

111TH CONGRESS
1ST SESSION

S. _____

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

Mr. BAYH introduced the following bill; which was read twice and referred to the Committee on _____

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 2009”.

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. Elimination of separate TANF work participation rate for 2-parent families.
Sec. 103. Ban on recovery of medicaid costs for births.
Sec. 104. Improved collection and distribution of child support.
Sec. 105. Grants to States to conduct demonstration projects to promote economic opportunity for low-income parents.
Sec. 106. State assessments of barriers to employment and financial support of children.
Sec. 107. Collection of child support under the supplemental nutrition assistance program.
Sec. 108. Grants supporting healthy family partnerships for domestic violence intervention and prevention.
Sec. 109. Procedures to address domestic violence prevention.

TITLE II—REVENUE PROVISIONS

- Sec. 201. Modifications to the earned income tax credit.
Sec. 202. Clarification of economic substance doctrine.
Sec. 203. Penalty for understatements attributable to transactions lacking economic substance, etc.
Sec. 204. Denial of deduction for interest on underpayments attributable to noneconomic substance transactions.

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

1 physical, social, emotional, and mental development
2 of children.

3 (4) Children typically live without both parents
4 when parents are divorced or did not marry. More
5 than $\frac{1}{3}$ of all marriages end in divorce, and 60 per-
6 cent of divorcing couples have children. Almost 4 in
7 10 births are to unmarried women, however, this fig-
8 ure varies by age. Six in 10 births to women ages
9 20 to 24, nearly 1 in 10 births to women ages 25
10 to 28, and 1 in 5 births to women in their 30s are
11 to unmarried women.

12 (5) More than 1 in 4 families with children
13 have only 1 parent present, and more than 1 in 5
14 children live with their mother only.

15 (6) Recent studies demonstrate that most
16 unwed fathers in urban areas are highly involved
17 with the mother of their child before and after the
18 child's birth, with 80 percent involved with their
19 mother's pregnancy, with 50 percent living with the
20 child's mother at the time of the child's birth. When
21 the children of these fathers were 5 years old, 50
22 percent had seen their fathers 10 or fewer days in
23 the past month, over 35 percent had not seen their
24 fathers at all in the past month, and nearly 23 per-

1 cent had not seen their fathers at all in the past 2
2 years.

3 (7) An estimated 30 percent of the children
4 who live in households without their father have not
5 seen their father in at least 1 year, and only 40 per-
6 cent have contact once or more per month.

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

12 (9) Early parenting has serious consequences
13 for young men and young women, their children, and
14 society. Too-early childbearing makes it harder for
15 young parents to finish their education. Fathers of
16 children born to teen mothers have lower earnings
17 than fathers of children born to mothers who are in
18 their early 20s and children born to teen parents are
19 more likely to end up in poverty than children born
20 to adult parents. Children of teen parents are at in-
21 creased risk of involvement with the child welfare
22 system and the sons of teen mothers are more likely
23 to end up in prison. The daughters of teen mothers
24 are more likely to end up teen mothers themselves.

1 In addition, teen childbearing costs taxpayers at
2 least \$9,100,000,000 annually.

3 (10) Single-parent families are 5 times as likely
4 to be poor as married-couple families.

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

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

15 (13) Domestic violence is also a significant
16 problem leading to the non-formation or break-up of
17 2-parent families.

18 (14) According to the National Fatherhood Ini-
19 tiative National Marriage Survey in 2005, 42 per-
20 cent of women and 9 percent of men cite domestic
21 violence as the reason for their divorces.

22 (15) A history of incarceration is a major bar-
23 rier to employment. 60 percent of young African-
24 American men who dropped out of high school have
25 served time. When these men leave prison, they

1 often have difficulty finding a job and supporting
2 their children.

3 (16) Over $\frac{1}{2}$ of State prison inmates are par-
4 ents. When noncustodial parents go to prison, their
5 child support obligations continue, even though they
6 have little ability to pay the support. When these
7 parents leave prison, they typically owe more than
8 \$20,000 in child support debt. Noncustodial parents
9 leaving prison often re-enter the underground econ-
10 omy because of financial pressures or to avoid the
11 child support system, making it less likely that they
12 will successfully rejoin society and reunite with their
13 families.

14 (17) Children should receive the child support
15 paid by their parents, and the government should
16 not keep the money to recover welfare costs. Current
17 pass-through limits on Federal cost-sharing have
18 been a barrier to States choosing to pass through
19 child support. Regular child support income appears
20 to have a greater positive impact on children dollar
21 for dollar than other types of income. Researchers in
22 Wisconsin found that when monthly child support
23 was passed through to families receiving assistance
24 under the Temporary Assistance for Needy Families
25 program established under part A of title IV of the

1 Social Security Act (TANF) and disregarded 100
2 percent in determining assistance for the families,
3 fathers paid more child support, established their
4 legal relationship with their children more quickly,
5 and worked less in the underground economy. More-
6 over, the State costs of a full pass-through and dis-
7 regard of child support were fully offset by increased
8 payments by fathers and decreased public assistance
9 use by families.

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

18 (19) Current law permits States to apply the
19 cost of passing through child support to families re-
20 ceiving assistance under the TANF program toward
21 their maintenance of effort (MOE) requirements,
22 but only to the extent that the State disregards the
23 child support payments in determining the amount
24 and type of TANF assistance.

1 (20) Programs that increase employment oppor-
2 tunity and reduce barriers by increasing employment
3 opportunity and reducing recidivism will benefit chil-
4 dren and families.

5 (21) Transitional jobs programs have shown
6 promise in reducing unemployment among chron-
7 ically unemployed or underemployed population
8 groups, including formerly incarcerated individuals,
9 the homeless, and young African-American men.

10 (22) To strengthen families it is important to
11 improve the upward economic mobility of the custo-
12 dial and noncustodial parent wage-earners, as well
13 as youth at risk of early parenthood or incarcer-
14 ation, by providing the skills and experience nec-
15 essary to access jobs with family-sustaining wages
16 and benefits. In families in which all the members
17 do not live together, this is important to enable the
18 prompt and consistent payment of adequate child
19 support.

20 (23) It is important and useful to foster local
21 and regional economic development and job advance-
22 ment for workers, especially young custodial and
23 noncustodial parents, by funding local collaborations
24 among business, education, and the community in
25 the development of pathways for preparing disadvan-

1 taged citizens to meet the workforce needs of the
2 local and regional economy.

3 (24) Employers benefit from working with and
4 being supported by the local education, post-sec-
5 ondary and workforce systems in identifying the aca-
6 demic and occupational skill sets needed to fill the
7 skilled jobs in the changing economy. Local eco-
8 nomic and community development is enhanced
9 when residents have access to higher wage employ-
10 ment, thus increasing the tax base, fueling the econ-
11 omy, and contributing to greater family economic se-
12 curity.

13 (25) Public-private career pathways partner-
14 ships are an important tool for linking employers
15 and workers with the workforce education services
16 they need and for integrating community economic
17 development and workforce education services. Tran-
18 sitional jobs programs can serve as the first step in
19 a career pathway by giving unemployed individuals
20 with multiple barriers to employment, valuable work
21 experience and related services.

22 (26) The purpose of child support is to provide
23 necessary income support for and increase the well-
24 being of children living apart from a parent. To im-
25 prove the ability of low-income noncustodial parents

1 to provide long-term support and care for their chil-
2 dren throughout their entire childhood, it is impor-
3 tant that child support polices support parental ef-
4 forts to pursue education and employment and to
5 stay involved with their children

6 (27) Responsible parenthood includes active
7 participation in financial support and child-rearing,
8 as well as the formation and maintenance of a posi-
9 tive, healthy, and nonviolent relationship between
10 parent and child and a cooperative, healthy, and
11 nonviolent relationship between parents.

12 (28) States should be encouraged to implement
13 voluntary programs that provide support for respon-
14 sible parenting, including by increasing the employ-
15 ment and financial security of parents, and, when it
16 is appropriate, with appropriate safeguards related
17 to child abuse and domestic violence, the parental in-
18 volvement of noncustodial parents.

19 (29) Promoting responsible parenthood saves
20 the government money by reducing the need for pub-
21 lic assistance, increasing the educational attainment
22 of children, reducing juvenile delinquency and crime,
23 reducing substance abuse, and lowering rates of un-
24 employment.

1 (30) Programs to encourage responsible father-
2 hood or responsible motherhood should promote and
3 provide support services for—

4 (A) fostering loving and healthy relation-
5 ships between parents and children;

6 (B) increasing responsibility of noncusto-
7 dial parents for the long-term care and finan-
8 cial well-being of their children;

9 (C) increasing employment of low-income,
10 noncustodial parents and improving compliance
11 with child support obligations; and

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

14 (31) The promotion of healthy marriage and re-
15 sponsible parenthood should not denigrate the stand-
16 ing or parenting efforts of single parents or other
17 caregivers, lessen the protection of children from
18 abusive parents, or compromise the safety or health
19 of the custodial or noncustodial parent, but should
20 increase the chance that children will have 2 caring
21 parents to help them grow up healthy and secure.

1 **TITLE I—PROMOTING RESPON-**
2 **SIBLE FATHERHOOD AND**
3 **STRENGTHENING LOW-IN-**
4 **COME FAMILIES**

5 **SEC. 101. HEALTHY MARRIAGE PROMOTION AND RESPON-**
6 **SIBLE FATHERHOOD PROGRAMS.**

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

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

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

16 (b) ASSURANCE OF VOLUNTARY PARTICIPATION.—
17 Section 403(a)(2)(A)(ii)(II) of the Social Security Act (42
18 U.S.C. 603(a)(2)(A)(ii)(II)) is amended—

19 (1) in item (aa), by striking “and” at the end;

20 (2) in item (bb), by striking the period at the
21 end and inserting a semicolon; and

22 (3) by adding at the end the following new
23 items:

24 “(cc) to not condition the re-
25 ceipt of assistance under the pro-

1 gram funded under this part,
2 under a program funded with
3 qualified State expenditures (as
4 defined in section
5 409(a)(7)(B)(i)), or under any
6 other program funded under this
7 title on enrollment in any such
8 programs or activities; and

9 “(dd) to permit any indi-
10 vidual who has begun to partici-
11 pate in a particular program or
12 activity funded under this para-
13 graph, including an individual
14 whose participation is specified in
15 the individual responsibility plan
16 developed for the individual in
17 accordance with section 408(b),
18 to transfer to another such pro-
19 gram or activity funded under
20 this paragraph upon notification
21 to the entity and the State agen-
22 cy responsible for administering
23 the State program funded under
24 this part.”.

1 (c) ACTIVITIES PROMOTING RESPONSIBLE FATHER-
2 HOOD.—Section 403(a)(2)(C)(ii) of the Social Security
3 Act (42 U.S.C. 603(a)(2)(C)(ii)) is amended—

4 (1) in subclause (I), by striking “marriage or
5 sustain marriage” and insert “healthy relationships
6 and healthy marriages or to sustain healthy relation-
7 ships or healthy marriages”;

8 (2) in subclause (II), by inserting “educating
9 youth who are not yet parents about the economic,
10 social, and family consequences of early parenting,
11 helping participants in fatherhood programs work
12 with their own children to break the cycle of early
13 parenthood,” after “child support payments,”; and

14 (3) in subclause (III), by striking “fathers” and
15 inserting “low-income fathers and other low-income
16 noncustodial parents”.

17 (d) EFFECTIVE DATE.—The amendments made by
18 this section shall take effect on October 1, 2009.

19 **SEC. 102. ELIMINATION OF SEPARATE TANF WORK PAR-**
20 **TICIPATION RATE FOR 2-PARENT FAMILIES.**

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

23 (1) in subsection (a)—

24 (A) beginning in the heading, by striking
25 “PARTICIPATION RATE REQUIREMENTS” and

1 all that follows through “A State” in paragraph
2 (1) and inserting “PARTICIPATION RATE RE-
3 QUIREMENTS.—A State”; and

4 (B) by striking paragraph (2);
5 (2) in subsection (b)—

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

8 (B) in paragraph (2), by striking the para-
9 graph heading and all that follows through “A
10 family” and inserting “SPECIAL RULE.—A fam-
11 ily”;

12 (C) in paragraph (4), by striking “para-
13 graphs (1)(B) and (2)(B)” and inserting “de-
14 termining monthly participation rates under
15 paragraph (1)(B)”;

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

18 (3) in subsection (c)—

19 (A) in paragraph (1)(B), in the matter
20 preceding clause (i), by striking “subsection
21 (b)(2)(B)” and inserting “subsection
22 (b)(1)(B)(i)”;

23 (B) in paragraph (2)(D)—

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

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

6 (b) EFFECTIVE DATE.—

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

12 (2) LIMITATION ON PENALTY IMPOSITION.—

13 Notwithstanding section 409(a)(3) of the Social Se-
14 curity Act, the Secretary of Health and Human
15 Services shall not impose a penalty against a State
16 under that section on the basis of the State’s failure
17 to satisfy the participation rate required for fiscal
18 year 2006, 2007, 2008, or 2009 if the State dem-
19 onstrates that the State would have met such re-
20 quirement if, with respect to those months of fiscal
21 year 2009 that began prior to or on the date of en-
22 actment of this Act, the State were permitted to
23 count 2-parent families that met the requirements of
24 section 407(c)(1)(A) of the Social Security Act (42
25 U.S.C. 607(c)(1)(A)) in the determination of month-

1 ly participation rates under section 407(b)(1)(B)(i)
2 of such Act (42 U.S.C. 607(b)(1)(B)(i)).

3 **SEC. 103. BAN ON RECOVERY OF MEDICAID COSTS FOR**
4 **BIRTHS.**

5 (a) BAN ON RECOVERY.—

6 (1) IN GENERAL.—Section 454 of the Social
7 Security Act (42 U.S.C. 654), as amended by sec-
8 tion 7301 of Public Law 109–171, is amended—

9 (A) by striking “and” at the end of para-
10 graph (33);

11 (B) by striking the period at the end of
12 paragraph (34) and inserting a semicolon; and

13 (C) by inserting after paragraph (34) the
14 following:

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

23 (2) RULE OF CONSTRUCTION.—Nothing in sec-
24 tion 454(35) of the Social Security Act (42 U.S.C.
25 654(34)), as added by paragraph (1), shall be con-

1 strued as affecting the application of section
2 1902(a)(25) of such Act (42 U.S.C. 1396a(a)(25))
3 with respect to a State (relating to the State Med-
4 icaid plan requirement for the State to take all rea-
5 sonable measures to ascertain the legal liability of
6 third parties to pay for care and services available
7 under the plan).

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, 2009.

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. 104. IMPROVED COLLECTION AND DISTRIBUTION OF**
13 **CHILD SUPPORT.**

14 (a) **ELIMINATION OF PASS-THROUGH LIMITS AND**
15 **OTHER CHANGES EFFECTIVE BEGINNING WITH FISCAL**
16 **YEAR 2010.—**

17 (1) **ELIMINATION OF PASS-THROUGH LIMITS ON**
18 **FEDERAL COST-SHARING.—**Section 457(a)(6) (B) of
19 the Social Security Act (42 U.S.C. 657(a)(6)(B)) (as
20 redesignated by clause (iii) of section 7301(b)(1)(B)
21 of the Deficit Reduction Act of 2005), is amended
22 to read as follows:

23 “(B) **FAMILIES THAT CURRENTLY RE-**
24 **CEIVE ASSISTANCE.—**Notwithstanding para-
25 graph (1), in the case of a family that receives

1 assistance from the State, a State shall not be
2 required to pay to the Federal Government the
3 Federal share of any amount collected on behalf
4 of such family during a month to the extent
5 that—

6 “(i) the State pays the amount to the
7 family; and

8 “(ii) the amount is disregarded in de-
9 termining the amount and type of assist-
10 ance provided to the family under such
11 program.”.

12 (2) CHILD SUPPORT STATE PLAN AMEND-
13 MENT.—Section 454 of the Social Security Act (42
14 U.S.C. 654), as amended by section 103(a)(1), is
15 amended by adding at the end the following new
16 paragraph:

17 “(36) provide that a State shall pay all col-
18 lected child support to the payee, except as provided
19 in section 457, and shall not use the State program
20 operated under this part to retain payments to re-
21 cover the cost of State-funded assistance or bene-
22 fits.”.

23 (3) DISBURSEMENT OF SUPPORT PAYMENTS.—
24 Section 454B(c) of the Social Security Act (42

1 U.S.C. 654B(e)) is amended by adding at the end
2 the following new 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 (4) STATE OPTION TO CONDITION RECEIPT OF
10 TANF ON ASSIGNMENT OF SUPPORT.—Section
11 408(a)(3) of the Social Security Act (42 U.S.C.
12 608(a)(3)) is amended—

13 (A) in the paragraph heading, by striking
14 “NO ASSISTANCE FOR FAMILIES NOT” and in-
15 sserting “STATE OPTION TO CONDITION ASSIST-
16 ANCE FOR FAMILIES ON”; and

17 (B) by striking “shall” and inserting
18 “may”.

19 (5) INCLUSION OF DISTRIBUTIONS TO FORMER
20 TANF FAMILIES IN DETERMINATION OF TANF MAIN-
21 TENANCE OF EFFORT.—Section 409(a)(7)(B)(i)(V)
22 of the Social Security Act (42 U.S.C.
23 609(a)(7)(B)(i)(V)) is amended by inserting “, in-
24 cluding the State share of child support distributed
25 to former TANF families under an election by the

1 State under section 454(34) (as in effect on the day
2 before the date of enactment of the Responsible Fa-
3 therhood and Healthy Families Act of 2009) to
4 apply the amendments made by subsection (b)(1) of
5 section 7301 of the Deficit Reduction Act of 2005
6 (as so in effect)” after “401(a)”.

7 (6) STATE OPTION TO DISCONTINUE OLDER
8 SUPPORT ASSIGNMENTS.—Section 457(b) of the So-
9 cial Security Act (42 U.S.C. 657(b)) is amended to
10 read as follows:

11 “(b) CONTINUATION OF ASSIGNMENTS.—

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

18 “(2) DISTRIBUTION OF AMOUNTS AFTER AS-
19 SIGNMENT DISCONTINUATION.—If a State chooses to
20 discontinue the assignment of a support obligation
21 described in paragraph (1), the State may treat
22 amounts collected pursuant to the assignment as if
23 the amounts had never been assigned and may dis-
24 tribute the amounts to the family in accordance with
25 subsections (a) and (c).”.

1 (7) EFFECTIVE DATE.—The amendments and
2 repeal made by this subsection take effect on Octo-
3 ber 1, 2009, and shall apply to payments under
4 parts A and D of title IV of the Social Security Act
5 for calendar quarters beginning on or after that
6 date, and without regard to whether regulations to
7 implement the amendments are promulgated by such
8 date.

9 (b) REFORM OF RULES FOR DISTRIBUTION OF
10 CHILD SUPPORT COLLECTED ON BEHALF OF CHILDREN
11 IN FOSTER CARE BEGINNING WITH FISCAL YEAR
12 2011.—

13 (1) IN GENERAL.—Section 457 of such Act (42
14 U.S.C. 657) is amended—

15 (A) by striking subsections (d) and (e)

16 (B) by redesignating subsection (c) as sub-
17 section (d); and

18 (C) by inserting after subsection (b) the
19 following:

20 “(c) AMOUNTS COLLECTED FOR CHILD FOR WHOM
21 FOSTER CARE MAINTENANCE PAYMENTS ARE MADE.—

22 Amounts collected by a State as child support for months
23 in any period on behalf of a child for whom a public agen-
24 cy is making foster care maintenance payments under part
25 E shall be paid to the public agency responsible for super-

1 vising the placement of the child and used in the manner
2 such public agency determines will serve the best interests
3 of the child, which may include depositing the funds in
4 a child asset account for the child’s future needs or mak-
5 ing all or a part thereof available to the individual respon-
6 sible for meeting the child’s day-to-day needs. A State
7 shall not be required to pay to the Federal Government
8 the Federal share of any amounts collected on behalf of
9 a child and used by the public agency in the best interests
10 of the child in accordance with this subsection.”.

11 (2) FOSTER CARE STATE PLAN AMENDMENT.—

12 Section 471(a)(17) of the Social Security Act (42
13 U.S.C. 671(a)(17)) is amended—

14 (A) by inserting “and consistent with the
15 child’s case plan” after “where appropriate”;
16 and

17 (B) by striking “secure an assignment to
18 the State of any rights to support” and insert-
19 ing “establish paternity and establish, modify,
20 and enforce child support obligations”.

21 (3) EFFECTIVE DATE.—The amendments made
22 by this subsection take effect on October 1, 2010,
23 and shall apply to collections made on behalf of chil-
24 dren who are receiving foster care maintenance pay-
25 ments under part E of title IV of the Social Security

1 Act for calendar quarters beginning on or after that
2 date, and without regard to whether regulations to
3 implement the amendments are promulgated by such
4 date.

5 (c) FULL DISTRIBUTION OF CHILD SUPPORT COL-
6 LECTED AND OTHER CHANGES BEGINNING WITH FISCAL
7 YEAR 2015.—

8 (1) FULL DISTRIBUTION OF CHILD SUPPORT
9 COLLECTED.—

10 (A) IN GENERAL.—Section 457 of the So-
11 cial Security Act (42 U.S.C. 657) is amended
12 by striking subsection (a) and inserting the fol-
13 lowing:

14 “(a) FULL DISTRIBUTION OF AMOUNTS COLLECTED
15 ON BEHALF OF ANY CHILD.—Subject to subsection (c),
16 the entire amount collected on behalf of any child as sup-
17 port by a State pursuant to a plan approved under this
18 part shall be paid by the State to the family (or, in the
19 case of a child receiving assistance under part E, to the
20 public agency responsible for supervising the child’s place-
21 ment), and shall not be retained by the State to reimburse
22 costs of assistance provided under part A, part E, or any
23 State-funded assistance or benefits.”.

24 (B) CONFORMING AMENDMENTS.—

1 (i) Section 409(a)(7)(B)(i)(I)(aa) of
2 such Act (42 U.S.C.
3 609(a)(7)(B)(i)(I)(aa)) is amended by
4 striking “457(a)(1)(B)” and inserting
5 “457(a)”.

6 (ii) Section 454(5) of such Act (42
7 U.S.C. 654(5)) is amended by striking
8 “(A) in any case” and all that follows
9 through “(B)”.

10 (iii) Section 454 of such Act (42
11 U.S.C. 654) is amended by striking para-
12 graph (34).

13 (iv) Section 457 of such Act (42
14 U.S.C. 657), as amended by subsection
15 (b)(1)(3) of this Act, is amended by strik-
16 ing subsection (d).

17 (C) REPEAL OF DRA AMENDMENTS.—The
18 amendments made by subsections (a) and (b) of
19 section 7301 the Deficit Reduction Act (Public
20 Law 109–171; 120 Stat. 141) are repealed.

21 (2) REQUIREMENT TO DISREGARD PERCENTAGE
22 OF CHILD SUPPORT COLLECTED IN DETERMINING
23 AMOUNT AND TYPE OF TANF ASSISTANCE.—Section
24 408(a) of the Social Security Act (42 U.S.C. 608(a))

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

3 “(12) REQUIREMENT TO DISREGARD PERCENT-
4 AGE OF CHILD SUPPORT COLLECTED IN DETER-
5 MINING AMOUNT AND TYPE OF TANF ASSISTANCE.—
6 A State to which a grant is made under section 403
7 shall disregard at least the same percentage of
8 amounts collected as support on behalf of a family
9 as the percentage of earned income that the State
10 disregards in determining the amount or type of as-
11 sistance provided to the family under the State pro-
12 gram funded under this part or under a program
13 funded with qualified State expenditures (as defined
14 in section 409(a)(7)(B)(i)).”.

15 (3) EFFECTIVE DATE.—The amendments and
16 repeal made by this subsection take effect on Octo-
17 ber 1, 2014, and shall apply to payments under
18 parts A and D of title IV of the Social Security Act
19 for calendar quarters beginning on or after that
20 date, and without regard to whether regulations to
21 implement the amendments are promulgated by such
22 date.

23 (d) IMMEDIATE ELIMINATION OF CERTAIN CHANGES
24 MADE BY THE DEFICIT REDUCTION ACT OF 2005 AND
25 OTHER IMPROVEMENTS.—

1 (1) IMMEDIATE RESTORATION OF CERTAIN DRA
2 CHANGES.—

3 (A) RESTORATION OF FEDERAL MATCHING
4 OF CERTAIN STATE SPENDING.—

5 (i) IN GENERAL.—Section 2104 of di-
6 vision B of the American Recovery and Re-
7 investment Act of 2009 (Public Law 111-
8 5) is amended to read as follows:

9 **“SEC. 2104. RESUMPTION OF PRIOR CHILD SUPPORT LAW.**

10 “Effective October 1, 2008, section 455(a)(1) of the
11 Social Security Act (42 U.S.C. 655(a)(1)) is amended by
12 striking ‘from amounts paid to the State under section
13 458 or’.”.

14 (ii) REPEAL OF DRA AMENDMENT.—
15 The amendment made by section 7309 of
16 the Deficit Reduction Act of 2005 (Public
17 Law 109-171; 120 Stat. 147) is repealed.

18 (B) REPEAL OF MANDATORY FEE FOR
19 CHILD SUPPORT COLLECTION.—

20 (i) ELIMINATION OF DRA AMEND-
21 MENTS.—Section 454(6)(B) of such Act
22 (42 U.S.C. 654(6)(B)) is amended—

23 (I) by striking clause (ii);

24 (II) by striking “(i)” after “(B)”;

25 and

1 (III) by redesignating subclauses
2 (I) and (II) as clauses (i) and (ii), re-
3 spectively, and realigning the left mar-
4 gins of such clauses accordingly.

5 (ii) CONFORMING AMENDMENT.—Ef-
6 fective as if enacted on October 1, 2009,
7 section 457(a) of the Social Security Act,
8 as amended by section 7301(b)(1)(A) of
9 the Deficit Reduction Act of 2005, is
10 amended by striking paragraph (4).

11 (iii) REPEAL OF DRA AMENDMENTS.—
12 The amendments made by section 7310 of
13 the Deficit Reduction Act of 2005 (Public
14 Law 109–171, 120 Stat. 147) are re-
15 pealed.

16 (C) CONFORMING AMENDMENT.—Section
17 466(a)(3)(B) of such Act (42 U.S.C.
18 666(a)(3)(B)) is amended by striking “in ac-
19 cordance with” and all that follows through the
20 semicolon and inserting “after deduction of any
21 fees imposed by the State to cover the costs of
22 collection, in accordance with section 457;”.

23 (2) OTHER IMMEDIATE IMPROVEMENTS.—

24 (A) PROHIBITION ON CONSIDERING A PE-
25 RIOD OF INCARCERATION VOLUNTARY UNEM-

1 PLOYMENT.—Section 466(a) of the Social Secu-
2 rity Act (42 U.S.C. 666(a)) is amended by in-
3 sserting after paragraph (19) the following new
4 paragraph:

5 “(20) PROCEDURES RELATING TO PERIODS OF
6 INCARCERATION OF NONCUSTODIAL PARENTS.—

7 “(A) IN GENERAL.—Procedures which re-
8 quire that, in determining or modifying the
9 amount of, or terms and conditions of, any sup-
10 port obligation of a noncustodial parent, the
11 State—

12 “(i) shall not consider any period of
13 incarceration of such parent as a period of
14 voluntary unemployment that disqualifies
15 the parent from obtaining a modification
16 of the support obligation consistent with
17 the parent’s ability to pay child support;
18 and

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

21 “(I) temporarily suspend any
22 support obligation on the parent and
23 the enforcement of any support obli-
24 gation of the parent existing prior to
25 the period of incarceration; and

1 “(II) temporarily prohibit the ac-
2 crual of any interest on any support
3 obligation of the parent existing prior
4 to the period of incarceration during
5 any such period.

6 “(B) NOTICE AND OPPORTUNITY TO CHAL-
7 LENGE SUSPENSION.—Such procedures shall re-
8 quire the State to provide a custodial parent
9 with—

10 “(i) notice of any suspension of re-
11 view, adjustment, or enforcement of a sup-
12 port obligation and of any prohibition on
13 interest accrual on such obligation that is
14 imposed in accordance with subparagraph
15 (A)(ii); and

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

23 (B) FORGIVING OR OTHER MODIFICATION
24 OF CHILD SUPPORT ARREARAGES ASSIGNED TO
25 THE STATE.—Section 466(a)(9) of the Social

1 Security Act (42 U.S.C. 666(a)(9)) is amended
2 in the flush matter following subparagraph (C),
3 by inserting the following new sentence at the
4 end: “Nothing in this paragraph shall be con-
5 strued as prohibiting a State from forgiving,
6 compromising, reducing or waiving arrearages
7 permanently assigned to the State under part A
8 or E or under title XIX.”.

9 (C) REVIEW AND ADJUSTMENT OF CHILD
10 SUPPORT ARREARAGES UPON REQUEST.—Sec-
11 tion 466(a)(10) of the Social Security Act (42
12 U.S.C. 666(a)(10)) is amended by adding at
13 the end the following new subparagraph:

14 “(d) REVIEW AND ADJUSTMENT OF
15 ARREARAGES.—Procedures which require
16 the State to review, and if appropriate, re-
17 duce the balance of arrearages perma-
18 nently assigned to the State under part A
19 or E, or under title XIX, pursuant to
20 standards and procedures established by
21 the State, in cases where the obligor lacks
22 sufficient ability to pay the arrears, adjust-
23 ment will promote timely payment of cur-
24 rent support, or barriers, such as incarcer-
25 ation, may have limited the ability of the

1 obligor to timely seek a modification of the
2 order, and it is in the best interests of the
3 child to make such reduction. Nothing in
4 the preceding sentence shall be construed
5 as affecting arrearages that have not been
6 permanently assigned to the State under
7 such part or title.”.

8 (D) UPDATE OF TITLE IV-D PURPOSES.—
9 Section 451 of the Social Security Act (42
10 U.S.C. 651) is amended by striking “purpose
11 of” and all that follows through “for whom
12 such assistance is requested,”and inserting
13 “purposes of enforcing the support obligations
14 owed by noncustodial parents to their children
15 and the spouse (or former spouse) with whom
16 such children are living, locating parents, estab-
17 lishing paternity, providing assistance in obtain-
18 ing child and spousal support to all children for
19 whom such assistance is requested (whether or
20 not eligible for assistance under a State pro-
21 gram funded under part A), obtaining health
22 care coverage for children participating in the
23 State child support program, and carrying out
24 other activities that improve child well-being by

1 increasing the ability of parents to support
2 their children financially and emotionally,”.

3 (3) EFFECTIVE DATE.—Except as provided in
4 paragraph (1)(B)(ii), the amendments and repeals
5 made by this subsection shall take effect on the date
6 of enactment of this Act, or October 1, 2009 (which-
7 ever is earlier), and shall apply to payments under
8 parts A and D of title IV of the Social Security Act
9 for calendar quarters beginning on or after that
10 date, and without regard to whether regulations to
11 implement the amendments are promulgated by such
12 date.

13 (e) STUDY AND REPORT.—Not later than October 1,
14 2010, the Secretary of Health and Human Services shall
15 study and submit a report to Congress regarding the fol-
16 lowing:

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

21 (A) the ability of young parents to pay
22 child support;

23 (B) compliance with child support orders;
24 and

1 (C) the relationship between young non-
2 custodial parents and their children.

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

6 (A) the ability of noncustodial parents to
7 pay child support;

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

10 (C) the relationship between noncustodial
11 parents and their children.

12 (3) The challenges faced by legal immigrants
13 and individuals for whom English is not their pri-
14 mary language in fulfilling child support and other
15 noncustodial parenting obligations.

16 **SEC. 105. GRANTS TO STATES TO CONDUCT DEMONSTRA-**
17 **TION PROJECTS TO PROMOTE ECONOMIC OP-**
18 **PORTUNITY FOR LOW-INCOME PARENTS.**

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

22 (1) IN GENERAL.—To assist States in imple-
23 menting section 466(a)(15) of the Social Security
24 Act (42 U.S.C. 666(a)(15)), the Secretary of Health
25 and Human Services shall award grants to States to

1 establish, in coordination with counties and other
2 local or tribal governments, court-supervised or IV-
3 D agency supervised-employment programs for non-
4 custodial parents who have barriers to employment
5 and a history of nonpayment of child support obliga-
6 tions, as determined by a court or the IV-D agency,
7 and who are determined by the court or agency to
8 be in need of employment services or placement in
9 order to pay such child support obligations. A non-
10 custodial parent described in the preceding sentence
11 who is an ex-offender shall be eligible to participate
12 in a program established under this subsection.

13 (2) REQUIREMENTS.—

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

1 posed, and may include optional additional
2 entities as needed to provide a comprehen-
3 sive range of workforce education and an-
4 cillary support services.

5 (ix) WORKFORCE EDUCATION.—The
6 term “workforce education” means a set of
7 career guidance and exploration services,
8 adult education and English language serv-
9 ices, job training, registered apprenticeship
10 programs, and credit and non-credit post-
11 secondary education services aimed at pre-
12 paring individuals to enter and sustain em-
13 ployment in specific occupations and to
14 have the sufficient skills to respond to
15 shifting employment opportunities.

16 (x) WORKFORCE EDUCATION PRO-
17 VIDER.—The term “workforce education
18 provider” means community-based pro-
19 viders, institutions of higher education,
20 area vocational and technical education
21 schools, charter schools, and other public
22 nonprofit entities that have a demonstrated
23 capacity to provide quality workforce edu-
24 cation services.

25 (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, 2009.

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

1 under this section shall pay the participant at
2 the rate paid to employees of the worksite em-
3 ployer who are not participants in such pro-
4 gram or activity and who perform comparable
5 work at the worksite, including periodic in-
6 creases where appropriate. If no other employ-
7 ees of the worksite employer perform com-
8 parable work at the worksite, the worksite em-
9 ployer shall pay the participant not less than
10 the applicable Federal or State minimum wage,
11 whichever is higher.

12 (B) BENEFITS AND CONDITIONS.—An in-
13 dividual employed through participation in a
14 program or activity funded under this section
15 shall be provided with benefits and working
16 conditions at the same level and to the same ex-
17 tent as such benefits and conditions are pro-
18 vided to other employees of the employer of the
19 individual who have worked a similar length of
20 time and perform the same work

21 (2) NONDUPLICATION.—

22 (A) IN GENERAL.—Funds provided
23 through a grant made under this paragraph
24 shall be used only for a program or activity that
25 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

1 workforce education needs, planning the
2 curriculum, assisting in training activities,
3 providing job opportunities, and coordi-
4 nating job retention for individuals hired
5 after training through the program and
6 follow-up support; and

7 (xii) how the partnership will build on
8 existing career pathways programs, where
9 applicable, to serve the targeted popu-
10 lation.

11 (3) APPLICATIONS BY INDIAN TRIBES OR TRIB-
12 AL ORGANIZATIONS.—The Secretary of Health and
13 Human Services and the Secretary of Labor may ex-
14 empt an Indian tribe or tribal organization from any
15 requirement of this section that the Secretary of
16 Health and Human Services or the Secretary of
17 Labor determines would be inappropriate to apply to
18 the Indian tribe or tribal organization, taking into
19 account the resources, needs, and other cir-
20 cumstances of the Indian tribe or tribal organiza-
21 tion.

22 (f) PRIORITIES AND REQUIREMENTS FOR AWARDING
23 GRANTS.—

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

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

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

16 (i) conducting activities with children;

17 (ii) improving communication skills;

18 (iii) child support management;

19 (iv) providing financially for the fam-
20 ily's security and well-being;

21 (v) managing stress and anger, as
22 well as domestic violence intervention serv-
23 ices when appropriate;

24 (vi) maintaining physical and mental
25 health;

1 (vii) parenting and relationship skills;

2 (viii) child development; and

3 (ix) barriers to responsible parent-

4 hood, including substance abuse, unem-

5 ployment, criminal justice system involve-

6 ment, and inadequate housing; and

7 (B) coordinate with, and link individuals

8 as applicable to, other public and private bene-

9 fits and employment services for low-income

10 adults among the different systems or programs

11 in which such adults are involved, including the

12 criminal justice system, the State programs

13 funded under each part of title IV of the Social

14 Security Act (42 U.S.C. 601 et seq.) (including

15 programs and activities funded under section

16 403(a)(2) of the Social Security Act (42 U.S.C.

17 603(a)(2)), educational assistance and student

18 aid programs, and job training or employment

19 programs, including State employment agencies.

20 (2) PERFORMANCE MEASURES.—In making

21 grants under this section, the Secretary of Health

22 and Human Services (in the case of a grant under

23 subsection (a)) and the Secretary of Labor (in the

24 case of a grant under subsection (b)) shall ensure

25 that grantees demonstrate a plan for implementing

1 measures to track their performance with respect to
2 meeting the goals of quality job placement, long-
3 term unsubsidized job retention, and, where applica-
4 ble, increasing child support payments, decreasing
5 child support arrearages, and increasing the involve-
6 ment of low-income noncustodial parents with their
7 children when determined to be appropriate.

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

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

24 (g) REGULATORY AND POLICY FLEXIBILITY.—The
25 Secretary of Labor and the Secretary of Health and

1 Human Services, in coordination with the Secretary of
2 Education and the Attorney General, shall work with
3 grantees under this section to resolve policy barriers that
4 may impede blending of federal resources to support these
5 demonstration projects.

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

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

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

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

1 (3) INDIAN TRIBE; TRIBAL ORGANIZATION.—

2 The terms “Indian tribe” and “tribal organization”
3 have the meaning given such terms in section 4 of
4 the Indian Self-Determination and Education Assist-
5 ance Act (25 U.S.C. 450b).

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

9 (1) for programs administered by the Secretary
10 of Health and Human Services under subsection (a),
11 \$15,000,000 for each of fiscal years 2010 through
12 2013; and

13 (2) for programs administered by the Secretary
14 of Labor under subsection (b), \$35,000,000 for each
15 of fiscal years 2010 through 2013.

16 **SEC. 106. STATE ASSESSMENTS OF BARRIERS TO EMPLOY-**
17 **MENT AND FINANCIAL SUPPORT OF CHIL-**
18 **DREN.**

19 (a) STATE ASSESSMENTS AND REPORTS.—As a con-
20 dition of the continued approval of a State plan under part
21 D of title IV of the Social Security Act (42 U.S.C. 651
22 et seq.), each State with an approved such plan, acting
23 through the appropriate State agencies, shall assess the
24 State policies with respect to the issues described in sub-
25 section (b) and submit a report to the Secretary of Health

1 and Human Services on the results of such assessment
2 not later than March 15, 2010.

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

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

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

11 (B) the process of modifying obligations;

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

15 (D) the consideration of incarceration;

16 (E) the consideration of disability;

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

23 (G) the procedures related to retroactive
24 support; and

1 (H) State pass-through and disregard poli-
2 cies for recipients of means tested public bene-
3 fits.

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

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

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

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

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

1 (5) Identification of any other barriers to
2 healthy family formation or sustainable economic op-
3 portunity for custodial and noncustodial parents that
4 are created or exacerbated by Federal or State laws,
5 policies, or procedures, including an examination of
6 the rules of Federal and State means-tested pro-
7 grams, the operation of the State workforce system,
8 the availability of financial education services, and
9 the availability of domestic violence services and
10 child support procedures to help victims of domestic
11 violence stay safe and obtain the child support they
12 are owed.

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

21 (d) APPROPRIATIONS.—Out of any money in the
22 Treasury of the United States not otherwise appropriated,
23 there are appropriated to the Secretary of Health and
24 Human Services for the period of fiscal years 2010

1 through 2011, \$3,000,000, to remain available until ex-
2 pended, for the purpose of making—

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

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

7 **SEC. 107. COLLECTION OF CHILD SUPPORT UNDER THE**
8 **SUPPLEMENTAL NUTRITION ASSISTANCE**
9 **PROGRAM.**

10 (a) ENCOURAGEMENT OF COLLECTION OF CHILD
11 SUPPORT.—Section 5 of the Food and Nutrition Act of
12 2008 (7 U.S.C. 2014) is amended—

13 (1) in subsection (e)—

14 (A) by redesignating paragraphs (5) and
15 (6) as paragraphs (6) and (7), respectively;

16 (B) in paragraph (4)(B), by striking
17 “paragraph (6)” and inserting “paragraph
18 (7)”; and

19 (C) by inserting after paragraph (4) the
20 following:

21 “(5) DEDUCTION FOR CHILD SUPPORT RE-
22 CEIVED.—

23 “(A) IN GENERAL.—A household shall be
24 allowed a deduction of 20 percent of all legally
25 obligated child support payments received from

1 an identified or putative parent of a child in the
2 household if that parent is not a household
3 member.

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

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

11 (b) SIMPLIFIED VERIFICATION OF CHILD SUPPORT
12 PAYMENTS.—Section 5(n) of the Food and Nutrition Act
13 of 2008 (7 U.S.C. 2014(n)) is amended—

14 (1) in the subsection heading, by striking
15 “STATE OPTIONS TO SIMPLIFY”, and inserting
16 “SIMPLIFIED”; and

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

19 “(1) IN GENERAL.—A household that is paying
20 legally obligated child support through the program
21 under part D of title IV of the Social Security Act
22 (42 U.S.C. 651 et seq.) shall receive—

23 “(A) a deduction under subsection (e)(4);

24 or

1 “(B) an exclusion for paid child support
2 under subsection (d)(6).

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

4 (c) INCLUSION OF ECONOMIC OPPORTUNITIES PRO-
5 GRAMS IN DEFINITION OF WORK PROGRAM.—Section
6 6(o)(2) of the Food and Nutrition Act of 2008 (7 U.S.C.
7 2015(o)(2)) is amended—

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

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

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

13 “(E) participate in and comply with the re-
14 quirements of a demonstration project under
15 section 106 of the Responsible Fatherhood and
16 Healthy Families Act of 2009;”.

17 (d) EFFECTIVE DATE.—

18 (1) IN GENERAL.—This section and the amend-
19 ments made by this section take effect on October
20 1, 2009.

21 (2) STATE OPTION.—A State may implement
22 the amendments made by subsections (a) and (b) for
23 participating households at the first recertification of
24 the households that occurs on or after October 1,
25 2009.

1 **SEC. 108. GRANTS SUPPORTING HEALTHY FAMILY PART-**
2 **NERSHIPS FOR DOMESTIC VIOLENCE INTER-**
3 **VENTION AND PREVENTION.**

4 Section 403(a) of the Social Security Act (42 U.S.C.
5 603(a)) is amended by adding at the end the following
6 new paragraph:

7 “(6) GRANTS SUPPORTING HEALTHY FAMILY
8 PARTNERSHIPS FOR DOMESTIC VIOLENCE INTER-
9 VENTION AND PREVENTION.—

10 “(A) IN GENERAL.—The Secretary shall
11 award grants on a competitive basis to healthy
12 family partnerships to—

13 “(i) develop and implement promising
14 practices for assessing and providing serv-
15 ices to individuals and families affected by
16 domestic violence, including through case-
17 worker training, the provision of technical
18 assistance to community partners, and the
19 implementation of safe visitation and ex-
20 change programs; or

21 “(ii) develop and implement promising
22 practices for preventing domestic violence,
23 particularly as a barrier to economic secu-
24 rity, and fostering healthy relationships.

25 “(B) EDUCATION SERVICES.—In awarding
26 grants under subparagraph (A), the Secretary

1 shall ensure that 10 percent of the funds made
2 available under such grants are used for high
3 schools and other secondary educational institu-
4 tions and institutions of higher education to
5 provide education services on the value of
6 healthy relationships, responsible parenting,
7 and healthy marriages characterized by mutual
8 respect and non-violence, and the importance of
9 building relationships skills such as communica-
10 tion, conflict resolution, and budgeting.

11 “(C) APPLICATION.—The respective entity
12 and organization of a healthy family partner-
13 ship entered into for purposes of receiving a
14 grant under this paragraph shall submit a joint
15 application to the Secretary, at such time and
16 in such manner as the Secretary shall specify,
17 containing—

18 “(i) a description of how the partner-
19 ship intends to carry out the activities de-
20 scribed in subparagraph (A);

21 “(ii) an assurance that funds made
22 available under the grant shall be used to
23 supplement, and not supplant, other funds
24 used by the entity or organization to carry

1 out programs, activities, or services de-
2 scribed in subparagraph (A) or (B); and

3 “(iii) such other information as the
4 Secretary may require.

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

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

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

13 “(ii) HEALTHY FAMILY PARTNER-
14 SHIP.—The term ‘healthy family partner-
15 ship’ means a partnership between—

16 “(I) an entity receiving funds
17 under a grant made under paragraph
18 (2) to promote healthy marriage or re-
19 sponsible fatherhood; and

20 “(II) an organization or organi-
21 zations with demonstrated expertise
22 working with survivors of domestic vi-
23 olence.

24 “(F) APPROPRIATION.—Out of any money
25 in the Treasury of the United States not other-

1 wise appropriated, there are appropriated for
2 each of fiscal years 2010 through 2012,
3 \$25,000,000 for purposes of awarding grants to
4 healthy family partnerships under this para-
5 graph.”.

6 **SEC. 109. PROCEDURES TO ADDRESS DOMESTIC VIOLENCE**
7 **PREVENTION.**

8 (a) **REQUIREMENTS TO ENSURE PROCEDURES TO**
9 **ADDRESS DOMESTIC VIOLENCE PREVENTION.**—Section
10 403(a)(2) of the Social Security Act (42 U.S.C.
11 603(a)(2)), as amended by section 101, is amended—

12 (1) by redesignating subparagraph (D) as sub-
13 paragraph (F); and

14 (2) by inserting after subparagraph (C) the fol-
15 lowing new subparagraphs:

16 “(D) **REQUIREMENTS FOR RECEIPT OF**
17 **FUNDS.**—An entity may not be awarded a grant
18 under this paragraph unless the entity, as a
19 condition of receiving funds under such a
20 grant—

21 “(i) identifies in its application the
22 domestic violence experts at the local,
23 State, or national level with whom it will
24 consult in the development and implemen-
25 tation of its programs and activities;

1 “(ii) upon an award of funds, and in
2 consultation with such domestic violence
3 experts, develops a written protocol which
4 describes—

5 “(I) how the entity will identify
6 instances or risks of domestic violence;

7 “(II) the procedures for respond-
8 ing to such instances or risk, includ-
9 ing making service referrals and pro-
10 viding protections and appropriate as-
11 sistance for identified individuals and
12 families;

13 “(III) how confidentiality issues
14 will be addressed; and

15 “(IV) the domestic violence train-
16 ing that will be provided to ensure ef-
17 fective and consistent implementation
18 of the protocol; and

19 “(iii) in its annual report to the Sec-
20 retary, includes a description such domes-
21 tic violence protocols and a description of
22 any implementation issues identified with
23 respect to domestic violence and how such
24 issues were addressed .

1 “(E) 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 (b) CONFORMING AMENDMENTS.—Section 403(a)(2)
6 of such Act (42 U.S.C. 603(a)(2)), as so amended, is
7 amended—

8 (1) in subparagraph (A)(i)—

9 (A) by striking “(B) and (C)” and insert-
10 ing “(B), (C), and (D)”; and

11 (B) by striking “subparagraph (D)” and
12 inserting “subparagraph (F)”;

13 (2) in subparagraphs (B)(i) and (C)(i), by
14 striking “(D)” each place it appears and inserting
15 “(F)”; and

16 (3) in subparagraph (F) (as redesignated by
17 subsection (a)(1)), by striking “\$150,000,000 for
18 each of fiscal years 2006 through 2010” and insert-
19 ing “\$150,000,000 for each of fiscal years 2006
20 through 2008 and \$200,000,000 for each of fiscal
21 years 2009 through 2014”.

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 sserting “\$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 2010 is \$5,900, for 2011 is \$6,200,
21 for 2012 is \$6,500, and for 2013 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 2010,
10 72 percent for 2011, 75 percent for 2012, 85
11 percent in 2013, and 100 percent in 2014 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 2014, 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 2013’ for
18 ‘calendar year 1992’ in subparagraph (B)
19 thereof.”.

20 (B) CONFORMING AMENDMENTS.—

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

1 (ii) Section 32(b)(3)(B)(iii) of such
2 Code is amended by striking “subsection
3 (j)(2)” and inserting “subsection (j)(3)”.

4 (5) CONFORMING AMENDMENT.—Section
5 32(b)(2)(A) of such Code is amended by striking
6 “Subject to subparagraph (B)” and inserting “Ex-
7 cept as otherwise provided in this paragraph”.

8 (6) EFFECTIVE DATE.—The amendments made
9 by this subsection shall apply to taxable years begin-
10 ning after December 31, 2009.

11 (b) ENHANCED CREDIT FOR CERTAIN WORKERS
12 WITH NO QUALIFYING CHILDREN.—

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

16 “(n) ADDITIONAL CREDIT FOR CERTAIN WORK-
17 ERS.—

18 “(1) IN GENERAL.—In the case of a qualified
19 individual, the credit allowed under subsection (a)
20 shall be increased by an amount equal to 100 per-
21 cent of the amount of the credit allowed under this
22 section (without regard to this subsection).

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

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

3 “(B) is the parent of a child and is re-
4 quired to make child support payments with re-
5 spect to such child pursuant to an order
6 which—

7 “(i) is in effect during the taxable
8 year of such individual, and

9 “(ii) is enforced during such taxable
10 year by a State agency responsible for ad-
11 ministering the State plan under part D of
12 title IV of the Social Security Act, and

13 “(C) has paid child support during the tax-
14 able year in an amount not less than the
15 amount of current child support for such tax-
16 able year for every order requiring the indi-
17 vidual to make child support payments.

18 For purposes of subparagraph (C), a child support
19 payment will be considered to have been made dur-
20 ing the taxable year if such payment is withheld
21 from or attributable to a pay period beginning in
22 such taxable year and is made no later than 30 days
23 after the date on which such taxable year ends.

24 “(3) REGULATIONS.—The Secretary shall es-
25 tablish regulations to carry out the purposes of this

1 subsection, including regulations which provide for
2 the verification of the payment of child support in
3 accordance with paragraph (2)(D).”.

4 (2) VERIFICATION OF PAYMENT.—

5 (A) IN GENERAL.—The Secretary of
6 Health and Human Services, in consultation
7 with the Secretary of the Treasury and the
8 States, shall establish such procedures as are
9 appropriate to ensure that the Secretary of the
10 Treasury has the information that the Sec-
11 retary of the Treasury determines necessary to
12 allow for verification of the status of individuals
13 as qualified individuals (as defined under sec-
14 tion 32(n) of the Internal Revenue Code of
15 1986, as added by paragraph (1)) and of pay-
16 ment of child support obligations in a timely
17 fashion.

18 (B) AUTHORITY TO USE FEDERAL CASE
19 REGISTRY.—The Secretary of Health and
20 Human Services may include in the Federal
21 Case Registry of Child Support Orders estab-
22 lished under section 453(h) of the Social Secu-
23 rity Act (42 U.S.C. 653(h)) such information as
24 the Secretary determines appropriate to allow

1 for the verification described in subparagraph
2 (A).

3 (C) STATE PROCEDURES.—The Secretary
4 of Health and Human Services, in consultation
5 with the States, shall establish procedures for
6 informing a noncustodial parent in a timely
7 fashion when the parent has paid the amount of
8 child support owed by the parent for a taxable
9 year so that the parent may determine the ex-
10 tent to which the parent is a qualified indi-
11 vidual for purposes of qualifying for the addi-
12 tional credit established under section 32(n) of
13 the Internal Revenue Code of 1986, as added
14 by paragraph (1).

15 (3) INFORMATION SHARING.—Subsection (j) of
16 section 453 of the Social Security Act (42 U.S.C.
17 653(j)) is amended by adding at the end the fol-
18 lowing new paragraph:

19 “(12) ADMINISTRATION OF FEDERAL TAX
20 LAWS.—In addition to the access provided under
21 subsections (h)(3) and (i)(3), the Secretary of the
22 Treasury shall have access to such information
23 maintained under this chapter as the Secretary of
24 the Treasury determines is necessary to verify eligi-
25 bility for the credit allowed under section 32(n) of

1 the Internal Revenue Code of 1986, under proce-
2 dures established pursuant to such section.”.

3 (4) EFFECTIVE DATE.—The amendments made
4 by paragraphs (1) and (3) shall apply to taxable
5 years beginning after December 31, 2009.

6 (c) MARRIAGE PENALTY RELIEF.—

7 (1) IN GENERAL.—Section 32(b)(2)(B) of the
8 Internal Revenue Code of 1986 is amended—

9 (A) by striking “after 2007” in clause (iii)
10 and inserting “in 2008”,

11 (B) by striking “and” at the end of clause
12 (ii),

13 (C) by striking the period at the end of
14 clause (iii) and inserting “, and”, and

15 (D) by adding at the end the following new
16 clauses:

17 “(iv) the amount determined under
18 paragraph (3)(B) in the case of taxable
19 years beginning in 2009 and 2010, and

20 “(v) \$4,000 in the case of taxable
21 years beginning after 2010.”.

22 (2) INFLATION ADJUSTMENT.—Section
23 32(j)(1)(B)(ii) of such Code is amended—

24 (A) by striking “and” at the end of clause
25 (i),

1 (B) by striking the period at the end of
2 clause (ii) and inserting “, and”, and

3 (C) by adding at the end the following new
4 clause:

5 “(iii) in the case of the \$4,000
6 amount in subsection (b)(2)(B)(v), by sub-
7 stituting ‘calendar year 2010’ for ‘calendar
8 year 1992’ in subparagraph (B) of such
9 section 1.”.

10 (3) EFFECTIVE DATE.—The amendments made
11 by this subsection shall apply to taxable years begin-
12 ning after December 31, 2009.

13 **SEC. 202. CLARIFICATION OF ECONOMIC SUBSTANCE DOC-**
14 **TRINE.**

15 (a) IN GENERAL.—Section 7701 of the Internal Rev-
16 enue Code of 1986 is amended by redesignating subsection
17 (o) as subsection (p) and by inserting after subsection (n)
18 the following new subsection:

19 “(o) CLARIFICATION OF ECONOMIC SUBSTANCE
20 DOCTRINE; ETC.—

21 “(1) GENERAL RULES.—

22 “(A) IN GENERAL.—In any case in which
23 a court determines that the economic substance
24 doctrine is relevant for purposes of this title to
25 a transaction (or series of transactions), such

1 transaction (or series of transactions) shall have
2 economic substance only if the requirements of
3 this paragraph are met.

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

6 “(i) IN GENERAL.—A transaction has
7 economic substance only if—

8 “(I) the transaction changes in a
9 meaningful way (apart from Federal
10 tax effects) the taxpayer’s economic
11 position, and

12 “(II) subject to clause (iii), the
13 taxpayer has a substantial purpose
14 (other than a Federal tax purpose) for
15 entering into such transaction.

16 “(ii) SPECIAL RULE WHERE TAX-
17 PAYER RELIES ON PROFIT POTENTIAL.—A
18 transaction shall not be treated as having
19 economic substance solely by reason of
20 having a potential for profit unless the
21 present value of the reasonably expected
22 pre-Federal tax profit from the transaction
23 is substantial in relation to the present
24 value of the expected net Federal tax bene-
25 fits that would be allowed if the trans-

1 action were respected. In determining pre-
2 Federal tax profit, there shall be taken
3 into account fees and other transaction ex-
4 penses and to the extent provided by the
5 Secretary, foreign taxes.

6 “(iii) SPECIAL RULES FOR DETER-
7 MINING WHETHER NON-FEDERAL TAX
8 PURPOSE.—For purposes of clause
9 (i)(II)—

10 “(I) a purpose of achieving a fi-
11 nancial accounting benefit shall not be
12 taken into account in determining
13 whether a transaction has a substan-
14 tial purpose (other than a Federal tax
15 purpose) if the origin of such financial
16 accounting benefit is a reduction of
17 Federal tax, and

18 “(II) the taxpayer shall not be
19 treated as having a substantial pur-
20 pose (other than a Federal tax pur-
21 pose) with respect to a transaction if
22 the only such purpose is the reduction
23 of non-Federal taxes and the trans-
24 action will result in a reduction of
25 Federal taxes substantially equal to,

1 or greater than, the reduction in non-
2 Federal taxes because of similarities
3 between the laws imposing the taxes.

4 “(2) DEFINITIONS AND SPECIAL RULES.—For
5 purposes of this subsection—

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

13 “(B) EXCEPTION FOR PERSONAL TRANS-
14 ACTIONS OF INDIVIDUALS.—In the case of an
15 individual, this subsection shall apply only to
16 transactions entered into in connection with a
17 trade or business or an activity engaged in for
18 the production of income.

19 “(3) OTHER PROVISIONS NOT AFFECTED.—Ex-
20 cept as specifically provided in this subsection, the
21 provisions of this subsection shall not be construed
22 as altering or supplanting any other rule of law or
23 provision of this title, and the requirements of this
24 subsection shall be construed as being in addition to
25 any such other rule of law or provision of this title.

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

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

9 **SEC. 203. PENALTY FOR UNDERSTATEMENTS ATTRIB-**
10 **UTABLE TO TRANSACTIONS LACKING ECO-**
11 **NOMIC SUBSTANCE, ETC.**

12 (a) IN GENERAL.—Subchapter A of chapter 68 of the
13 Internal Revenue Code of 1986 is amended by inserting
14 after section 6662A the following new section:

15 **“SEC. 6662B. PENALTY FOR UNDERSTATEMENTS ATTRIB-**
16 **UTABLE TO TRANSACTIONS LACKING ECO-**
17 **NOMIC SUBSTANCE, ETC.**

18 “(a) IMPOSITION OF PENALTY.—If a taxpayer has an
19 noneconomic substance transaction understatement for
20 any taxable year, there shall be added to the tax an
21 amount equal to 30 percent of the amount of such under-
22 statement.

23 “(b) REDUCTION OF PENALTY FOR DISCLOSED
24 TRANSACTIONS.—Subsection (a) shall be applied by sub-
25 stituting ‘20 percent’ for ‘30 percent’ with respect to the

1 portion of any noneconomic substance transaction under-
2 statement with respect to which the relevant facts affect-
3 ing the tax treatment of the item are adequately disclosed
4 in the return or a statement attached to the return.

5 “(c) NONECONOMIC SUBSTANCE TRANSACTION UN-
6 DERSTATEMENT.—For purposes of this section—

7 “(1) IN GENERAL.—The term ‘noneconomic
8 substance transaction understatement’ means any
9 amount which would be an understatement under
10 section 6662A(b)(1) if section 6662A were applied
11 by taking into account items attributable to non-
12 economic substance transactions rather than items
13 to which section 6662A would apply without regard
14 to this paragraph.

15 “(2) NONECONOMIC SUBSTANCE TRANS-
16 ACTION.—The term ‘noneconomic substance trans-
17 action’ means any transaction if there is a lack of
18 economic substance (within the meaning of section
19 7701(o)(1)(B)) for the transaction giving rise to the
20 claimed benefit.

21 “(d) RULES APPLICABLE TO ASSERTION, COM-
22 PROMISE, AND COLLECTION OF PENALTY.—

23 “(1) IN GENERAL.—Only the Chief Counsel for
24 the Internal Revenue Service may assert a penalty
25 imposed under this section or may compromise all or

1 any portion of such penalty. The Chief Counsel may
2 delegate the authority under this paragraph only to
3 an individual holding the position of chief of a
4 branch within the Office of the Chief Counsel for the
5 Internal Revenue Service.

6 “(2) SPECIFIC REQUIREMENTS.—

7 “(A) ASSERTION OF PENALTY.—The Chief
8 Counsel for the Internal Revenue Service (or
9 the Chief Counsel’s delegate under paragraph
10 (1)) shall not assert a penalty imposed under
11 this section unless, before the assertion of the
12 penalty, the taxpayer is provided—

13 “(i) a notice of intent to assert the
14 penalty, and

15 “(ii) an opportunity to provide to the
16 Commissioner (or the Chief Counsel’s dele-
17 gate under paragraph (1)) a written re-
18 sponse to the proposed penalty within a
19 reasonable period of time after such notice.

20 “(B) COMPROMISE OF PENALTY.—A com-
21 promise shall not result in a reduction in the
22 penalty imposed by this section in an amount
23 greater than the amount which bears the same
24 ratio to the amount of the penalty determined
25 without regard to the compromise as—

1 “(i) the reduction under the com-
2 promise in the noneconomic substance
3 transaction understatement to which the
4 penalty relates, bears to

5 “(ii) the amount of the noneconomic
6 substance transaction understatement de-
7 termined without regard to the com-
8 promise.

9 “(3) RULES RELATING TO RELEVANCY RE-
10 QUIREMENT.—

11 “(A) DETERMINATION OF RELEVANCE BY
12 CHIEF COUNSEL.—The Chief Counsel for the
13 Internal Revenue Service (or the Chief Coun-
14 sel’s delegate under paragraph (1)) may assert,
15 compromise, or collect a penalty imposed by
16 this section with respect to a noneconomic sub-
17 stance transaction even if there has not been a
18 court determination that the economic sub-
19 stance doctrine was relevant for purposes of
20 this title to the transaction if the Chief Counsel
21 (or delegate) determines that either was so rel-
22 evant.

23 “(B) FINAL ORDER OF COURT.—If there is
24 a final order of a court that determines that the
25 economic substance doctrine was not relevant

1 for purposes of this title to a transaction (or se-
2 ries of transactions), any penalty imposed under
3 this section with respect to the transaction (or
4 series of transactions) shall be rescinded.

5 “(4) APPLICABLE RULES.—The rules of para-
6 graphs (2) and (3) of section 6707A(d) shall apply
7 to a compromise under paragraph (1).

8 “(e) COORDINATION WITH OTHER PENALTIES.—Ex-
9 cept as otherwise provided in this part, the penalty im-
10 posed by this section shall be in addition to any other pen-
11 alty imposed by this title.

12 “(f) CROSS REFERENCES.—

13 “(1) For coordination of penalty with under-
14 statements under section 6662 and other special
15 rules, see section 6662A(e).

16 “(2) For reporting of penalty imposed under
17 this section to the Securities and Exchange Commis-
18 sion, see section 6707A(e).”.

19 (b) COORDINATION WITH OTHER UNDERSTATE-
20 MENTS AND PENALTIES.—

21 (1) The second sentence of section
22 6662(d)(2)(A) of the Internal Revenue Code of 1986
23 is amended by inserting “and without regard to
24 items with respect to which a penalty is imposed by
25 section 6662B” before the period at the end.

1 (2) Subsection (e) of section 6662A of such
2 Code is amended—

3 (A) in paragraph (1), by inserting “and
4 noneconomic substance transaction understate-
5 ments” after “reportable transaction under-
6 statements” both places it appears,

7 (B) in paragraph (2)(A)—

8 (i) by inserting “6662B or” before
9 “6663” in the text, and

10 (ii) by striking “PENALTY” in the
11 heading and inserting “AND ECONOMIC
12 SUBSTANCE PENALTIES”,

13 (C) in paragraph (2)(B)—

14 (i) by inserting “and section 6662B”
15 after “This section”, and

16 (ii) by striking “PENALTY” in the
17 heading and inserting “AND ECONOMIC
18 SUBSTANCE PENALTIES”,

19 (D) in paragraph (3), by inserting “or
20 noneconomic substance transaction understate-
21 ment” after “reportable transaction understate-
22 ment”, and

23 (E) by adding at the end the following new
24 paragraph:

1 “(4) NONECONOMIC SUBSTANCE TRANSACTION
2 UNDERSTATEMENT.—For purposes of this sub-
3 section, the term ‘noneconomic substance trans-
4 action understatement’ has the meaning given such
5 term by section 6662B(c).”.

6 (3) Subsection (e) of section 6707A of such
7 Code is amended—

8 (A) by striking “or” at the end of subpara-
9 graph (B), and

10 (B) by striking subparagraph (C) and in-
11 serting the following new subparagraphs:

12 “(C) is required to pay a penalty under
13 section 6662B with respect to any noneconomic
14 substance transaction, or

15 “(D) is required to pay a penalty under
16 section 6662(h) with respect to any transaction
17 and would (but for section 6662A(e)(2)(B))
18 have been subject to penalty under section
19 6662A at a rate prescribed under section
20 6662A(c) or to penalty under section 6662B,”.

21 (c) CLERICAL AMENDMENT.—The table of sections
22 for part II of subchapter A of chapter 68 of the Internal
23 Revenue Code of 1986 is amended by inserting after the
24 item relating to section 6662A the following new item:

“Sec. 6662B. Penalty for understatements attributable to transactions lacking
economic substance, etc.”.

1 (d) **EFFECTIVE DATE.**—The amendments made by
2 this section shall apply to transactions entered into after
3 the date of the enactment of this Act.

4 **SEC. 204. DENIAL OF DEDUCTION FOR INTEREST ON UN-**
5 **DERPAYMENTS ATTRIBUTABLE TO NON-**
6 **ECONOMIC SUBSTANCE TRANSACTIONS.**

7 (a) **IN GENERAL.**—Section 163(m) of the Internal
8 Revenue Code of 1986 (relating to interest on unpaid
9 taxes attributable to nondisclosed reportable transactions)
10 is amended—

11 (1) by striking “attributable” and all that fol-
12 lows and inserting the following: “attributable to—

13 “(1) the portion of any reportable transaction
14 understatement (as defined in section 6662A(b))
15 with respect to which the requirement of section
16 6664(d)(2)(A) is not met, or

17 “(2) any noneconomic substance transaction
18 understatement (as defined in section 6662B(c)).”,

19 and

20 (2) by inserting “**AND NONECONOMIC SUB-**
21 **STANCE TRANSACTIONS**” in the heading thereof
22 after “**TRANSACTIONS**”.

23 (b) **EFFECTIVE DATE.**—The amendments made by
24 this section shall apply to transactions after the date of

- 1 the enactment of this Act in taxable years ending after
- 2 such date.