
 19 through 2010” and inserting “\$150,000,000
 20 for each of fiscal years 2006 and 2007 and
 21 \$200,000,000 for each of fiscal years 2008
 22 through 2010”.

23 (c) ASSURANCE OF VOLUNTARY PARTICIPATION.—
 24 Section 403(a)(2)(A)(ii)(II) of the Social Security Act (42
 25 U.S.C. 603(a)(2)(A)(ii)(II)) is amended—

- 1 (1) in item (aa), by striking “and” at the end;
- 2 (2) in item (bb), by striking the period at the
- 3 end and inserting a semicolon; and
- 4 (3) by adding at the end the following new
- 5 items:

6 “(cc) to not condition the re-
7 ceipt of assistance under the pro-
8 gram funded under this part,
9 under a program funded with
10 qualified State expenditures (as
11 defined in section
12 409(a)(7)(B)(i)), or under any
13 other program funded under this
14 title on enrollment in any such
15 programs or activities; and

16 “(dd) to permit any indi-
17 vidual who has begun to partici-
18 pate in a particular program or
19 activity funded under this para-
20 graph, including an individual
21 whose participation is specified in
22 the individual responsibility plan
23 developed for the individual in
24 accordance with section 408(b),
25 to transfer to another such pro-

1 gram or activity funded under
2 this paragraph upon notification
3 to the entity and the State agen-
4 cy responsible for administering
5 the State program funded under
6 this part.”.

7 (d) ACTIVITIES PROMOTING RESPONSIBLE FATHER-
8 HOOD.—Section 403(a)(2)(C)(ii) of the Social Security
9 Act (42 U.S.C. 603(a)(2)(C)(ii)) is amended—

10 (1) in subclause (I), by striking “marriage or
11 sustain marriage” and insert “healthy relationships
12 and marriages or to sustain healthy relationships or
13 marriages”;

14 (2) in subclause (II), by inserting “educating
15 youth who are not yet parents about the economic,
16 social, and family consequences of early parenting,
17 helping participants in fatherhood programs work
18 with their own children to break the cycle of early
19 parenthood,” after “child support payments,”; and

20 (3) in subclause (III), by striking “fathers” and
21 inserting “low-income fathers and other low-income
22 noncustodial parents whom are not eligible for as-
23 sistance under the State program funded under this
24 part”.

1 (e) EFFECTIVE DATE.—The amendments made by
 2 this section shall take effect on October 1, 2007.

3 **SEC. 102. GRANTS TO HEALTHY FAMILY PARTNERSHIPS**
 4 **FOR DOMESTIC VIOLENCE PREVENTION, FOR**
 5 **SERVICES FOR FAMILIES AND INDIVIDUALS**
 6 **AFFECTED BY DOMESTIC VIOLENCE, AND**
 7 **FOR DEVELOPING AND IMPLEMENTING BEST**
 8 **PRACTICES.**

9 Section 403(a) of the Social Security Act (42 U.S.C.
 10 603(a)) is amended by adding at the end the following
 11 new paragraph:

12 “(6) GRANTS TO HEALTHY FAMILY PARTNER-
 13 SHIPS FOR DOMESTIC VIOLENCE PREVENTION, FOR
 14 SERVICES FOR FAMILIES AND INDIVIDUALS AF-
 15 FECTED BY DOMESTIC VIOLENCE, AND FOR DEVEL-
 16 OPING AND IMPLEMENTING BEST PRACTICES.—

17 “(A) IN GENERAL.—The Secretary shall
 18 award grants on a competitive basis to healthy
 19 family partnerships to—

20 “(i) conduct programs and activities
 21 that are designed to prevent domestic vio-
 22 lence;

23 “(ii) provide services for victims of do-
 24 mestic violence; and

1 “(iii) develop and implement best
2 practices for preventing domestic violence,
3 particularly as a barrier to economic secu-
4 rity, and for providing services to families
5 and individuals affected by such violence
6 including through caseworker training and
7 the provision of technical assistance.

8 “(B) EDUCATION SERVICES.—In awarding
9 grants under subparagraph (A), the Secretary
10 shall ensure that 10 percent of the funds made
11 available under such grants are used for high
12 schools and other secondary educational institu-
13 tions and institutions of higher education to
14 provide education services on the value of
15 healthy relationships, responsible parenting,
16 and healthy marriages characterized by mutual
17 respect and non-violence, and the importance of
18 building relationships skills such as communica-
19 tion, conflict resolution, and budgeting.

20 “(C) APPLICATION.—The respective entity
21 and organization of a healthy family partner-
22 ship entered into for purposes of receiving a
23 grant under this paragraph shall submit a joint
24 application to the Secretary, at such time and

1 in such manner as the Secretary shall specify,
 2 containing—

3 “(i) a description of how the partner-
 4 ship intends to carry out the activities de-
 5 scribed in subparagraph (A);

6 “(ii) an assurance that funds made
 7 available under the grant shall be used to
 8 supplement, and not supplant, other funds
 9 used by the entity or organization to carry
 10 out programs, activities, or services de-
 11 scribed in subparagraph (A) or (B); and

12 “(iii) such other information as the
 13 Secretary may require.

14 “(D) GENERAL RULES GOVERNING USE OF
 15 FUNDS.—The rules of section 404, other than
 16 subsection (b) of that section, shall not apply to
 17 a grant made under this paragraph.

18 “(E) DEFINITIONS.—In this paragraph:

19 “(i) DOMESTIC VIOLENCE.—The term
 20 ‘domestic violence’ has the meaning given
 21 that term in section 402(a)(7)(B).

22 “(ii) HEALTHY FAMILY PARTNER-
 23 SHIP.—The term ‘healthy family partner-
 24 ship’ means a partnership between—

1 “(I) an entity receiving funds
 2 under a grant made under paragraph
 3 (2) to promote healthy marriage or re-
 4 sponsible fatherhood; and

5 “(II) an organization described
 6 in paragraph (2)(D)(i).

7 “(F) APPROPRIATION.—Out of any money
 8 in the Treasury of the United States not other-
 9 wise appropriated, there are appropriated for
 10 each of fiscal years 2008 through 2010,
 11 \$25,000,000 for purposes of awarding grants to
 12 healthy family partnerships under this para-
 13 graph.”.

14 **SEC. 103. ELIMINATION OF SEPARATE TANF WORK PAR-**
 15 **TICIPATION RATE FOR 2-PARENT FAMILIES.**

16 (a) IN GENERAL.—Section 407 of the Social Security
 17 Act (42 U.S.C. 607) is amended—

18 (1) in subsection (a)—

19 (A) beginning in the heading, by striking
 20 “PARTICIPATION RATE REQUIREMENTS” and
 21 all that follows through “A State” in paragraph
 22 (1) and inserting “PARTICIPATION RATE RE-
 23 QUIREMENTS.—A State”; and

24 (B) by striking paragraph (2);

25 (2) in subsection (b)—

1 (A) in paragraph (1)(A), by striking “sub-
 2 section (a)(1)” and inserting “subsection (a)”;

3 (B) in paragraph (2), by striking the para-
 4 graph heading and all that follows through “A
 5 family” and inserting “SPECIAL RULE.—A fam-
 6 ily”;

7 (C) in paragraph (4), by striking “para-
 8 graphs (1)(B) and (2)(B)” and inserting “de-
 9 termining monthly participation rates under
 10 paragraph (1)(B)”;

11 (D) in paragraph (5), by striking “rates”
 12 and inserting “rate”;

13 (3) in subsection (c)—

14 (A) in paragraph (1)(B), in the matter
 15 preceding clause (i), by striking “subsection
 16 (b)(2)(B)” and inserting “subsection
 17 (b)(1)(B)(i)”;

18 (B) in paragraph (2)(D)—

19 (i) by striking “paragraphs (1)(B)(i)
 20 and (2)(B) of subsection (b)” and insert-
 21 ing “subsection (b)(1)(B)(i)”;

22 (ii) by striking “and in 2-parent fami-
 23 lies, respectively,”.

24 (b) EFFECTIVE DATE.—

1 (1) IN GENERAL.—The amendments made by
 2 subsection (a) shall take effect on the date of enact-
 3 ment of this Act and shall apply to the determina-
 4 tion of minimum participation rates for months be-
 5 ginning on or after that date.

6 (2) LIMITATION ON PENALTY IMPOSITION.—
 7 Notwithstanding section 409(a)(3) of the Social Se-
 8 curity Act, the Secretary of Health and Human
 9 Services shall not impose a penalty against a State
 10 under that section on the basis of the State's failure
 11 to satisfy the participation rate required for fiscal
 12 year 2006 and 2007 if the State demonstrates that
 13 the State would have met such requirement if, with
 14 respect to those months of fiscal year 2007 that
 15 began prior to or on the date of enactment of this
 16 Act, the State were permitted to count 2-parent
 17 families that met the requirements of section
 18 407(c)(1)(A) of the Social Security Act (42 U.S.C.
 19 607(c)(1)(A)) in the determination of monthly par-
 20 ticipation rates under section 407(b)(1)(B)(i) of
 21 such Act (42 U.S.C. 607(b)(1)(B)(i)).

22 **SEC. 104. BAN ON RECOVERY OF MEDICAID COSTS FOR**
 23 **BIRTHS.**

24 (a) BAN ON RECOVERY.—

1 (1) IN GENERAL.—Section 454 of the Social
2 Security Act (42 U.S.C. 654), is amended—

3 (A) by striking “and” at the end of para-
4 graph (32);

5 (B) by striking the period at the end of
6 paragraph (33) and inserting a semicolon; and

7 (C) by inserting after paragraph (33) the
8 following:

9 “(34) provide that, except as provided in sec-
10 tion 1902(a)(25)(F)(ii), the State shall not use the
11 State program operated under this part to collect
12 any amount owed to the State by reason of costs in-
13 curred under the State plan approved under title
14 XIX for the birth of a child for whom support rights
15 have been assigned pursuant to section 471(a)(17)
16 or 1912; and”.

17 (2) RULE OF CONSTRUCTION.—Nothing in sec-
18 tion 454(34) of the Social Security Act (42 U.S.C.
19 654(34)), as added by paragraph (1), shall be con-
20 strued as affecting the application of section
21 1902(a)(25) of such Act (42 U.S.C. 1396a(a)(25))
22 with respect to a State (relating to the State Med-
23 icaid plan requirement for the State to take all rea-
24 sonable measures to ascertain the legal liability of

1 third parties to pay for care and services available
2 under the plan).

3 (3) REPEAL OF CERTAIN DRA AMENDMENTS.—

4 For provisions repealing amendments to section 454
5 of the Social Security Act made by section
6 7301(b)(1)(C) of the Deficit Reduction Act of 2005,
7 see section 105(a)(3) of this Act.

8 (b) CLARIFICATION THAT BAN ON RECOVERY DOES
9 NOT APPLY WITH RESPECT TO INSURANCE OF A PARENT
10 WITH AN OBLIGATION TO PAY CHILD SUPPORT.—Clause
11 (ii) of section 1902(a)(25)(F) of the Social Security Act
12 (42 U.S.C. 1396a(a)(25)(F)) is amended by inserting
13 “only if such third-party liability is derived through insur-
14 ance,” before “seek”.

15 (c) EFFECTIVE DATE.—

16 (1) IN GENERAL.—Except as provided in para-
17 graph (2), the amendments made by this section
18 take effect on October 1, 2007.

19 (2) EXTENSION OF EFFECTIVE DATE FOR
20 STATE LAW AMENDMENT.—In the case of a State
21 plan under title XIX of the Social Security Act (42
22 U.S.C. 1396 et seq.) which the Secretary of Health
23 and Human Services determines requires State legis-
24 lation in order for the plan to meet the additional
25 requirements imposed by the amendments made by

1 this section, the State plan shall not be regarded as
 2 failing to comply with the requirements of such title
 3 solely on the basis of its failure to meet these addi-
 4 tional requirements before the first day of the first
 5 calendar quarter beginning after the close of the
 6 first regular session of the State legislature that be-
 7 gins after the date of enactment of this Act. For
 8 purposes of the previous sentence, in the case of a
 9 State that has a 2-year legislative session, each year
 10 of the session is considered to be a separate regular
 11 session of the State legislature.

12 **SEC. 105. IMPROVED COLLECTION AND DISTRIBUTION OF**
 13 **CHILD SUPPORT.**

14 (a) DISTRIBUTION OF CHILD SUPPORT.—

15 (1) FULL DISTRIBUTION OF CHILD SUPPORT
 16 COLLECTED; REFORM OF RULES FOR DISTRIBUTION
 17 OF CHILD SUPPORT COLLECTED ON BEHALF OF
 18 CHILDREN IN FOSTER CARE.—

19 (A) IN GENERAL.—Section 457 of the So-
 20 cial Security Act (42 U.S.C. 657) is amended—

21 (i) by striking subsection (a) and in-
 22 serting the following:

23 “(a) FULL DISTRIBUTION OF AMOUNTS COLLECTED
 24 ON BEHALF OF ANY FAMILY.—Subject to subsection (c),
 25 the entire amount collected on behalf of any family as sup-

1 port by a State pursuant to a plan approved under this
 2 part shall be paid by the State to the family, and shall
 3 not be retained by the State to reimburse costs of assist-
 4 ance provided under part A, part E, or any State-funded
 5 assistance or benefits.”; and

6 (ii) by striking subsections (c)
 7 through (e) and inserting the following:

8 “(c) AMOUNTS COLLECTED FOR CHILD FOR WHOM
 9 FOSTER CARE MAINTENANCE PAYMENTS ARE MADE.—
 10 Notwithstanding the preceding provisions of this section,
 11 amounts collected by a State as child support for months
 12 in any period on behalf of a child for whom a public agen-
 13 cy is making foster care maintenance payments under part
 14 E shall be paid to the public agency responsible for super-
 15 vising the placement of the child, which, in the manner
 16 it determines will serve the best interests of the child, shall
 17 deposit the funds in a child asset account for the child’s
 18 future needs or make all or a part thereof available to
 19 the individual responsible for meeting the child’s day-to-
 20 day needs.”.

21 (B) FOSTER CARE STATE PLAN AMEND-
 22 MENT.—Section 471(a)(17) of the Social Secu-
 23 rity Act (42 U.S.C. 671(a)(17)) is amended—

(i) by inserting “and consistent with the child’s case plan” after “where appropriate”; and

(ii) by striking “secure an assignment to the State of any rights to support” and inserting “establish paternity and establish, modify, and enforce child support obligations”.

(C) SOCIAL SECURITY ACT AMENDMENTS.—

(i) CHILD SUPPORT STATE PLAN AMENDMENT.—Section 454 of the Social Security Act (42 U.S.C. 654), as amended by section 104(a)(1), is amended by adding at the end the following new paragraph:

“(35) provide that a State shall pay all collected child support to the payee, except as provided in section 457(c), and shall not use the State program operated under this part to retain payments to recover the cost of State-funded assistance or benefits.”.

(ii) DISBURSEMENT OF SUPPORT PAYMENTS.—Section 454B(c) of the Social Security Act (42 U.S.C. 654B(c)) is amended

1 by adding at the end the following new
2 paragraph:

3 “(3) DISBURSEMENT TO FAMILIES.—The State
4 disbursement unit shall pay all collected child sup-
5 port to the payee, except as otherwise provided in
6 section 457, and may not disburse collections to the
7 State to reimburse the State for assistance or bene-
8 fits provided under a State-funded program.”.

9 (2) CONFORMING AMENDMENTS.—

10 (A) Section 409(a)(7)(B)(i)(I)(aa) of such
11 Act (42 U.S.C. 609(a)(7)(B)(i)(I)(aa)) is
12 amended by striking “457(a)(1)(B)” and in-
13 serting “457(a)”.

14 (B) Section 454(5) of such Act (42 U.S.C.
15 654(5)) is amended by striking “(A) in any
16 case” and all that follows through “(B)”.

17 (C) Section 466(a)(3)(B) of such Act (42
18 U.S.C. 666(a)(3)(B)) is amended by striking
19 “408(a)(3) or 671(a)(17)”.

20 (3) REPEAL OF CERTAIN DRA AMENDMENTS.—

21 Effective on the date of enactment of this Act, sub-
22 sections (a) and (b) of section 7301 of the Deficit
23 Reduction Act of 2005 (Public Law 109–171; 120
24 Stat. 141) are repealed and parts A and D of title
25 IV of the Social Security Act shall be applied as if

1 the amendments made by such subsections had not
2 been enacted.

3 (b) PROHIBITION ON CONDITIONING RECEIPT OF
4 TANF ON ASSIGNMENT OF SUPPORT.—Section 408(a)(3)
5 of the Social Security Act (42 U.S.C. 608(a)(3)) is amend-
6 ed—

7 (1) in the paragraph heading, by striking “No
8 ASSISTANCE FOR FAMILIES NOT” and inserting
9 “PROHIBITION ON CONDITIONING ASSISTANCE FOR
10 FAMILIES ON”;

11 (2) by inserting “not” after “shall”;

12 (3) by inserting “or under a program funded
13 with qualified State expenditures (as defined in sec-
14 tion 409(a)(7)(B)(i))” after “this part”; and

15 (4) by striking “, not exceeding the total
16 amount of assistance so paid to the family,”.

17 (c) REQUIREMENT TO DISREGARD PERCENTAGE OF
18 CHILD SUPPORT COLLECTED IN DETERMINING AMOUNT
19 AND TYPE OF TANF ASSISTANCE.—Section 408(a) of the
20 Social Security Act (42 U.S.C. 608(a)) is amended by add-
21 ing at the end the following new paragraph:

22 “(12) REQUIREMENT TO DISREGARD PERCENT-
23 AGE OF CHILD SUPPORT COLLECTED IN DETER-
24 MINING AMOUNT AND TYPE OF TANF ASSISTANCE.—
25 A State to which a grant is made under section 403

1 shall disregard at least the same percentage of
 2 amounts collected as support on behalf of a family
 3 as the percentage of earned income that the State
 4 disregards in determining the amount or type of as-
 5 sistance provided to the family under the State pro-
 6 gram funded under this part or under a program
 7 funded with qualified State expenditures (as defined
 8 in section 409(a)(7)(B)(i)).”.

9 (d) STATE OPTION TO DISCONTINUE OLDER SUP-
 10 PORT ASSIGNMENTS.—Effective as if included in the
 11 amendment made by section 7301(c) of the Deficit Reduc-
 12 tion Act of 2005, section 457(b) of the Social Security
 13 Act (42 U.S.C. 657(b)) is amended to read as follows:

14 “(b) CONTINUATION OF ASSIGNMENTS.—

15 “(1) IN GENERAL.—Any rights to support obli-
 16 gations assigned to a State as a condition of receiv-
 17 ing assistance from the State under parts A and E
 18 and in effect on September 30, 2009 (or such earlier
 19 date as the State may choose), may be discontinued
 20 after such date.

21 “(2) DISTRIBUTION OF AMOUNTS AFTER AS-
 22 SIGNMENT DISCONTINUATION.—If a State chooses to
 23 discontinue the assignment of a support obligation
 24 described in paragraph (1), the State may treat
 25 amounts collected pursuant to the assignment as if

1 the amounts had never been assigned and may dis-
 2 tribute the amounts to the family in accordance with
 3 subsections (a) and (c).”.

4 (e) RESTORATION OF FEDERAL FUNDING.—Effec-
 5 tive on the date of enactment of this Act, section 7309
 6 of the Deficit Reduction Act of 2005 (Public Law 109–
 7 171; 120 Stat. 147) is repealed and part D of title IV
 8 of the Social Security Act shall be applied as if the amend-
 9 ment made by subsection (a) of that section had not been
 10 enacted.

11 (f) REPEAL OF MANDATORY FEE FOR CHILD SUP-
 12 PORT COLLECTION.—Effective on the date of enactment
 13 of this Act, section 7310 of the Deficit Reduction Act of
 14 2005 (Public Law 109–171; 120 Stat. 147) is repealed
 15 and part D of title IV of the Social Security Act shall
 16 be applied as if the amendments made by that section had
 17 not been enacted.

18 (g) PROHIBITION ON CONSIDERING A PERIOD OF IN-
 19 CARCERATION VOLUNTARY UNEMPLOYMENT.—Section
 20 466(a) of the Social Security Act (42 U.S.C. 666(a)) is
 21 amended by inserting after paragraph (19) the following
 22 new paragraph:

23 “(20) PROCEDURES RELATING TO PERIODS OF
 24 INCARCERATION OF NONCUSTODIAL PARENTS.—

1 “(A) IN GENERAL.—Procedures which re-
2 quire that, in determining or modifying the
3 amount of, or terms and conditions of, any sup-
4 port obligation of a noncustodial parent, the
5 State—

6 “(i) shall not consider any period of
7 incarceration of such parent as a period of
8 voluntary unemployment that disqualifies
9 the parent from obtaining a modification
10 of the support obligation consistent with
11 the parent’s ability to pay child support;
12 and

13 “(ii) subject to subparagraph (B) in
14 the case of an incarcerated parent, may—

15 “(I) temporarily suspend any
16 support obligation on the parent and
17 the enforcement of any support obli-
18 gation of the parent existing prior to
19 the period of incarceration; and

20 “(II) temporarily prohibit the ac-
21 crual of any interest on any support
22 obligation of the parent existing prior
23 to the period of incarceration during
24 any such period.

1 “(B) NOTICE AND OPPORTUNITY TO CHAL-
 2 LENGE SUSPENSION.—Such procedures shall re-
 3 quire the State to provide a custodial parent
 4 with—

5 “(i) notice of any suspension of re-
 6 view, adjustment, or enforcement of a sup-
 7 port obligation and of any prohibition on
 8 interest accrual on such obligation that is
 9 imposed in accordance with subparagraph
 10 (A)(ii); and

11 “(ii) an opportunity to request that
 12 the suspension or prohibition be termi-
 13 nated or modified on the basis that the
 14 noncustodial parent has sufficient income
 15 or resources to continue payment of the
 16 support obligation during the noncustodial
 17 parent’s period of incarceration.”.

18 (h) FORGIVING OR OTHER MODIFICATION OF CHILD
 19 SUPPORT ARREARAGES ASSIGNED TO THE STATE.—Sec-
 20 tion 466(a)(9) of the Social Security Act (42 U.S.C.
 21 666(a)(9)) is amended in the flush matter following sub-
 22 paragraph (C), by inserting the following new sentence at
 23 the end: “Nothing in this paragraph shall be construed
 24 as prohibiting a State from forgiving, compromising, re-

1 ducing or waiving arrearages permanently assigned to the
 2 State under part A or E or under title XIX.”.

3 (i) REVIEW AND ADJUSTMENT OF CHILD SUPPORT
 4 ARREARAGES UPON REQUEST.—Section 466(a)(10) of
 5 the Social Security Act (42 U.S.C. 666(a)(10)) is amend-
 6 ed by adding at the end the following new subparagraph:

7 “(D) REVIEW AND ADJUSTMENT OF AR-
 8 REARAGES.—Procedures which require the
 9 State to review, and if appropriate, reduce the
 10 balance of arrearages permanently assigned to
 11 the State under part A or E, or under title
 12 XIX, pursuant to standards and procedures es-
 13 tablished by the State, in cases where the obli-
 14 gor lacks sufficient ability to pay the arrears,
 15 adjustment will promote timely payment of cur-
 16 rent support, or barriers, such as incarceration,
 17 may have limited the ability of the obligor to
 18 timely seek a modification of the order, and it
 19 is in the best interests of the child to make
 20 such reduction. Nothing in the preceding sen-
 21 tence shall be construed as affecting arrearages
 22 that have not been permanently assigned to the
 23 State under such part or title.”.

24 (j) STUDY AND REPORT.—Not later than October 1,
 25 2008, the Secretary of Health and Human Services shall

1 study and submit a report to Congress regarding the fol-
2 lowing:

3 (1) The effect of age eligibility restrictions for
4 the earned income tax credit established under sec-
5 tion 32 of the Internal Revenue Code of 1986 for in-
6 dividuals without qualifying children on—

7 (A) the ability of young parents to pay
8 child support;

9 (B) compliance with child support orders;
10 and

11 (C) the relationship between young non-
12 custodial parents and their children.

13 (2) The impact of State earned income tax
14 credit programs, especially such programs with tar-
15 geted benefits for noncustodial parents, on—

16 (A) the ability of noncustodial parents to
17 pay child support;

18 (B) compliance with child support orders;
19 and

20 (C) the relationship between noncustodial
21 parents and their children.

22 (3) The challenges faced by legal immigrants
23 and individuals for whom English is not their pri-
24 mary language in fulfilling child support and other
25 noncustodial parenting obligations.

1 (k) EFFECTIVE DATE.—

2 (1) IN GENERAL.—Except as otherwise pro-
 3 vided in this section, the amendments made by this
 4 section shall take effect on October 1, 2009, and
 5 shall apply to payments under parts A and D of title
 6 IV of the Social Security Act for calendar quarters
 7 beginning on or after that date, and without regard
 8 to whether regulations to implement the amend-
 9 ments are promulgated by such date.

10 (2) STATE OPTION TO ACCELERATE EFFECTIVE
 11 DATE.—Notwithstanding paragraph (1), a State
 12 may elect to have the amendments made by the pre-
 13 ceding provisions of this section apply to the State
 14 and to amounts collected by the State (and to pay-
 15 ments under parts A and D of title IV of such Act),
 16 on and after such date as the State may select that
 17 is not later than September 30, 2009.

18 **SEC. 106. GRANTS TO STATES TO CONDUCT DEMONSTRA-**
 19 **TION PROJECTS TO PROMOTE ECONOMIC OP-**
 20 **PORTUNITY FOR LOW-INCOME PARENTS.**

21 (a) COURT-SUPERVISED OR IV-D AGENCY-SUPER-
 22 VISED EMPLOYMENT PROGRAMS FOR NONCUSTODIAL
 23 PARENTS.—

24 (1) IN GENERAL.—The Secretary of Health and
 25 Human Services shall award grants to States to con-

1 duct demonstration projects to establish, in coordi-
2 nation with counties and other local or tribal govern-
3 ments, court-supervised or IV–D agency supervised-
4 employment programs for noncustodial parents who
5 have barriers to employment and a history of non-
6 payment of child support obligations, as determined
7 by a court or the IV–D agency, and who are deter-
8 mined by the court or agency to be in need of em-
9 ployment services or placement in order to pay such
10 child support obligations. A noncustodial parent de-
11 scribed in the preceding sentence who is an ex-of-
12 fender shall be eligible to participate in a program
13 established under this subsection.

14 (2) REQUIREMENTS.—

15 (A) OPTION TO PARTICIPATE PRIOR TO
16 CONTEMPT FINDING.—A State shall not be eli-
17 gible to receive a grant under this subsection
18 unless any program established with funds
19 made available under the grant provides non-
20 custodial parents described in paragraph (1)
21 with an option to participate in the program
22 prior to the court or agency entering a finding
23 that the noncustodial parent is in contempt for
24 failure to pay a child support obligation and,
25 potentially subject to criminal penalties.

1 (B) PROGRAM GOALS.—An employment
2 program established with funds made available
3 under a grant awarded under this subsection
4 shall be designed to do the following:

5 (i) To assist noncustodial parents de-
6 scribed in paragraph (1) obtain and main-
7 tain unsubsidized employment.

8 (ii) To increase the amount of finan-
9 cial support received by children.

10 (iii) To help noncustodial parents de-
11 scribed in paragraph (1) improve relation-
12 ships with their children and their chil-
13 dren's custodial parent.

14 (C) 6 MONTHS OF CONTINUOUS, TIMELY
15 PAYMENTS.—An employment program estab-
16 lished with funds made available under this
17 subsection shall not permit a noncustodial par-
18 ent placed in the program to graduate from the
19 program and avoid penalties for failure to pay
20 a child support obligation until the noncustodial
21 parent completes at least 6 months of contin-
22 uous, timely payment of the parent's child sup-
23 port obligations.

24 (D) USE OF FUNDS.—

1 (i) Services provided under an employ-
2 ment program established with funds made
3 available under a grant made under this
4 subsection must include the following:

5 (I) Job placement, including job
6 development and supervised job search
7 as necessary.

8 (II) Case management, including
9 educational assessment and advising,
10 vocational assessment and career ex-
11 ploration services, and court liaison
12 services.

13 (III) Counseling on responsible
14 parenthood.

15 (IV) Referral for support and
16 educational services.

17 (V) Employment retention serv-
18 ices.

19 (ii) Services provided under an em-
20 ployment program established with funds
21 made available under a grant made under
22 this subsection may include the following:

23 (I) Remedial education services
24 or educational referral.

1 (II) Support funds for services
 2 such as transportation, child care, or
 3 job readiness training.

4 (III) Transitional jobs programs.

5 (IV) Public-private career path-
 6 way partnerships established in ac-
 7 cordance with subsection (b)(2).

8 (V) Occupational skill training,
 9 including college credit programs.

10 (VI) Curricula development.

11 (E) ADMINISTRATION.—A State that re-
 12 ceives a grant under this subsection may con-
 13 tract with a public or private nonprofit organi-
 14 zation, including a faith-based or community-
 15 based organization, to administer (in conjunc-
 16 tion with the court of jurisdiction or the IV–D
 17 agency) the court-supervised or IV–D agency-
 18 supervised employment program.

19 (b) TRANSITIONAL JOBS AND CAREER PATHWAYS
 20 PARTNERSHIP GRANTS.—The Secretary of Labor shall
 21 award grants to States to conduct demonstration projects
 22 to carry out one or more of the projects described in para-
 23 graphs (1) and (2).

24 (1) TRANSITIONAL JOBS GRANTS.—

1 (A) IN GENERAL.—The Secretary of Labor
2 may award grants under this subsection to es-
3 tablish and expand transitional jobs programs
4 for eligible individuals, including such programs
5 conducted by local governments, State employ-
6 ment agencies, nonprofit organizations, and
7 faith-based or community-based organizations
8 or intermediaries, that—

9 (i) combine time-limited employment
10 in transitional jobs that may be subsidized
11 with public funds, with activities that pro-
12 mote skill development and remove barriers
13 to employment, such as case management
14 services and education, training, child sup-
15 port-related services, and other activities,
16 pursuant to individual plans; and

17 (ii) provide such individuals with—

18 (I) transitional jobs placements
19 and job placement assistance, to help
20 the individuals make the transition
21 from subsidized employment in transi-
22 tional jobs to stable unsubsidized em-
23 ployment; and

1 (II) retention services after the
2 transition to unsubsidized employ-
3 ment.

4 (B) ELIGIBLE INDIVIDUALS.—For pur-
5 poses of this paragraph, the term “eligible indi-
6 viduals” means individuals within any of the
7 following categories of disproportionately chron-
8 ically unemployed individuals:

9 (i) Individuals who have attained age
10 16, but not attained age 36, and who have
11 documented barriers to employment such
12 as lack of a high school diploma, limited
13 English proficiency, aging out of foster
14 care, or offender status, particularly such
15 individuals who are parents or expectant
16 parents.

17 (ii) Formerly incarcerated individuals.

18 (iii) Homeless or formerly homeless
19 individuals.

20 (iv) Individuals with disabilities.

21 (v) Individuals designated by a court
22 or the IV–D agency to participate in tran-
23 sitional jobs programs.

24 (C) LIMITATIONS ON USE OF FUNDS.—

1 (i) ALLOWABLE ACTIVITIES.—A State
 2 that receives a grant under this paragraph
 3 (or a subgrantee of such State) (referred
 4 to in this paragraph as the “program oper-
 5 ator”) shall use the funds made available
 6 under the grant to operate a transitional
 7 jobs program for eligible individuals con-
 8 sistent with the following requirements:

9 (I) JOBS.—The program oper-
 10 ator shall place eligible individuals in
 11 temporary jobs, the incomes from
 12 which may be subsidized in whole or
 13 in part with public funds. An eligible
 14 individual placed in such a job (re-
 15 ferred to in this paragraph as “a par-
 16 ticipant”) shall perform work directly
 17 for the program operator or another
 18 public, nonprofit, or private sector or-
 19 ganization (which operator or organi-
 20 zation may be referred to in this para-
 21 graph as a “worksite employer”) with-
 22 in the community involved.

23 (II) HOURS.—

24 (aa) IN GENERAL.—Subject
 25 to item (bb), the transitional jobs

1 program shall provide a partici-
2 pant with not less than 30, and
3 not more than 40, hours per
4 week of a combination of paid
5 employment and the services de-
6 scribed in subclauses (III), (IV),
7 and (V).

8 (bb) ACCOMMODATION OF
9 SPECIAL CIRCUMSTANCES.—The
10 number of hours per week re-
11 quired under item (aa) may be
12 adjusted in the case of a partici-
13 pant who requires a modified
14 work week to accommodate spe-
15 cial circumstances.

16 (III) JOB PREPARATION AND
17 SERVICES.—The program operator
18 shall—

19 (aa) develop an individual
20 plan for each participant, which
21 shall contain a goal that focuses
22 on preparation of the participant
23 for unsubsidized jobs in demand
24 in the local economy that offer
25 the potential for advancement

1 and growth (including increases
2 in wages and benefits);

3 (bb) develop transitional
4 jobs placements for participants
5 that will best prepare them for
6 jobs described in item (aa) or
7 participation in the public-private
8 career pathway partnerships es-
9 tablished in accordance with
10 paragraph (2); and

11 (cc) provide case manage-
12 ment services and ensure that
13 appropriate education, training,
14 and other activities are available
15 to participants, consistent with
16 each participant's individual
17 plan.

18 (IV) JOB PLACEMENT ASSIST-
19 ANCE AND RETENTION SERVICES.—
20 The program operator shall provide
21 job placement assistance to help par-
22 ticipants obtain unsubsidized employ-
23 ment and shall provide retention serv-
24 ices to the participants for a minimum

1 of 6 months after entry into the un-
2 subsidized employment.

3 (V) EDUCATION OR TRAINING.—

4 In any workweek in which a partici-
5 pant is scheduled to work at least 30
6 hours in the program, not less than
7 20 percent of the scheduled hours and
8 not more than 50 percent of the
9 scheduled hours shall involve partici-
10 pation in—

11 (aa) education or training
12 activities designed to improve the
13 participant's employability and
14 potential earnings;

15 (bb) other activities designed
16 to reduce or eliminate any bar-
17 riers that may impede the par-
18 ticipant's ability to secure and
19 advance in unsubsidized employ-
20 ment; or

21 (cc) activities designed to
22 promote financial literacy and the
23 use of products and services that
24 increase personal savings and
25 build financial assets for family

1 support, education, homeownership,
2 ship, and retirement.

3 (VI) DURATION.—

4 (aa) IN GENERAL.—Subject
5 to item (bb), the duration of any
6 placement in the program shall
7 be for a minimum period of 3
8 consecutive months.

9 (bb) 3-MONTH EXTENSION.—A
10 program placement
11 may be extended for up to 2 ad-
12 ditional consecutive 3-month pe-
13 riods upon the conclusion of the
14 original 3-month placement pe-
15 riod if such extension would be
16 consistent with the individual's
17 plan for transition to unsub-
18 sidized employment.

19 (VII) SUPERVISION.—The work-
20 site employer or program operator
21 shall supervise program participants,
22 consistent with the goal of addressing
23 the limited work experience and skills
24 of the participants.

1 (D) REPORTS.—Not later than 120 days
2 after the end of the grant period, the State
3 shall submit a report to the Secretary of Labor
4 that contains information on the number of
5 participants in the program who have entered
6 unsubsidized employment, the percentage of
7 program participants who are employed during
8 the second quarter after exit, the percentage of
9 program participants who are employed during
10 the fourth quarter after exit, the median earn-
11 ings of program participants during the second
12 quarter after exit, the percentage of program
13 participants who obtain an education or train-
14 ing credential during participation or within one
15 year of exit, and demographic information re-
16 garding the participants.

17 (E) TECHNICAL ASSISTANCE.—The Sec-
18 retary of Labor shall enter into contracts with
19 entities with demonstrated experience in the
20 provision of transitional jobs to provide tech-
21 nical assistance to the program operators and
22 worksite employers for the programs assisted
23 under this paragraph.

24 (2) PUBLIC-PRIVATE CAREER PATHWAYS PART-
25 NERSHIPS.—

1 (A) IN GENERAL.—To allow workforce
2 education providers representing career path-
3 way partnerships—

4 (i) to create or expand career path-
5 ways, with groups of employers in specific
6 industry or occupational sectors, for dis-
7 advantaged workers, which may include
8 any mix of such employers’ existing lower
9 wage employees, new hires or potential
10 hires; or

11 (ii) to fill in gaps in career pathways
12 in particular localities or regions as needed
13 to ensure that career pathways are acces-
14 sible to unemployed disadvantaged workers
15 and at risk youth who have lower skills or
16 limited English proficiency, including
17 through the creation of workforce edu-
18 cation services, such as “bridge” programs
19 that contextualize basic skills, English lan-
20 guage, or college remedial education serv-
21 ices to specific career pathways, and ef-
22 forts to create opportunities for gaining
23 work experience in a career pathway.

24 (B) USE OF FUNDS.—Funds made avail-
25 able under a grant under this paragraph may

1 be used by career pathways partnerships for
 2 any expense reasonably related to the accom-
 3 plishment of the specific objectives of the part-
 4 nership and the purpose described in this para-
 5 graph, including any of the activities described
 6 in subsection (a)(2)(D).

7 (C) LIMITATIONS.—

8 (i) IN GENERAL.—Of the funds made
 9 available to a career pathway partnership
 10 to carry out the purpose described in this
 11 paragraph—

12 (I) not more than 30 percent of
 13 such funds may be used to pay or
 14 subsidize wages during a period of
 15 work experience or internship, not to
 16 exceed 90 days; and

17 (II) not more than 10 percent of
 18 such funds may be used for adminis-
 19 trative purposes, but this limitation
 20 shall not apply to activities related to
 21 building and maintaining partner-
 22 ships, including such activities as con-
 23 ducting workforce needs assessments,
 24 brokering public-private and inter-
 25 agency agreements, creating cus-

1 tomized curricula, and developing
2 work experience opportunities.

3 (ii) PROHIBITION ON SUBSIDIZING
4 WAGES OF CURRENT EMPLOYEES.—No
5 funds made available to carry out this
6 paragraph shall be used to subsidize the
7 wages of any individual who, as of the date
8 of the establishment of the career pathway
9 partnership, is an employee of any em-
10 ployer participating in the partnership.

11 (D) REQUIREMENTS FOR AWARDING OF
12 SUBGRANTS.—

13 (i) IN GENERAL.—Funds shall be
14 made available to career pathway partner-
15 ships to carry out the purpose described in
16 this paragraph based on a performance-
17 based accountability system that includes
18 the following measures of performance:

19 (I) The number of individuals to
20 be trained.

21 (II) The percentage of such indi-
22 viduals who complete the program.

23 (III) The percentage of such in-
24 dividuals who enter or advance in em-
25 ployment.

1 (IV) The wage and benefit gains
2 of individuals who complete the pro-
3 gram before and within 6 months
4 after their program completion, in-
5 cluding the extent to which the indi-
6 viduals achieved economic self-suffi-
7 ciency.

8 (V) The percentage of individuals
9 who complete the program and enter
10 employment who retain employment
11 for at least 6 months.

12 (VI) Where applicable, the per-
13 centage of individuals who owe child
14 support and complete the program
15 who improve in their payment of child
16 support within 6 months after their
17 program completion.

18 In establishing goals for such measures,
19 due consideration shall be given to the edu-
20 cation, work experience, and job readiness
21 of the individuals expected to participate in
22 the program; the barriers of such individ-
23 uals to employment, and the local job mar-
24 ket.

1 (ii) CONSIDERATIONS FOR FUNDING
2 RENEWALS.—A subgrantee’s level of suc-
3 cess in achieving employment, advance-
4 ment, wage, and employment retention
5 goals shall be a primary consideration for
6 determining whether to renew a grant
7 made to such entity and the funding level
8 for such grant.

9 (iii) PRIORITIES FOR AWARDS OF SUB-
10 GRANTS.—In awarding subgrants under
11 this paragraph, a State shall give priority
12 to applications that—

13 (I) propose to serve areas of high
14 poverty, high youth unemployment,
15 high drop out rates, or high rates of
16 low-income single-parent families;

17 (II) include a substantial cash or
18 in-kind match by all employers, in-
19 cluding joint labor-management pro-
20 grams where applicable, in the part-
21 nerships, such as paid release time for
22 employed workforce education partici-
23 pants;

24 (III) use instructional materials
25 and instructors directly used in the

1 specific business or industry sectors of
2 the partnership employers;

3 (IV) link successful completion of
4 workforce education services to wage
5 increases, promotions or job hires;

6 (V) will result in attainment of
7 employer-recognized occupational and
8 educational credentials;

9 (VI) address career guidance and
10 adult basic education and English lan-
11 guage needs as well as job-specific
12 skills;

13 (VII) demonstrate a blending of
14 resources from partner agencies in the
15 workforce system and other sectors
16 and Federal programs, including su-
17 perior procedures for coordinating re-
18 sponsible fatherhood promotion activi-
19 ties, where appropriate, to support the
20 development of high quality pathways;

21 (VIII) identify how the sub-
22 grantee will maximize services to un-
23 employed disadvantaged workers who
24 also face other barriers in the labor
25 market, such as high school dropout,

1 offender status, aging out of foster
2 care, low basic skill level, including
3 limited English proficiency, learning
4 disabilities, physical, emotional or be-
5 havior disabilities, or substance abuse
6 recovery, which may be through direct
7 relationships with local providers of
8 transitional jobs programs under
9 which in appropriate circumstances
10 transitional jobs participants may ac-
11 cess career pathways programs upon
12 completion of the transitional jobs
13 program; and

14 (IX) support collaboration, as ap-
15 propriate, between employers and
16 labor organizations and other work-
17 force development professionals, in-
18 cluding joint labor management train-
19 ing and education programs where ap-
20 propriate.

21 (E) DEFINITIONS.—In this paragraph:

22 (i) ADULT EDUCATION.—The term
23 “adult education” has the meaning given
24 that term in section 203 of the Workforce
25 Investment Act of 1998 (20 U.S.C. 9202).

1 (ii) CAREER PATHWAY.—The term
2 “career pathway” means a linked set of
3 workforce education and job opportunities
4 within a specific industry sector, or for an
5 occupational sector that cuts across mul-
6 tiple business and industry sectors, which
7 begins at the lowest skill and English lan-
8 guage levels, and extends through for-cred-
9 it college opportunities such as earning rel-
10 evant associate or bachelor’s degrees, and
11 prepares individuals for advancement in
12 jobs in demand in the local or regional
13 labor market.

14 (iii) COMMUNITY-BASED PROVIDER.—
15 The term “community-based provider”
16 means a not-for-profit organization, with
17 local boards of directors, that directly pro-
18 vides workforce education services.

19 (iv) INSTITUTION OF HIGHER EDU-
20 CATION.—The term “institution of higher
21 education” has the meaning given that
22 term in section 101 of the Higher Edu-
23 cation Act of 1965 (20 U.S.C. 1001).

24 (v) CHARTER SCHOOL.—The term
25 “charter school” has the meaning given

1 that term in section 5210 of the Elemen-
 2 tary and Secondary Education Act of 1965
 3 (20 U.S.C. 7221i).

4 (vi) AREA VOCATIONAL EDUCATION
 5 SCHOOL.—The term “area vocational and
 6 technical education school” has the mean-
 7 ing given that term in section 3 of the Carl
 8 D. Perkins Vocational and Technical Edu-
 9 cation Act of 1998 (20 U.S.C. 2302).

10 (vii) DISADVANTAGED WORKERS.—
 11 The term “disadvantaged workers” means
 12 unemployed individuals in low-income
 13 households or employed individuals in low-
 14 income households with wages at or below
 15 $\frac{2}{3}$ of the median wage for the State or re-
 16 gion applying for the grant.

17 (viii) CAREER PATHWAY PARTNER-
 18 SHIP.—The term “career pathway partner-
 19 ship” means collaborations of 1 or more
 20 workforce education providers, 1 or more
 21 employers, 1 or more labor organizations,
 22 where applicable, as a result of such orga-
 23 nization’s representation of employees at
 24 the worksite who have skills in which the
 25 training or employment programs are pro-

posed, and may include optional additional entities as needed to provide a comprehensive range of workforce education and ancillary support services.

(ix) WORKFORCE EDUCATION.—The term “workforce education” means a set of career guidance and exploration services, adult education and English language services, job training, registered apprenticeship programs, and credit and non-credit post-secondary education services aimed at preparing individuals to enter and sustain employment in specific occupations and to have the sufficient skills to respond to shifting employment opportunities.

(x) WORKFORCE EDUCATION PROVIDER.—The term “workforce education provider” means community-based providers, institutions of higher education, area vocational and technical education schools, charter schools, and other public nonprofit entities that have a demonstrated capacity to provide quality workforce education services.

(c) MATCHING REQUIREMENT.—

1 (1) IN GENERAL.—The Secretary of Health and
 2 Human Services and the Secretary of Labor may
 3 not award a grant to a State under this section un-
 4 less the State agrees that, with respect to the costs
 5 to be incurred by the State in conducting a dem-
 6 onstration project with funds provided under the
 7 grant, the State will make available non-Federal
 8 contributions in an amount equal to 10 percent of
 9 the amount of Federal funds paid to the State under
 10 such grant.

11 (2) NON-FEDERAL CONTRIBUTIONS.—In this
 12 subsection, the term “non-Federal contributions” in-
 13 cludes contributions by the State and by public and
 14 private entities that may be in cash or in kind, but
 15 does not include any amounts provided by the Fed-
 16 eral Government, or services assisted or subsidized
 17 to any significant extent by the Federal Government,
 18 or any amount expended by a State before October
 19 1, 2007.

20 (d) WORKER PROTECTIONS AND LABOR STAND-
 21 ARDS.—

22 (1) RATE OF PAY; BENEFITS AND WORKING
 23 CONDITIONS.—

24 (A) IN GENERAL.—A worksite employer of
 25 a participant in a program or activity funded

under this section shall pay the participant at the rate paid to employees of the worksite employer who are not participants in such program or activity and who perform comparable work at the worksite, including periodic increases where appropriate. If no other employees of the worksite employer perform comparable work at the worksite, the worksite employer shall pay the participant not less than the applicable Federal or State minimum wage, whichever is higher.

(B) BENEFITS AND CONDITIONS.—An individual employed through participation in a program or activity funded under this section shall be provided with benefits and working conditions at the same level and to the same extent as such benefits and conditions are provided to other employees of the employer of the individual who have worked a similar length of time and perform the same work

(2) NONDUPLICATION.—

(A) IN GENERAL.—Funds provided through a grant made under this paragraph shall be used only for a program or activity that does not duplicate, and is in addition to, a pro-

1 gram or activity otherwise available in the local-
2 ity of the program or activity funded under this
3 section.

4 (B) PRIVATE, NONPROFIT ENTITY.—Funds
5 provided through a grant made under this sec-
6 tion shall not be provided to a private nonprofit
7 entity to conduct programs or activities that are
8 the same as or substantially equivalent to ac-
9 tivities provided by a State or local government
10 agency in the area in which such entity is lo-
11 cated, unless the requirements of paragraph (3)
12 are met.

13 (3) NONDISPLACEMENT.—

14 (A) IN GENERAL.—A worksite employer
15 shall not displace an employee or position (in-
16 cluding partial displacement such as reduction
17 in hours, wages, or employment benefits) or im-
18 pair contracts for services or collective bar-
19 gaining agreements, as a result of the use by
20 such employer of a participant in a program or
21 activity funded under this section, and no par-
22 ticipant in the program or activity shall be as-
23 signed to fill any established unfilled position
24 vacancy.

1 (B) JOB OPPORTUNITIES.—A job oppor-
2 tunity shall not be created under this paragraph
3 that will infringe in any manner on the pro-
4 motional opportunity of an employed individual.

5 (C) LIMITATION ON SERVICES.—

6 (i) SUPPLANTATION OF HIRING.—A
7 participant in any program or activity
8 funded under this section shall not perform
9 any services or duties, or engage in activi-
10 ties, that will supplant the hiring of em-
11 ployees that are not participants in the
12 program or activity.

13 (ii) DUTIES FORMERLY PERFORMED
14 BY ANOTHER EMPLOYEE.—A participant
15 in any program or activity funded under
16 this section shall not perform services or
17 duties, or engage in activities, that are
18 services, duties, or activities that had been
19 performed by or were assigned to any em-
20 ployee who recently resigned or was dis-
21 charged, who is subject to a reduction in
22 force, who has recall rights pursuant to a
23 collective bargaining agreement or applica-
24 ble personnel procedures, who is on leave
25 (such as terminal, temporary, vacation,

1 emergency, or sick leave), who is on strike,
2 or who is being locked out.

3 (D) CONCURRENCE OF LOCAL LABOR OR-
4 GANIZATION.—No placement shall be made
5 under a program or activity funded under this
6 section until the entity conducting the program
7 or activity has obtained the written concurrence
8 of any local labor organization representing em-
9 ployees who are engaged in the same or sub-
10 stantially similar work as that proposed to be
11 carried out for the worksite employer with
12 whom a participant is to be placed under the
13 program or activity.

14 (4) NO IMPACT ON UNION ORGANIZING.—A
15 State conducting a demonstration project funded
16 under this section and any entity conducting a pro-
17 gram or activity funded under this section shall pro-
18 vide the Secretary with a certified assurance that
19 none of such funds shall be used to assist or deter
20 union organizing.

21 (5) ACCOUNTABILITY.—

22 (A) IN GENERAL.—Funds provided under
23 this section shall not be used to subsidize train-
24 ing or employment with an employer that has
25 a demonstrable record of noncompliance with

1 Federal labor, civil rights, workplace safety, or
2 related laws.

3 (B) CERTIFIED SATISFACTORY RECORD.—
4 Employers who receive training or wage sub-
5 sidies under programs or activities funded
6 under this section shall have a satisfactory
7 record in labor relations and employment prac-
8 tices, as certified by the Secretary of Labor.

9 (C) APPLICATION OF WORKER PROTEC-
10 TION LAWS.—A participant in a program or ac-
11 tivity funded under this section shall be consid-
12 ered to be an employee of any employer that
13 the participant is placed with for all purposes
14 under Federal and State law, including laws re-
15 lating to health and safety, civil rights, and
16 worker's compensation.

17 (D) OTHER JOB QUALITY STANDARDS.—
18 Employers who receive training or wage sub-
19 sidies under programs or activities funded
20 under this section shall meet all applicable
21 State or local job or employer quality standards
22 regarding such issues as wages, benefits, ad-
23 vancement opportunities, and turnover rates es-
24 tablished for programs funded under the Work-

1 force Investment Act of 1998 (29 U.S.C. 2801
2 et seq.).

3 (6) GRIEVANCE PROCEDURE.—An entity con-
4 ducting a program or activity funded under this sec-
5 tion shall establish and maintain a procedure for the
6 filing and adjudication of grievances by employees of
7 worksite employers who are not participants in the
8 program, or such employees’ representatives, or by
9 participants in such a program or activity alleging a
10 violation of a provision of this subsection that is
11 similar to the grievance procedure established by a
12 State for purposes of section 407(f)(3) of the Social
13 Security Act (42 U.S.C. 607(f)(3)).

14 (7) NONPREEMPTION OF STATE LAW.—The
15 provisions of this subsection shall not be construed
16 to preempt any provision of State law that affords
17 greater protections to employees or participants than
18 are afforded by this subsection.

19 (8) TREATMENT OF AMOUNTS PAID TO PAR-
20 TICIPANTS.—Amounts paid to a participant in a
21 program or activity funded under this section shall
22 be—

23 (A) considered earned income for purpose
24 of determining the participant’s eligibility for
25 the child tax credit established under section 24

1 of the Internal Revenue Code of 1986, the
 2 earned income tax credit established under sec-
 3 tion 32 of such Code, and any other tax benefit
 4 established under such Code the eligibility for
 5 which is based on earned income; and

6 (B) disregarded for purposes of deter-
 7 mining the participant's, the participant's fam-
 8 ily's, or the participant's household's eligibility
 9 for, or amount of, assistance or benefits pro-
 10 vided under any means-tested program funded
 11 in whole or in part with Federal funds.

12 (e) APPLICATION.—

13 (1) REQUIREMENTS FOR ALL APPLICATIONS.—

14 (A) IN GENERAL.—A State desiring to re-
 15 ceive a grant to conduct a demonstration
 16 project under this section shall submit an appli-
 17 cation—

18 (i) to the Secretary of Health and
 19 Human Services, in the case of a grant
 20 under subsection (a); or

21 (ii) to the Secretary of Labor, in the
 22 case of a grant under subsection (b);

23 at such time, in such manner, and containing
 24 such information or assurances as the Secretary

1 of Health and Human Services or the Secretary
2 of Labor, as appropriate, may require.

3 (B) COMPLIANCE WITH WORKER PROTEC-
4 TIONS AND LABOR STANDARDS.—The applica-
5 tion shall include an assurance that the State
6 and any entity conducting a program or activity
7 under the project shall comply with the worker
8 protections and labor standards established in
9 accordance with such protections under sub-
10 section (d).

11 (C) NONDISCRIMINATION.—The applica-
12 tion shall include an assurance that the State
13 and any entity conducting a program or activity
14 under the demonstration project shall comply
15 with section 188(a)(2) of the Workforce Invest-
16 ment Act of 1998 (29 U.S.C. 2938(a)(2)) to
17 the same extent that such section would apply
18 to the entity if the program or activity con-
19 ducted under the demonstration project was
20 considered to be funded or otherwise financially
21 assisted under that Act.

22 (D) ASSURANCE GRANT WILL SUPPLE-
23 MENT, NOT SUPPLANT, OTHER STATE FUND-
24 ING.—The application shall include an assur-
25 ance from the chief executive officer of the

1 State that funds made available under the
 2 grant will supplement, and not supplant, other
 3 funds used by the State to establish or support
 4 employment placements for low-income parents.

5 (2) SPECIFIC DEMONSTRATION PROJECT RE-
 6 QUIREMENTS.—

7 (A) COURT-SUPERVISED OR IV-D AGENCY-
 8 SUPERVISED EMPLOYMENT PROGRAMS FOR
 9 NONCUSTODIAL PARENTS.—In order to conduct
 10 a demonstration project described in subsection
 11 (a), a State shall include in the application sub-
 12 mitted to the Secretary of Health and Human
 13 Services the following:

14 (i) Evidence of an agreement between
 15 the State and 1 or more counties to estab-
 16 lish an employment program that meets
 17 the requirements of subsection (a).

18 (ii) The number of potential noncusto-
 19 dial parents to be served by the program.

20 (iii) The purposes specific to that
 21 State's program.

22 (iv) The median income of the target
 23 population.

24 (B) PUBLIC-PRIVATE CAREER PATHWAYS
 25 PARTNERSHIPS.—In order to conduct a dem-

1 onstration project described in paragraph (2) of
2 subsection (b), a State shall include in the ap-
3 plication submitted to the Secretary of Labor a
4 description of—

5 (i) the number, characteristics, and
6 employment and earnings status of dis-
7 advantaged individuals in the State or ap-
8 plicable region where the program is to be
9 conducted;

10 (ii) which business and industry sec-
11 tors, or occupational clusters that cut
12 across sectors, will be targeted by the ca-
13 reer pathways partnership, based on over-
14 all economic benefit to the community, the
15 current and future demand for workers,
16 the advancement opportunities for workers,
17 the wages at each step of the career path-
18 way, and availability of worker benefits;

19 (iii) the interventions that will be put
20 in place to address any educational defi-
21 cits, limited English proficiency, or learn-
22 ing disabilities of individuals who partici-
23 pate in the program and to ensure that
24 such individuals have the academic, tech-
25 nical, communications, and other job skills

1 to function in the jobs targeted by the
2 partnership;

3 (iv) how the members of the partner-
4 ship will collaborate on the development of
5 curriculum and delivery of training that
6 will provide the necessary occupational,
7 academic and other work-related skills and
8 credentialing needed for the specific labor
9 market areas;

10 (v) the supports that will be used to
11 provide counseling, mentoring or other
12 support to individuals while in training or
13 to assist them in navigating in complicated
14 work environments;

15 (vi) the set of career exposure activi-
16 ties that will be put in place to provide
17 hands-on experience such as work experi-
18 ence, on the job training, internships, or
19 work-study;

20 (vii) the agreements that are in place
21 with employers, industry groups, and labor
22 organizations, where applicable, to ensure
23 access to jobs and advancement opportuni-
24 ties in the targeted businesses, industry or
25 occupations;

1 (viii) how the workforce education
2 providers in the partnership will assess the
3 employment barriers and needs of local
4 disadvantaged individuals who participate
5 in the program and will identify resources
6 for meeting those needs;

7 (ix) how the workforce education pro-
8 viders will work with partnership employ-
9 ers, business and industry groups, labor
10 organizations, where applicable, and local
11 economic development organizations to
12 identify the priority workforce needs of the
13 local industry;

14 (x) how the partnerships will ensure
15 that the appropriate program delivery
16 models and formal agreements are in place
17 to ensure maximum benefits to the individ-
18 uals receiving career pathway partnership
19 services and to the employers and labor or-
20 ganizations, where applicable, in the part-
21 nership and the industries or businesses
22 they represent;

23 (xi) how partnership employers and
24 labor organizations, where applicable, will
25 be actively involved in identifying specific

workforce education needs, planning the curriculum, assisting in training activities, providing job opportunities, and coordinating job retention for individuals hired after training through the program and follow-up support; and

(xii) how the partnership will build on existing career pathways programs, where applicable, to serve the targeted population.

(3) APPLICATIONS BY INDIAN TRIBES OR TRIBAL ORGANIZATIONS.—The Secretary of Health and Human Services and the Secretary of Labor may exempt an Indian tribe or tribal organization from any requirement of this section that the Secretary of Health and Human Services or the Secretary of Labor determines would be inappropriate to apply to the Indian tribe or tribal organization, taking into account the resources, needs, and other circumstances of the Indian tribe or tribal organization.

(f) PRIORITIES AND REQUIREMENTS FOR AWARDING GRANTS.—

(1) IN GENERAL.—Subject to paragraphs (2) and (3), the Secretary of Health and Human Serv-

ices (in the case of a grant under subsection (a))
 and the Secretary of Labor (in the case of a grant
 under subsection (b)) shall give priority to making
 grants under this section to entities that—

(A) demonstrate success with respect to
 meeting the goals of quality job placement,
 long-term unsubsidized job retention, and,
 where applicable, increasing child support pay-
 ments, decreasing unpaid child support arrear-
 ages, and increasing the involvement of low-in-
 come noncustodial parents with their children
 through their participation in responsible fa-
 therhood activities, including participation in
 programs that provide culturally-relevant cur-
 ricula in core subjects including—

- (i) conducting activities with children;
- (ii) improving communication skills;
- (iii) child support management;
- (iv) providing financially for the fam-
 ily's security and well-being;
- (v) managing stress and anger;
- (vi) maintaining physical and mental
 health;
- (vii) parenting and relationship skills;
- (viii) child development; and

1 (ix) barriers to responsible parent-
2 hood, including substance abuse, unem-
3 ployment, criminal justice system involve-
4 ment, and inadequate housing; and

5 (B) coordinate with, and link individuals
6 as applicable to, other public and private bene-
7 fits and employment services for low-income
8 adults among the different systems or programs
9 in which such adults are involved, including the
10 criminal justice system, the State programs
11 funded under each part of title IV of the Social
12 Security Act (42 U.S.C. 601 et seq.) (including
13 programs and activities funded under section
14 403(a)(2) of the Social Security Act (42 U.S.C.
15 603(a)(2)), educational assistance and student
16 aid programs, and job training or employment
17 programs, including State employment agencies.

18 (2) PERFORMANCE MEASURES.—In making
19 grants under this section, the Secretary of Health
20 and Human Services (in the case of a grant under
21 subsection (a)) and the Secretary of Labor (in the
22 case of a grant under subsection (b)) shall ensure
23 that grantees demonstrate a plan for implementing
24 measures to track their performance with respect to
25 meeting the goals of quality job placement, long-

1 term unsubsidized job retention, and, where applica-
2 ble, increasing child support payments, decreasing
3 child support arrearages, and increasing the involve-
4 ment of low-income noncustodial parents with their
5 children.

6 (3) REFLECTIVE OF TARGET POPULATIONS.—

7 In making grants under this section, the Secretary
8 of Health and Human Services (in the case of a
9 grant under subsection (a)) and the Secretary of
10 Labor (in the case of a grant under subsection (b))
11 shall give priority to States with proposed dem-
12 onstration projects that are designed to target low-
13 income adults, including custodial and noncustodial
14 parents, and low-income married couples.

15 (4) SUBSTANTIAL FUNDING FOR EACH OF THE

16 PURPOSES.—In making grants under subsection (b),
17 the Secretary of Labor shall ensure that a substan-
18 tial share of the amount appropriated under sub-
19 section (j) for a fiscal year is used for carrying out
20 each of the projects described in paragraphs (1) and
21 (2) of subsection (b).

22 (g) REGULATORY AND POLICY FLEXIBILITY.—The

23 Secretary of Labor and the Secretary of Health and
24 Human Services, in coordination with the Secretary of
25 Education and the Attorney General, shall work with

1 grantees under this section to resolve policy barriers that
 2 may impede blending of federal resources to support these
 3 demonstration projects.

4 (h) EVALUATION.—The Secretary of Health and
 5 Human Services (in the case of a grant under subsection
 6 (a)) and the Secretary of Labor (in the case of a grant
 7 under subsection (b)) shall provide for an independent and
 8 rigorous evaluation of the demonstration projects con-
 9 ducted under this section that includes, to the maximum
 10 extent feasible, random assignment or other appropriate
 11 statistical techniques, in order to assess the effectiveness
 12 of the projects.

13 (i) GENERAL DEFINITIONS.—In this section:

14 (1) STATE.—The term “State” means each of
 15 the 50 States, the District of Columbia, the Com-
 16 monwealth of Puerto Rico, the United States Virgin
 17 Islands, Guam, American Samoa, and includes an
 18 Indian tribe or tribal organization.

19 (2) IV–D AGENCY.—The term “IV–D agency”
 20 means the State or local agency responsible for ad-
 21 ministering the State program established under
 22 part D of title IV of the Social Security Act (42
 23 U.S.C. 651 et seq.).

24 (3) INDIAN TRIBE; TRIBAL ORGANIZATION.—
 25 The terms “Indian tribe” and “tribal organization”

1 have the meaning given such terms in section 4 of
2 the Indian Self-Determination and Education Assist-
3 ance Act (25 U.S.C. 450b).

4 (j) APPROPRIATION.—Out of any money in the
5 Treasury of the United States not otherwise appropriated,
6 there are appropriated to carry out this section—

7 (1) for programs administered by the Secretary
8 of Health and Human Services under subsection (a),
9 \$15,000,000 for each of fiscal years 2008 through
10 2010; and

11 (2) for programs administered by the Secretary
12 of Labor under subsection (b), \$35,000,000 for each
13 of fiscal years 2008 through 2010.

14 **SEC. 107. STATE ASSESSMENTS OF BARRIERS TO EMPLOY-**
15 **MENT AND FINANCIAL SUPPORT OF CHIL-**
16 **DREN.**

17 (a) STATE ASSESSMENTS AND REPORTS.—As a con-
18 dition of the continued approval of a State plan under part
19 D of title IV of the Social Security Act (42 U.S.C. 651
20 et seq.), each State with an approved such plan, acting
21 through the appropriate State agencies, shall assess the
22 State policies with respect to the issues described in sub-
23 section (b) and submit a report to the Secretary of Health
24 and Human Services on the results of such assessment
25 not later than March 15, 2008.

1 (b) ISSUES DESCRIBED.—For purposes of subsection
2 (a), the issues described in this subsection are the fol-
3 lowing:

4 (1) The process of setting and modifying child
5 support obligations, particularly with respect to low-
6 income parents, including—

7 (A) the role and criteria for using imputed
8 income in determining child support obligations;

9 (B) the process of modifying obligations;

10 (C) the consideration of income and em-
11 ployment status, including efforts to identify
12 unreported income;

13 (D) the consideration of incarceration;

14 (E) the consideration of disability;

15 (F) the treatment of arrearages, including
16 interest charged, and laws or procedures that
17 interfere with forgiveness, adjustment, waiver,
18 or compromise of arrears owed to the State by
19 low-income noncustodial parents who lack suffi-
20 cient ability to pay such arrearages;

21 (G) the procedures related to retroactive
22 support; and

23 (H) State pass-through and disregard poli-
24 cies for recipients of means tested public bene-
25 fits.

1 (2) The impact of state criminal laws and law
2 enforcement practices on the employment acquisi-
3 tion, retention, and advancement prospects of indi-
4 viduals following arrest, conviction, or incarceration,
5 including—

6 (A) any efforts, including counseling or
7 employment support, to assist ex-prisoners with
8 reentry to a community and successful reunifi-
9 cation with their families; and

10 (B) an assessment of any efforts to seal or
11 expunge arrest and conviction records and any
12 efforts to grant certificates or other acknowl-
13 edgments of rehabilitation to ex-prisoners, and
14 to examine State occupational licensing and cer-
15 tification procedures.

16 (3) An assessment of the impact of debt on em-
17 ployment retention, including child support and non-
18 child support debts imposed to recover costs related
19 to welfare and criminal justice.

20 (4) An assessment of State practices related to
21 providing prisoners and ex-prisoners with valid iden-
22 tification documents upon release from prison.

23 (5) Identification of any other barriers to
24 healthy family formation or sustainable economic op-
25 portunity for custodial and noncustodial parents that

1 are created or exacerbated by Federal or State laws,
2 policies, or procedures, including an examination of
3 the rules of Federal and State means-tested pro-
4 grams, the operation of the State workforce system,
5 the availability of financial education services, and
6 the availability of domestic violence services and
7 child support procedures to help victims of domestic
8 violence stay safe and obtain the child support they
9 are owed.

10 (c) GRANTS TO STATES FOR COMMISSIONS ON STATE
11 LAW IMPROVEMENTS IN THE BEST INTEREST OF CHIL-
12 DREN AND FAMILIES.—The Secretary of Health and
13 Human Services shall award grants to States to establish
14 or support commissions to review the State assessment
15 conducted in accordance with subsection (a) and to make
16 recommendations on ways to improve State law in the best
17 interest of children and families.

18 (d) APPROPRIATIONS.—Out of any money in the
19 Treasury of the United States not otherwise appropriated,
20 there are appropriated to the Secretary of Health and
21 Human Services for the period of fiscal years 2008
22 through 2009, \$3,000,000, to remain available until ex-
23 pended, for the purpose of making—

1 (1) payments to States to offset all or a portion
 2 of the costs of conducting the State assessments and
 3 reports required under subsection (a); and

4 (2) grants to States under subsection (c).

5 **SEC. 108. COLLECTION OF CHILD SUPPORT UNDER THE**
 6 **FOOD STAMP PROGRAM.**

7 (a) ENCOURAGEMENT OF COLLECTION OF CHILD
 8 SUPPORT.—Section 5 of the Food Stamp Act of 1977 (7
 9 U.S.C. 2014) is amended—

10 (1) in subsection (e)—

11 (A) by redesignating paragraphs (5) and
 12 (6) as paragraphs (6) and (7), respectively;

13 (B) in paragraph (4)(B), by striking
 14 “paragraph (6)” and inserting “paragraph
 15 (7)”; and

16 (C) by inserting after paragraph (4) the
 17 following:

18 “(5) DEDUCTION FOR CHILD SUPPORT RE-
 19 CEIVED.—

20 “(A) IN GENERAL.—A household shall be
 21 allowed a deduction of 20 percent of all legally
 22 obligated child support payments received from
 23 an identified or putative parent of a child in the
 24 household if that parent is not a household
 25 member.

1 “(B) ORDER OF DETERMINING DEDUC-
 2 TIONS.—A deduction under this paragraph shall
 3 be determined before the computation of the ex-
 4 cess shelter deduction under paragraph (7).”;
 5 and

6 (2) in subsection (k)(4)(B), by striking “sub-
 7 section (e)(6)” and inserting “subsection (e)(7)”.

8 (b) SIMPLIFIED VERIFICATION OF CHILD SUPPORT
 9 PAYMENTS.—Section 5(n) of the Food Stamp Act of 1977
 10 (7 U.S.C. 2014(n)) is amended—

11 (1) in the subsection heading, by striking
 12 “STATE OPTIONS TO SIMPLIFY”, and inserting
 13 “SIMPLIFIED”; and

14 (2) by striking “Regardless of whether” and in-
 15 serting the following:

16 “(1) IN GENERAL.—A household that is paying
 17 legally obligated child support through the program
 18 under part D of title IV of the Social Security Act
 19 (42 U.S.C. 651 et seq.) shall receive—

20 “(A) a deduction under subsection (e)(4);
 21 or

22 “(B) an exclusion for paid child support
 23 under subsection (d)(3).

24 “(2) STATE OPTIONS.—Regardless of whether”.

1 (c) INCLUSION OF ECONOMIC OPPORTUNITIES PRO-
 2 GRAMS IN DEFINITION OF WORK PROGRAM.—Section
 3 6(o)(2) of the Food Stamp Act of 1977 (7 U.S.C.
 4 2015(o)(2)) is amended—

5 (1) in subparagraph (C), by striking “or” at
 6 the end;

7 (2) in subparagraph (D), by striking the period
 8 at the end and inserting “; or”; and

9 (3) by adding at the end the following:

10 “(E) participate in and comply with the re-
 11 quirements of a demonstration project under
 12 section 106 of the Responsible Fatherhood and
 13 Healthy Families Act of 2007;”.

14 (d) EFFECTIVE DATE.—

15 (1) IN GENERAL.—This section and the amend-
 16 ments made by this section take effect on October
 17 1, 2007.

18 (2) STATE OPTION.—A State may implement
 19 the amendments made by subsections (a) and (b) for
 20 participating households at the first recertification of
 21 the households that occurs on or after October 1,
 22 2007.

1 **TITLE II—REVENUE PROVISIONS**

2 **SEC. 201. MODIFICATIONS TO THE EARNED INCOME TAX**

3 **CREDIT.**

4 (a) INCREASE IN EARNED INCOME CREDIT FOR
5 WORKERS WITH NO QUALIFYING CHILDREN.—

6 (1) EARNED INCOME AMOUNT.—

7 (A) IN GENERAL.—The table under section
8 32(b)(2)(A) of the Internal Revenue Code of
9 1986 is amended by striking “\$4,220” and in-
10 serting “\$7,250”.

11 (B) TRANSITION FOR EARNED INCOME
12 AMOUNT.—Section 32(b)(2) of such Code is
13 amended by adding at the end the following
14 new subparagraph:

15 “(C) TRANSITION FOR EARNED INCOME
16 AMOUNT.—For purposes of subparagraph (A),
17 in lieu of the earned income amount specified
18 for eligible individuals with no qualifying chil-
19 dren, the earned income amount for such indi-
20 viduals for 2008 is \$5,900, for 2009 is \$6,200,
21 for 2010 is \$6,500, and for 2011 is \$6,900.”.

22 (2) PHASEOUT AMOUNT.—

23 (A) IN GENERAL.—The table under section
24 32(b)(2)(A) of the Internal Revenue Code of
25 1986 is amended by striking “\$5,280” and in-

1 serting “phaseout amount % of annual min-
2 imum wage”.

3 (B) PHASEOUT AMOUNT PERCENTAGE.—
4 Section 32(b)(2) of such Code, as amended by
5 this Act, is amended by adding at the end the
6 following new subparagraph:

7 “(D) PHASEOUT AMOUNT PERCENTAGE.—
8 For purposes of subparagraph (A), the phase-
9 out amount percentage is 70 percent for 2008,
10 72 percent for 2009, 75 percent for 2010, 85
11 percent in 2011, and 100 percent in 2012 and
12 thereafter.”.

13 (3) ANNUAL MINIMUM WAGE.—Section 32(b)(2)
14 of such Code, as amended by this Act, is amended
15 by adding at the end the following new subpara-
16 graph:

17 “(E) ANNUAL MINIMUM WAGE.—For pur-
18 poses of subparagraph (A), the annual min-
19 imum wage for any calendar year is an amount
20 equal to the product of 2,000 and the minimum
21 hourly wage effective on January 1 of such year
22 under section 6(a)(1) of the Fair Labor Stand-
23 ards Act of 1938.”.

24 (4) INFLATION ADJUSTMENT.—

1 (A) IN GENERAL.—Section 32(j) of such
 2 Code is amended by redesignating paragraph
 3 (2) as paragraph (3) and by inserting after
 4 paragraph (1) the following new paragraph:

5 “(2) EARNED INCOME AMOUNT AND PHASEOUT
 6 AMOUNT FOR INDIVIDUALS WITH NO QUALIFYING
 7 CHILDREN.—In the case of any taxable year begin-
 8 ning after calendar year 2012, the earned income
 9 amount and the phaseout amount in effect for an el-
 10 igible individual with no qualifying children in sub-
 11 section (b)(2)(A) shall be increased by an amount
 12 equal to—

13 “(A) such amount, multiplied by

14 “(B) the cost-of-living adjustment deter-
 15 mined under section 1(f)(3) for the calendar
 16 year in which the taxable year begins, deter-
 17 mined by substituting ‘calendar year 2011’ for
 18 ‘calendar year 1992’ in subparagraph (B)
 19 thereof.”.

20 (B) CONFORMING AMENDMENT.—Section
 21 32(j)(1)(B)(i) of such Code is amended by in-
 22 serting “(other than the amount described in
 23 paragraph (2))” after “subsections (b)(2)(A)”.

24 (5) CONFORMING AMENDMENT.—Section
 25 32(b)(2)(A) of such Code is amended by striking

1 “Subject to subparagraph (B)” and inserting “Ex-
2 cept as otherwise provided in this paragraph”.

3 (6) EFFECTIVE DATE.—The amendments made
4 by this subsection shall apply to taxable years begin-
5 ning after December 31, 2007.

6 (b) ENHANCED CREDIT FOR CERTAIN WORKERS
7 WITH NO QUALIFYING CHILDREN.—

8 (1) IN GENERAL.—Section 32 of the Internal
9 Revenue Code of 1986 is amended by adding at the
10 end the following new subsection:

11 “(n) ADDITIONAL CREDIT FOR CERTAIN WORK-
12 ERS.—

13 “(1) IN GENERAL.—In the case of a qualified
14 individual, the credit allowed under subsection (a)
15 shall be increased by an amount equal to 100 per-
16 cent of the amount of the credit allowed under this
17 section (without regard to this subsection).

18 “(2) QUALIFIED INDIVIDUAL.—For purposes of
19 this subsection, the term ‘qualified individual’ means
20 an eligible individual who—

21 “(A) is described in clause (ii) of sub-
22 section (c)(1)(A),

23 “(B) is the parent of a child who meets the
24 age requirements of section 152(c)(3) before

1 the end of the taxable year of the eligible indi-
2 vidual,

3 “(C) is required to make child support
4 payments with respect to such child—

5 “(i) pursuant to an order which is in
6 effect for not less than one-half of the tax-
7 able year of such individual, and

8 “(ii) through a State agency respon-
9 sible for administering the State plan
10 under part D of title IV of the Social Secu-
11 rity Act, and

12 “(D) has paid child support during the
13 taxable year in an amount not less than the
14 amount of child support due during the taxable
15 year for every order requiring the individual to
16 make child support payments.

17 “(3) REGULATIONS.—The Secretary shall es-
18 tablish regulations to carry out the purposes of this
19 subsection, including regulations which provide for
20 the verification of the payment of child support in
21 accordance with paragraph (2)(D).”.

22 (2) VERIFICATION OF PAYMENT.—

23 (A) IN GENERAL.—The Secretary of
24 Health and Human Services, in consultation
25 with the Secretary of the Treasury, shall in-

1 clude in the Federal Case Registry of Child
2 Support Orders established under section
3 453(h) of the Social Security Act (42 U.S.C.
4 653(h)) such information as the Secretary of
5 the Treasury determines necessary to allow for
6 verification of the status of individuals as quali-
7 fied individuals (as defined under section 32(n)
8 of the Internal Revenue Code of 1986, as added
9 by paragraph (1)).

10 (B) ADDITIONAL FEDERAL PROCE-
11 DURES.—In addition to the authority provided
12 under subparagraph (A), the Secretary of
13 Health and Human Services and the Secretary
14 of the Treasury may establish such additional
15 procedures as are appropriate to ensure that
16 the Secretary of the Treasury has the informa-
17 tion that the Secretary of the Treasury needs to
18 verify payment of child support obligations in a
19 timely fashion.

20 (C) STATE PROCEDURES.—The Secretary
21 of Health and Human States, in consultation
22 with the States, shall establish procedures for
23 informing a noncustodial parent in a timely
24 fashion when the parent has paid the amount of
25 child support owed by the parent for a taxable

year so that the parent may determine the extent to which the parent is a qualified individual for purposes of qualifying for the additional credit established under section 32(n) of the Internal Revenue Code of 1986, as added by paragraph (1).

(3) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply to taxable years beginning after December 31, 2007.

(c) MARRIAGE PENALTY RELIEF.—

(1) IN GENERAL.—Clause (iii) of section 32(b)(2)(B) of the Internal Revenue Code of 1986 is amended to read as follows:

“(iii) \$4,000 in the case of taxable years beginning after 2007.”.

(2) INFLATION ADJUSTMENT.—Section 32(j)(1)(B)(ii) of such Code is amended by striking “\$3,000” and inserting “\$4,000”.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after December 31, 2007.

SEC. 202. BROKER REPORTING OF CUSTOMER'S BASIS IN SECURITIES TRANSACTIONS.

(a) IN GENERAL.—Section 6045 of the Internal Revenue Code of 1986 (relating to returns of brokers) is

1 amended by adding at the end the following new sub-
2 section:

3 “(g) ADDITIONAL INFORMATION REQUIRED IN THE
4 CASE OF SECURITIES TRANSACTIONS.—

5 “(1) IN GENERAL.—If a broker is otherwise re-
6 quired to make a return under subsection (a) with
7 respect to any applicable security, the broker shall
8 include in such return the information described in
9 paragraph (2).

10 “(2) ADDITIONAL INFORMATION REQUIRED.—

11 “(A) IN GENERAL.—The information re-
12 quired under paragraph (1) to be shown on a
13 return with respect to an applicable security of
14 a customer shall include for each reported ap-
15 plicable security the customer’s adjusted basis
16 in such security.

17 “(B) EXEMPTION FROM REQUIREMENT.—

18 The Secretary shall issue such regulations or
19 guidance as necessary concerning the applica-
20 tion of the requirement under subparagraph (A)
21 in cases in which a broker in making a return
22 does not have sufficient information to meet
23 such requirement with respect to the reported
24 applicable security. Such regulations or guid-
25 ance may—

1 “(i) require such other information re-
 2 lated to such adjusted basis as the Sec-
 3 retary may prescribe, and

4 “(ii) exempt classes of cases in which
 5 the broker does not have sufficient infor-
 6 mation to meet either the requirement
 7 under subparagraph (A) or the require-
 8 ment under clause (i).

9 “(3) INFORMATION TRANSFERS.—To the extent
 10 provided in regulations, there shall be such ex-
 11 changes of information between brokers as such reg-
 12 ulations may require for purposes of enabling such
 13 brokers to meet the requirements of this subsection.

14 “(4) DEFINITIONS.—For purposes of this sub-
 15 section, the term ‘applicable security’ means any—

16 “(A) security described in subparagraph
 17 (A) or (C) of section 475(c)(2),

18 “(B) interest in a regulated investment
 19 company (as defined in section 851), or

20 “(C) other financial instrument designated
 21 in regulations prescribed by the Secretary.”.

22 (b) EFFECTIVE DATE.—The amendment made by
 23 this section shall apply to returns the due date for which
 24 (determined without regard to extensions) is after Decem-

ber 31, 2009, with respect to securities acquired after December 31, 2008.

SEC. 203. MODIFICATION OF EFFECTIVE DATE OF LEASING PROVISIONS OF THE AMERICAN JOBS CREATION ACT OF 2004.

(a) LEASES TO FOREIGN ENTITIES.—Section 849(b) of the American Jobs Creation Act of 2004 is amended by adding at the end the following new paragraph:

“(5) LEASES TO FOREIGN ENTITIES.—In the case of tax-exempt use property leased to a tax-exempt entity which is a foreign person or entity, the amendments made by this part shall apply to taxable years beginning after December 31, 2006, with respect to leases entered into on or before March 12, 2004.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect as if included in the enactment of the American Jobs Creation Act of 2004.

SEC. 204. CLARIFICATION OF ECONOMIC SUBSTANCE DOCTRINE.

(a) IN GENERAL.—Section 7701 of the Internal Revenue Code of 1986 is amended by redesignating subsection (o) as subsection (p) and by inserting after subsection (n) the following new subsection:

1 “(o) CLARIFICATION OF ECONOMIC SUBSTANCE
2 DOCTRINE; ETC.—

3 “(1) GENERAL RULES.—

4 “(A) IN GENERAL.—In any case in which
5 a court determines that the economic substance
6 doctrine is relevant for purposes of this title to
7 a transaction (or series of transactions), such
8 transaction (or series of transactions) shall have
9 economic substance only if the requirements of
10 this paragraph are met.

11 “(B) DEFINITION OF ECONOMIC SUB-
12 STANCE.—For purposes of subparagraph (A)—

13 “(i) IN GENERAL.—A transaction has
14 economic substance only if—

15 “(I) the transaction changes in a
16 meaningful way (apart from Federal
17 tax effects) the taxpayer’s economic
18 position, and

19 “(II) the taxpayer has a substan-
20 tial nontax purpose for entering into
21 such transaction and the transaction
22 is a reasonable means of accom-
23 plishing such purpose.

24 In applying subclause (II), a purpose of
25 achieving a financial accounting benefit

1 shall not be taken into account in deter-
2 mining whether a transaction has a sub-
3 stantial nontax purpose if the origin of
4 such financial accounting benefit is a re-
5 duction of income tax.

6 “(ii) SPECIAL RULE WHERE TAX-
7 PAYER RELIES ON PROFIT POTENTIAL.—A
8 transaction shall not be treated as having
9 economic substance by reason of having a
10 potential for profit unless—

11 “(I) the present value of the rea-
12 sonably expected pre-tax profit from
13 the transaction is substantial in rela-
14 tion to the present value of the ex-
15 pected net tax benefits that would be
16 allowed if the transaction were re-
17 spected, and

18 “(II) the reasonably expected
19 pre-tax profit from the transaction ex-
20 ceeds a risk-free rate of return.

21 “(C) TREATMENT OF FEES AND FOREIGN
22 TAXES.—Fees and other transaction expenses
23 and foreign taxes shall be taken into account as
24 expenses in determining pre-tax profit under
25 subparagraph (B)(ii).

1 “(2) SPECIAL RULES FOR TRANSACTIONS WITH
2 TAX-INDIFFERENT PARTIES.—

3 “(A) SPECIAL RULES FOR FINANCING
4 TRANSACTIONS.—The form of a transaction
5 which is in substance the borrowing of money
6 or the acquisition of financial capital directly or
7 indirectly from a tax-indifferent party shall not
8 be respected if the present value of the deduc-
9 tions to be claimed with respect to the trans-
10 action is substantially in excess of the present
11 value of the anticipated economic returns of the
12 person lending the money or providing the fi-
13 nancial capital. A public offering shall be treat-
14 ed as a borrowing, or an acquisition of financial
15 capital, from a tax-indifferent party if it is rea-
16 sonably expected that at least 50 percent of the
17 offering will be placed with tax-indifferent par-
18 ties.

19 “(B) ARTIFICIAL INCOME SHIFTING AND
20 BASIS ADJUSTMENTS.—The form of a trans-
21 action with a tax-indifferent party shall not be
22 respected if—

23 “(i) it results in an allocation of in-
24 come or gain to the tax-indifferent party in

1 excess of such party's economic income or
 2 gain, or

3 “(ii) it results in a basis adjustment
 4 or shifting of basis on account of over-
 5 stating the income or gain of the tax-indif-
 6 ferent party.

7 “(3) DEFINITIONS AND SPECIAL RULES.—For
 8 purposes of this subsection—

9 “(A) ECONOMIC SUBSTANCE DOCTRINE.—
 10 The term ‘economic substance doctrine’ means
 11 the common law doctrine under which tax bene-
 12 fits under subtitle A with respect to a trans-
 13 action are not allowable if the transaction does
 14 not have economic substance or lacks a business
 15 purpose.

16 “(B) TAX-INDIFFERENT PARTY.—The
 17 term ‘tax-indifferent party’ means any person
 18 or entity not subject to tax imposed by subtitle
 19 A. A person shall be treated as a tax-indifferent
 20 party with respect to a transaction if the items
 21 taken into account with respect to the trans-
 22 action have no substantial impact on such per-
 23 son's liability under subtitle A.

24 “(C) EXCEPTION FOR PERSONAL TRANS-
 25 ACTIONS OF INDIVIDUALS.—In the case of an

individual, this subsection shall apply only to transactions entered into in connection with a trade or business or an activity engaged in for the production of income.

“(D) TREATMENT OF LESSORS.—In applying paragraph (1)(B)(ii) to the lessor of tangible property subject to a lease—

“(i) the expected net tax benefits with respect to the leased property shall not include the benefits of—

“(I) depreciation,

“(II) any tax credit, or

“(III) any other deduction as provided in guidance by the Secretary, and

“(ii) subclause (II) of paragraph (1)(B)(ii) shall be disregarded in determining whether any of such benefits are allowable.

“(4) OTHER COMMON LAW DOCTRINES NOT AFFECTED.—Except as specifically provided in this subsection, the provisions of this subsection shall not be construed as altering or supplanting any other rule of law, and the requirements of this subsection

1 shall be construed as being in addition to any such
2 other rule of law.

3 “(5) REGULATIONS.—The Secretary shall pre-
4 scribe such regulations as may be necessary or ap-
5 propriate to carry out the purposes of this sub-
6 section. Such regulations may include exemptions
7 from the application of this subsection.”.

8 (b) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to transactions entered into after
10 the date of the enactment of this Act.

