

109<sup>TH</sup> CONGRESS  
2<sup>D</sup> SESSION

# S. 3607

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.

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## IN THE SENATE OF THE UNITED STATES

JUNE 29, 2006

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

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## 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 2006”.

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

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

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

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

TITLE II—REVENUE PROVISIONS

- Sec. 201. Modifications to the earned income tax credit.  
 Sec. 202. Tax treatment of inverted entities.  
 Sec. 203. Tax treatment of controlled foreign corporations established in tax havens.  
 Sec. 204. Taxation of income of controlled foreign corporations attributable to imported property.

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 both parents are  
 7 more likely to finish high school, be economically  
 8 self-sufficient, and to have a healthier lifestyle than  
 9 their peers who grow up in single-parent homes.

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

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

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

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

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

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

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

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

9           (11) Male unemployment and low wages are  
10 primary reasons why parents do not marry, why 2-  
11 parent families break up, and why fathers fail to re-  
12 main involved with their children. In 2004, half of  
13 African-American young men lacked jobs.

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

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

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

1 prison, they typically owe more than \$20,000 in  
2 child support debt. Parents leaving prison often re-  
3 enter the underground economy because of financial  
4 pressures or to avoid the child support system, mak-  
5 ing it less likely that they will successfully rejoin so-  
6 cietly and reunite with their families.

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

1           (16) Current law permits States to apply the  
2 cost of passing through child support to families re-  
3 ceiving assistance under the TANF program toward  
4 their maintenance of effort (MOE) requirements,  
5 but only to the extent that the State disregards the  
6 child support payments in determining the amount  
7 and type of TANF assistance.

8           (17) Programs that increase employment oppor-  
9 tunity and reduce barriers by increasing employment  
10 opportunity and reducing recidivism will benefit chil-  
11 dren and families.

12           (18) Transitional jobs programs have shown  
13 promise in reducing unemployment among chron-  
14 ically unemployed or underemployed population  
15 groups, including formerly incarcerated individuals,  
16 the homeless, and young African-American men.

17           (19) To strengthen families it is important to  
18 improve the upward economic mobility of the custo-  
19 dial and noncustodial parent wage-earners, as well  
20 as youth at risk of early fatherhood or incarceration,  
21 by providing the skills and experience necessary to  
22 access jobs with family-sustaining wages and bene-  
23 fits. In families in which all the members do not live  
24 together, this is important to enable the prompt and  
25 consistent payment of adequate child support.

1           (20) It is important and useful to foster local  
2           and regional economic development and job advance-  
3           ment for workers, especially young custodial and  
4           noncustodial parents, by funding local collaborations  
5           among business, education, and the community in  
6           the development of pathways for preparing disadvan-  
7           taged citizens to meet the workforce needs of the  
8           local and regional economy.

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

19          (22) Public-private career pathways partner-  
20          ships are an important tool for linking employers  
21          and workers with the workforce education services  
22          they need and for integrating community economic  
23          development and workforce education services. Tran-  
24          sitional jobs programs can serve as the first step in  
25          a career pathway by giving unemployed individuals

1 with multiple barriers to employment, valuable work  
2 experience and related services.

3 (23) The purpose of child support is to provide  
4 necessary income support for and increase the well-  
5 being of children living apart from a parent. To im-  
6 prove the ability of low-income fathers to provide  
7 long-term support and care for their children  
8 throughout their entire childhood, it is important  
9 that child support policies support parental efforts to  
10 pursue education and employment and to stay in-  
11 volved with their children

12 (24) Responsible fatherhood includes active par-  
13 ticipation in financial support and child-rearing, as  
14 well as the formation and maintenance of a positive,  
15 healthy, and nonviolent relationship between father  
16 and child and a cooperative, healthy, and nonviolent  
17 relationship between parents.

18 (25) States should be encouraged to implement  
19 voluntary programs that provide support for respon-  
20 sible parenting, including by increasing the employ-  
21 ment, financial security, and parental involvement of  
22 noncustodial parents.

23 (26) Promoting responsible fatherhood saves  
24 the government money by reducing the need for pub-  
25 lic assistance, increasing the educational attainment

1 of children, juvenile delinquency and crime, reducing  
2 substance abuse, and lowering rates of unemploy-  
3 ment.

4 (27) Responsible fatherhood programs should  
5 promote and provide support services for—

6 (A) fostering loving and healthy relation-  
7 ships between parents and children;

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

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

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

16 (28) The promotion of responsible fatherhood  
17 should not denigrate the standing or parenting ef-  
18 forts of single mothers or other caregivers, lessen the  
19 protection of children from abusive parents, or com-  
20 promise the safety or health of the custodial or non-  
21 custodial parent, but should increase the chance that  
22 children will have 2 caring parents to help them  
23 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) **REQUIREMENTS TO ENSURE PROCEDURES TO**  
 17 **ADDRESS DOMESTIC VIOLENCE PREVENTION.**—

18 (1) **IN GENERAL.**—Section 403(a)(2) of the So-  
 19 cial Security Act (42 U.S.C. 603(a)(2)) is amend-  
 20 ed—

21 (A) by redesignating subparagraph (D) as  
 22 subparagraph (G); and

23 (B) by inserting after subparagraph (C)  
 24 the following new subparagraphs:

1           “(D) REQUIREMENTS FOR RECEIPT OF  
2 FUNDS.—An entity may not be awarded a grant  
3 under this paragraph unless the entity, as a  
4 condition of receiving funds under such a  
5 grant—

6           “(i) consults with domestic violence  
7 organizations that have demonstrated ex-  
8 pertise working with survivors of domestic  
9 violence in developing policies, procedures,  
10 programs and training necessary to appro-  
11 priately address domestic violence in fami-  
12 lies served by programs and activities  
13 funded under such grant;

14           “(ii) describes in the application for a  
15 grant under this paragraph—

16           “(I) how the programs or activi-  
17 ties proposed to be conducted will ap-  
18 propriately address issues of domestic  
19 violence; and

20           “(II) what the entity will do, to  
21 the extent relevant, to ensure that  
22 participation in such programs or ac-  
23 tivities is voluntary, and to inform po-  
24 tential participants that their involve-  
25 ment is voluntary;

1           “(iii) establishes a written protocol for  
2 providers and administrators of programs  
3 and activities relevant to the grant that—

4                   “(I) provides for helping identify  
5 instances or risks of domestic violence;  
6 and

7                   “(II) specifies the procedures for  
8 making service referrals and providing  
9 protections and appropriate assistance  
10 for identified individuals and families;  
11 and

12           “(iv) submits the annual reports re-  
13 quired under subparagraph (E).

14           “(E) ANNUAL REPORTS TO THE SEC-  
15 RETARY.—Each entity awarded a grant under  
16 this paragraph shall submit to the Secretary an  
17 annual report on the programs and activities  
18 funded under the grant that includes the fol-  
19 lowing:

20                   “(i) A description of the written pro-  
21 tocols developed in accordance with the re-  
22 quirements of subparagraph (D)(iii) for  
23 each program or activity funded under the  
24 grant and how such protocols are used, in-  
25 cluding specific policies and procedures for

1           addressing domestic violence issues within  
2           each program or activity funded under the  
3           grant and how confidentiality issues are  
4           addressed.

5           “(ii) The name of each individual, or-  
6           ganization, or entity that was consulted in  
7           the development of such protocols.

8           “(iii) A description of each individual,  
9           organization, or entity (if any) that pro-  
10          vided training on domestic violence for the  
11          entity or for any subgrantees.

12          “(iv) A description of any implemen-  
13          tation issues identified with respect to do-  
14          mestic violence and how such issues were  
15          addressed.

16          “(F) DOMESTIC VIOLENCE DEFINED.—In  
17          this paragraph, the term ‘domestic violence’ has  
18          the meaning given that term in section  
19          402(a)(7)(B).”.

20          (2) CONFORMING AMENDMENTS.—Section  
21          403(a)(2) of such Act (42 U.S.C. 603(a)(2)) is  
22          amended—

23                  (A) in subparagraph (A)(i)—

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

1 (ii) by striking “subparagraph (D)”  
2 and inserting “subparagraph (G)”;

3 (B) in subparagraphs (B)(i) and (C)(i), by  
4 striking “(D)” each place it appears and insert-  
5 ing “(G)”;

6 (C) in subparagraph (G) (as redesignated  
7 by paragraph (1)(A)), by striking  
8 “\$150,000,000 for each of fiscal years 2006  
9 through 2010” and inserting “\$150,000,000  
10 for fiscal year 2006 and \$200,000,000 for each  
11 of fiscal years 2007 through 2010”.

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

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

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

18 (3) by adding at the end the following new  
19 items:

20 “(cc) to not condition the re-  
21 ceipt of assistance under the pro-  
22 gram funded under this part,  
23 under a program funded with  
24 qualified State expenditures (as  
25 defined in section

1 409(a)(7)(B)(i)), or under any  
2 other program funded under this  
3 title on enrollment in any such  
4 programs or activities; and

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

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

24 (1) in subclause (I), by striking “marriage or  
25 sustain marriage” and insert “healthy relationships

1 and marriages or to sustain healthy relationships or  
2 marriages”;

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

9 (3) in subclause (III), by striking “fathers” and  
10 inserting “low-income fathers and other low-income  
11 noncustodial parents whom are not eligible for as-  
12 sistance under the State program funded under this  
13 part”.

14 (e) EFFECTIVE DATE.—The amendments made by  
15 this section shall take effect on October 1, 2006.

16 **SEC. 102. GRANTS TO HEALTHY FAMILY PARTNERSHIPS**  
17 **FOR DOMESTIC VIOLENCE PREVENTION, FOR**  
18 **SERVICES FOR FAMILIES AND INDIVIDUALS**  
19 **AFFECTED BY DOMESTIC VIOLENCE, AND**  
20 **FOR DEVELOPING AND IMPLEMENTING BEST**  
21 **PRACTICES.**

22 Section 403(a) of the Social Security Act (42 U.S.C.  
23 603(a)) is amended by adding at the end the following  
24 new paragraph:

1           “(6) GRANTS TO HEALTHY FAMILY PARTNER-  
2 SHIPS FOR DOMESTIC VIOLENCE PREVENTION, FOR  
3 SERVICES FOR FAMILIES AND INDIVIDUALS AF-  
4 FECTED BY DOMESTIC VIOLENCE, AND FOR DEVEL-  
5 OPING AND IMPLEMENTING BEST PRACTICES.—

6           “(A) IN GENERAL.—The Secretary shall  
7 award grants on a competitive basis to healthy  
8 family partnerships to—

9           “(i) conduct programs and activities  
10 that are designed to prevent domestic vio-  
11 lence;

12           “(ii) provide services for victims of do-  
13 mestic violence; and

14           “(iii) develop and implement best  
15 practices for preventing domestic violence,  
16 particularly as a barrier to economic secu-  
17 rity, and for providing services to families  
18 and individuals affected by such violence  
19 including through caseworker training and  
20 the provision of technical assistance.

21           “(B) EDUCATION SERVICES.—In awarding  
22 grants under subparagraph (A), the Secretary  
23 shall ensure that 10 percent of the funds made  
24 available under such grants are used for high  
25 schools and other secondary educational institu-

1 tions and institutions of higher education to  
2 provide education services on the value of  
3 healthy relationships, responsible parenting,  
4 and healthy marriages characterized by mutual  
5 respect and non-violence, and the importance of  
6 building relationships skills such as communica-  
7 tion, conflict resolution, and budgeting.

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

15 “(i) a description of how the partner-  
16 ship intends to carry out the activities de-  
17 scribed in subparagraph (A);

18 “(ii) an assurance that funds made  
19 available under the grant shall be used to  
20 supplement, and not supplant, other funds  
21 used by the entity or organization to carry  
22 out programs, activities, or services de-  
23 scribed in subparagraph (A) or (B); and

24 “(iii) such other information as the  
25 Secretary may require.

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

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

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

9           “(ii) HEALTHY FAMILY PARTNER-  
10 SHIP.—The term ‘healthy family partner-  
11 ship’ means a partnership between—

12           “(I) an entity receiving funds  
13 under a grant made under paragraph  
14 (2) to promote healthy marriage or re-  
15 sponsible fatherhood; and

16           “(II) an organization described  
17 in paragraph (2)(D)(i).

18           “(F) APPROPRIATION.—Out of any money  
19 in the Treasury of the United States not other-  
20 wise appropriated, there are appropriated for  
21 each of fiscal years 2007 through 2010,  
22 \$25,000,000 for purposes of awarding grants to  
23 healthy family partnerships under this para-  
24 graph.”.

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

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

5 (1) in subsection (a)—

6 (A) beginning in the heading, by striking  
7 “PARTICIPATION RATE REQUIREMENTS” and  
8 all that follows through “A State” in paragraph  
9 (1) and inserting “PARTICIPATION RATE RE-  
10 QUIREMENTS.—A State”; and

11 (B) by striking paragraph (2);

12 (2) in subsection (b)—

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

15 (B) in paragraph (2), by striking the para-  
16 graph heading and all that follows through “A  
17 family” and inserting “SPECIAL RULE.—A fam-  
18 ily”;

19 (C) in paragraph (4), by striking “para-  
20 graphs (1)(B) and (2)(B)” and inserting “de-  
21 termining monthly participation rates under  
22 paragraph (1)(B)”;

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

25 (3) in subsection (c)—

1 (A) in paragraph (1)(B), in the matter  
2 preceding clause (i), by striking “subsection  
3 (b)(2)(B)” and inserting “subsection  
4 (b)(1)(B)(i)”; and

5 (B) in paragraph (2)(D)—

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

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

11 (b) EFFECTIVE DATE.—

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

17 (2) LIMITATION ON PENALTY IMPOSITION.—

18 Notwithstanding section 409(a)(3) of the Social Se-  
19 curity Act, the Secretary of Health and Human  
20 Services shall not impose a penalty against a State  
21 under that section on the basis of the State’s failure  
22 to satisfy the participation rate required for fiscal  
23 year 2006 if the State demonstrates that the State  
24 would have met such requirement if, with respect to  
25 those months of fiscal year 2006 that began prior to

1 or on the date of enactment of this Act, the State  
 2 were permitted to count 2-parent families that met  
 3 the requirements of section 407(c)(1)(A) of the So-  
 4 cial Security Act (42 U.S.C. 607(c)(1)(A)) in the de-  
 5 termination of monthly participation rates under  
 6 section 407(b)(1)(B)(i) of such Act (42 U.S.C.  
 7 607(b)(1)(B)(i)).

8 **SEC. 104. BAN ON RECOVERY OF MEDICAID COSTS FOR**  
 9 **BIRTHS.**

10 (a) BAN ON RECOVERY.—

11 (1) IN GENERAL.—Section 454 of the Social  
 12 Security Act (42 U.S.C. 654), as amended by sec-  
 13 tion 7301(B)(1)(C) of the Deficit Reduction Act of  
 14 2005 (Public Law 109–171), is amended—

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

17 (B) by striking the period at the end of  
 18 paragraph (34) and inserting “; and”; and

19 (C) by inserting after paragraph (34) the  
 20 following:

21 “(35) provide that, except as provided in sec-  
 22 tion 1902(a)(25)(F)(ii), the State shall not use the  
 23 State program operated under this part to collect  
 24 any amount owed to the State by reason of costs in-  
 25 curred under the State plan approved under title

1 XIX for the birth of a child for whom support rights  
2 have been assigned pursuant to section 471(a)(17)  
3 or 1912.”.

4 (2) RULE OF CONSTRUCTION.—Nothing in sec-  
5 tion 454(35) of the Social Security Act (42 U.S.C.  
6 654(35)), as added by paragraph (1), shall be con-  
7 strued as affecting the application of section  
8 1902(a)(25) of such Act (42 U.S.C. 1396a(a)(25))  
9 with respect to a State (relating to the State Med-  
10 icaid plan requirement for the State to take all rea-  
11 sonable measures to ascertain the legal liability of  
12 third parties to pay for care and services available  
13 under the plan).

14 (b) CLARIFICATION THAT BAN ON RECOVERY DOES  
15 NOT APPLY WITH RESPECT TO INSURANCE OF A PARENT  
16 WITH AN OBLIGATION TO PAY CHILD SUPPORT.—Sec-  
17 tion 1902(a)(25)(F) of the Social Security Act (42 U.S.C.  
18 1396a(a)(25)(F)) is amended—

19 (1) in clause (i), by adding “add” after the  
20 semicolon; and

21 (2) in clause (ii), by inserting “only if such  
22 third-party liability is derived through insurance,”  
23 before “seek”.

24 (c) EFFECTIVE DATE.—

1           (1) IN GENERAL.—Except as provided in para-  
2 graph (2), the amendments made by this section  
3 take effect on October 1, 2006.

4           (2) EXTENSION OF EFFECTIVE DATE FOR  
5 STATE LAW AMENDMENT.—In the case of a State  
6 plan under title XIX of the Social Security Act (42  
7 U.S.C. 1396 et seq.) which the Secretary of Health  
8 and Human Services determines requires State legis-  
9 lation in order for the plan to meet the additional  
10 requirements imposed by the amendments made by  
11 this section, the State plan shall not be regarded as  
12 failing to comply with the requirements of such title  
13 solely on the basis of its failure to meet these addi-  
14 tional requirements before the first day of the first  
15 calendar quarter beginning after the close of the  
16 first regular session of the State legislature that be-  
17 gins after the date of enactment of this Act. For  
18 purposes of the previous sentence, in the case of a  
19 State that has a 2-year legislative session, each year  
20 of the session is considered to be a separate regular  
21 session of the State legislature.

22 **SEC. 105. IMPROVED COLLECTION AND DISTRIBUTION OF**  
23 **CHILD SUPPORT.**

24           (a) DISTRIBUTION OF CHILD SUPPORT.—

1           (1) FULL DISTRIBUTION OF CHILD SUPPORT  
2           COLLECTED; REFORM OF RULES FOR DISTRIBUTION  
3           OF CHILD SUPPORT COLLECTED ON BEHALF OF  
4           CHILDREN IN FOSTER CARE.—

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

7                           (i) by striking subsection (a) and in-  
8                           serting the following:

9           “(a) FULL DISTRIBUTION OF AMOUNTS COLLECTED  
10   ON BEHALF OF ANY FAMILY.—Subject to subsection (c),  
11   the entire amount collected on behalf of any family as sup-  
12   port by a State pursuant to a plan approved under this  
13   part shall be paid by the State to the family.”; and

14                           (ii) by striking subsections (c)  
15                           through (e) and inserting the following:

16           “(c) AMOUNTS COLLECTED FOR CHILD FOR WHOM  
17   FOSTER CARE MAINTENANCE PAYMENTS ARE MADE.—  
18   Notwithstanding the preceding provisions of this section,  
19   amounts collected by a State as child support for months  
20   in any period on behalf of a child for whom a public agen-  
21   cy is making foster care maintenance payments under part  
22   E shall be paid to the public agency responsible for super-  
23   vising the placement of the child, which may use the pay-  
24   ments in the manner it determines will serve the best in-  
25   terests of the child, including setting such payments aside

1 for the child’s future needs, depositing the funds in a child  
2 asset account, or making all or a part thereof available  
3 to the person responsible for meeting the child’s day-to-  
4 day needs.”.

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

8 (i) by inserting “and consistent with  
9 the child’s case plan” after “where appro-  
10 priate”; and

11 (ii) by striking “secure an assignment  
12 to the State of any rights to support” and  
13 inserting “establish and enforce child sup-  
14 port obligations”.

15 (2) CONFORMING AMENDMENTS.—

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

20 (B) Section 454(5) of such Act (42 U.S.C.  
21 654(5)) is amended by striking “(A) in any  
22 case” and all that follows through “(B)”.

23 (C) Paragraphs (1)(B) and (2)(B) of sec-  
24 tion 457(b) of such Act (42 U.S.C. 657(b)), as  
25 amended by section 7301(c) of the Deficit Re-

1           duction Act of 2005 (Public Law 109–171; 120  
2           Stat. 141), is amended by striking “in accord-  
3           ance with subsection (a)(4)” each place it ap-  
4           pears.

5                   (D) Section 466(a)(3)(B) of such Act (42  
6           U.S.C. 666(a)(3)(B)) is amended by striking  
7           “408(a)(3) or”.

8           (3) REPEAL OF CERTAIN DRA AMENDMENTS.—  
9           Effective on the date of enactment of this Act, sub-  
10          sections (a) and (b) of section 7301 of the Deficit  
11          Reduction Act of 2005 (Public Law 109–171; 120  
12          Stat. 141) are repealed and parts A and D of title  
13          IV of the Social Security Act shall be applied as if  
14          the amendments made by such subsections had not  
15          been enacted.

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

20                   (1) in the paragraph heading, by striking “No  
21          ASSISTANCE FOR FAMILIES NOT” and inserting  
22          “PROHIBITION ON CONDITIONING ASSISTANCE FOR  
23          FAMILIES ON”;

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

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

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

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

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

23           (d) RESTORATION OF FEDERAL FUNDING.—Effec-  
24 tive on the date of enactment of this Act, section 7309  
25 of the Deficit Reduction Act of 2005 (Public Law 109–

1 171; 120 Stat. 147) is repealed and part D of title IV  
 2 of the Social Security Act shall be applied as if the amend-  
 3 ment made by subsection (a) of that section had not been  
 4 enacted.

5 (e) REPEAL OF MANDATORY FEE FOR CHILD SUP-  
 6 PORT COLLECTION.—Effective on the date of enactment  
 7 of this Act, section 7310 of the Deficit Reduction Act of  
 8 2005 (Public Law 109–171; 120 Stat. 147) is repealed  
 9 and part D of title IV of the Social Security Act shall  
 10 be applied as if the amendments made by that section had  
 11 not been enacted.

12 (f) PROHIBITION ON CONSIDERING A PERIOD OF IN-  
 13 CARCERATION VOLUNTARY UNEMPLOYMENT.—Section  
 14 466(a) of the Social Security Act (42 U.S.C. 666(a)) is  
 15 amended by inserting after paragraph (19) the following  
 16 new paragraph:

17 “(20) PROCEDURES RELATING TO PERIODS OF  
 18 INCARCERATION OF NONCUSTODIAL PARENTS.—

19 “(A) IN GENERAL.—Procedures which re-  
 20 quire that, in determining or modifying the  
 21 amount of, or terms and conditions of, any sup-  
 22 port obligation of a noncustodial parent, the  
 23 State—

24 “(i) shall not consider any period of  
 25 incarceration of such parent as a period of

1 voluntary employment that disqualifies the  
2 parent from obtaining a review and adjust-  
3 ment, if appropriate, of the support obliga-  
4 tion; and

5 “(ii) subject to subparagraph (B) in  
6 the case of an incarcerated parent, shall—

7 “(I) temporarily suspend any  
8 support obligation on the parent and  
9 the enforcement of any support obli-  
10 gation of the parent existing prior to  
11 the period of incarceration; and

12 “(II) temporarily prohibit the ac-  
13 crual of any interest on any support  
14 obligation of the parent existing prior  
15 to the period of incarceration during  
16 any such period.

17 “(B) NOTICE AND OPPORTUNITY TO CHAL-  
18 LENGE SUSPENSION.—Such procedures shall re-  
19 quire the State to provide a custodial parent  
20 with—

21 “(i) notice of any suspension of re-  
22 view, adjustment, or enforcement of a sup-  
23 port obligation and of any prohibition on  
24 interest accrual on such obligation that is

1 imposed in accordance with subparagraph  
2 (A)(ii); and

3 “(ii) an opportunity to request that  
4 the suspension or prohibition be termi-  
5 nated or modified on the basis that the  
6 noncustodial parent has sufficient income  
7 or resources to continue payment of the  
8 support obligation during the noncustodial  
9 parent’s period of incarceration.”.

10 (g) FORGIVING OR OTHER MODIFICATION OF CHILD  
11 SUPPORT ARREARAGES ASSIGNED TO THE STATE.—Sec-  
12 tion 466(a)(9) of the Social Security Act (42 U.S.C.  
13 666(a)(9)) is amended in the flush matter following sub-  
14 paragraph (C), by inserting the following new sentence at  
15 the end: “Nothing in this paragraph shall be construed  
16 as prohibiting a State from forgiving, compromising, re-  
17 ducing or waiving arrearages permanently assigned to the  
18 State under part A or E of this title or under title XIX.”.

19 (h) REVIEW AND ADJUSTMENT OF CHILD SUPPORT  
20 ARREARAGES UPON REQUEST.—Section 466(a)(10) of  
21 the Social Security Act (42 U.S.C. 666(a)(10)) is amend-  
22 ed by adding at the end the following new subparagraph:

23 “(D) REVIEW AND ADJUSTMENT OF AR-  
24 REARAGES.—Procedures which require the  
25 State to review, and if appropriate, reduce the

1 balance of arrearages permanently assigned to  
2 the State under part A or E of this title, or  
3 under title XIX , pursuant to standards and  
4 procedures established by the State, in cases  
5 where the obligor lacks sufficient ability to pay  
6 the arrears, adjustment will promote timely  
7 payment of current support, or barriers, such  
8 as incarceration, may have limited the ability of  
9 the obligor to timely seek a modification of the  
10 order, and it is in the best interests of the child  
11 to make such reduction. Nothing in the pre-  
12 ceding sentence shall be construed as affecting  
13 arrearages that have not been permanently as-  
14 signed to the State under such part or title.”.

15 (i) STUDY AND REPORT.—Not later than October 1,  
16 2007, the Secretary of Health and Human Services shall  
17 study and submit a report to Congress regarding the fol-  
18 lowing:

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

23 (A) the ability of young parents to pay  
24 child support;

1 (B) compliance with child support orders;  
2 and

3 (C) the relationship between young non-  
4 custodial parents and their children.

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

8 (A) the ability of noncustodial parents to  
9 pay child support;

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

12 (C) the relationship between noncustodial  
13 parents and their children.

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

18 (j) EFFECTIVE DATE.—

19 (1) IN GENERAL.—Except as otherwise pro-  
20 vided in this section, the amendments made by this  
21 section shall take effect on October 1, 2009, and  
22 shall apply to payments under parts A and D of title  
23 IV of the Social Security Act for calendar quarters  
24 beginning on or after that date, and without regard

1 to whether regulations to implement the amend-  
 2 ments are promulgated by such date.

3 (2) STATE OPTION TO ACCELERATE EFFECTIVE  
 4 DATE.—Notwithstanding paragraph (1), a State  
 5 may elect to have the amendments made by the pre-  
 6 ceding provisions of this section apply to the State  
 7 and to amounts collected by the State (and to pay-  
 8 ments under parts A and D of title IV of such Act),  
 9 on and after such date as the State may select that  
 10 is not earlier than October 1, 2006, and not later  
 11 than September 30, 2009.

12 **SEC. 106. GRANTS TO STATES TO CONDUCT DEMONSTRA-**  
 13 **TION PROJECTS TO PROMOTE ECONOMIC OP-**  
 14 **PORTUNITY FOR LOW-INCOME PARENTS.**

15 (a) AUTHORITY TO AWARD GRANTS.—The Secretary  
 16 of Health and Human Services, in consultation with the  
 17 Secretary of Labor, shall award grants to States to con-  
 18 duct demonstration projects to carry out one or more of  
 19 the purposes described in subsection (b).

20 (b) PURPOSES DESCRIBED.—For purposes of sub-  
 21 section (a), the purposes described in this subsection are  
 22 the following:

23 (1) COURT-SUPERVISED OR IV-D AGENCY-SU-  
 24 PERVISED EMPLOYMENT PROGRAMS FOR NONCUSTO-  
 25 DIAL PARENTS.—

1 (A) IN GENERAL.—To establish, in coordi-  
2 nation with counties and other local or tribal  
3 governments, court-supervised or IV–D agency  
4 supervised-employment programs for noncusto-  
5 dial parents who have barriers to employment  
6 and a history of nonpayment of child support  
7 obligations, as determined by a court or the IV–  
8 D agency, and who are determined by the court  
9 or agency to be in need of employment services  
10 or placement in order to pay such child support  
11 obligations. A noncustodial parent described in  
12 the preceding sentence who is an ex-offender  
13 shall be eligible to participate in a program es-  
14 tablished to carry out this purpose.

15 (B) REQUIREMENTS.—

16 (i) OPTION TO PARTICIPATE PRIOR TO  
17 CONTEMPT FINDING.—A State shall not be  
18 eligible to receive a grant under this sec-  
19 tion to carry out this purpose unless any  
20 program established with funds made  
21 available under the grant provides non-  
22 custodial parents described in subpara-  
23 graph (A) with an option to participate in  
24 the program prior to the court or agency  
25 entering a finding that the noncustodial

1 parent is in contempt for failure to pay a  
2 child support obligation and, potentially  
3 subject to criminal penalties.

4 (ii) PROGRAM GOALS.—An employ-  
5 ment program established with funds made  
6 available under a grant awarded under this  
7 section to carry out this purpose shall be  
8 designed to do the following:

9 (I) To assist noncustodial par-  
10 ents described in subparagraph (A)  
11 obtain and maintain unsubsidized em-  
12 ployment.

13 (II) To increase the amount of fi-  
14 nancial support received by children.

15 (III) To help noncustodial par-  
16 ents described in subparagraph (A)  
17 improve relationships with their chil-  
18 dren and their children's custodial  
19 parent.

20 (iii) 6 MONTHS OF CONTINUOUS,  
21 TIMELY PAYMENTS.—An employment pro-  
22 gram established with funds made avail-  
23 able under this section to carry out this  
24 purpose shall not permit a noncustodial  
25 parent placed in the program to graduate

1 from the program and avoid penalties for  
2 failure to pay a child support obligation  
3 until the noncustodial parent completes at  
4 least 6 months of continuous, timely pay-  
5 ment of the parent's child support obliga-  
6 tions.

7 (iv) USE OF FUNDS.—Services pro-  
8 vided under an employment program estab-  
9 lished with funds made available under a  
10 grant made to carry out this purpose may  
11 include one or more of the following:

12 (I) Job development.

13 (II) Supervised job search.

14 (III) Job placement.

15 (IV) Case management.

16 (V) Court liaison services.

17 (VI) Educational assessment.

18 (VII) Remedial education services  
19 or educational referral.

20 (VIII) Vocational assessment or  
21 services.

22 (IX) Counseling on responsible  
23 fatherhood.

1 (X) Support funds for services  
2 such as transportation or short-term  
3 training.

4 (XI) Referral for support serv-  
5 ices.

6 (XII) Employment retention  
7 services.

8 (XIII) Transitional jobs pro-  
9 grams.

10 (XIV) Public-private career path-  
11 way partnerships established in ac-  
12 cordance with paragraph (3).

13 (v) ADMINISTRATION.—A State that  
14 receives a grant under this section to carry  
15 out this purpose may contract with a pub-  
16 lic or private nonprofit organization, in-  
17 cluding a faith-based or community-based  
18 organization, to administer (in conjunction  
19 with the court of jurisdiction or the IV–D  
20 agency) the court-supervised or IV–D  
21 agency-supervised employment program.

22 (2) TRANSITIONAL JOBS GRANTS.—

23 (A) IN GENERAL.—To establish and ex-  
24 pand transitional jobs programs for eligible in-  
25 dividuals, including such programs conducted

1 by local governments, State employment agen-  
2 cies, nonprofit organizations, and faith-based or  
3 community-based organizations or inter-  
4 mediaries, that—

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

13 (ii) provide such individuals with—

14 (I) transitional jobs placements  
15 and job placement assistance, to help  
16 the individuals make the transition  
17 from subsidized employment in transi-  
18 tional jobs to stable unsubsidized em-  
19 ployment; and

20 (II) retention services after the  
21 transition to unsubsidized employ-  
22 ment.

23 (B) ELIGIBLE INDIVIDUALS.—For pur-  
24 poses of this paragraph, the term “eligible indi-  
25 viduals” means individuals within any of the

1 following categories of disproportionately chron-  
2 ically unemployed individuals:

3 (i) Individuals who have attained age  
4 16, but not attained age 36, and who have  
5 documented barriers to employment, par-  
6 ticularly such individuals who are parents  
7 or expectant parents.

8 (ii) Formerly incarcerated individuals.

9 (iii) Homeless or formerly homeless  
10 individuals.

11 (iv) Individuals with disabilities.

12 (v) Individuals designated by a court  
13 or the IV–D agency to participate in tran-  
14 sitional jobs programs.

15 (C) LIMITATIONS ON USE OF FUNDS.—

16 (i) ALLOWABLE ACTIVITIES.—A State  
17 that receives a grant to carry out this pur-  
18 pose (or a subgrantee of such State) (re-  
19 ferred to in this paragraph as the “pro-  
20 gram operator”) shall use the funds made  
21 available under the grant to operate a  
22 transitional jobs program for eligible indi-  
23 viduals consistent with the following re-  
24 quirements:

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

15 (II) HOURS.—

16 (aa) IN GENERAL.—Subject  
17 to item (bb), the transitional jobs  
18 program shall provide a partici-  
19 pant with not less than 30, and  
20 not more than 40, hours per  
21 week of a combination of paid  
22 employment and the services de-  
23 scribed in subclauses (III), (IV),  
24 and (V).

1 (bb) ACCOMMODATION OF  
2 SPECIAL CIRCUMSTANCES.—The  
3 number of hours per week re-  
4 quired under item (aa) may be  
5 adjusted in the case of a partici-  
6 pant who requires a modified  
7 work week to accommodate spe-  
8 cial circumstances.

9 (III) JOB PREPARATION AND  
10 SERVICES.—The program operator  
11 shall—

12 (aa) develop an individual  
13 plan for each participant, which  
14 shall contain a goal that focuses  
15 on preparation of the participant  
16 for unsubsidized jobs in demand  
17 in the local economy that offer  
18 the potential for advancement  
19 and growth (including increases  
20 in wages and benefits);

21 (bb) develop transitional  
22 jobs placements for participants  
23 that will best prepare them for  
24 jobs described in item (aa) or  
25 participation in the public-private

1 career pathway partnerships es-  
2 tablished in accordance with  
3 paragraph (3); and

4 (cc) provide case manage-  
5 ment services and ensure that  
6 appropriate education, training,  
7 and other activities are available  
8 to participants, consistent with  
9 each participant's individual  
10 plan.

11 (IV) JOB PLACEMENT ASSIST-  
12 ANCE AND RETENTION SERVICES.—

13 The program operator shall provide  
14 job placement assistance to help par-  
15 ticipants obtain unsubsidized employ-  
16 ment and shall provide retention serv-  
17 ices to the participants for a minimum  
18 of 6 months after entry into the un-  
19 subsidized employment.

20 (V) EDUCATION OR TRAINING.—

21 In any workweek in which a partici-  
22 pant is scheduled to work at least 30  
23 hours in the program, not less than  
24 20 percent of the scheduled hours and  
25 not more than 50 percent of the

1 scheduled hours shall involve partici-  
2 pation in—

3 (aa) education or training  
4 activities designed to improve the  
5 participant's employability and  
6 potential earnings;

7 (bb) other activities designed  
8 to reduce or eliminate any bar-  
9 riers that may impede the par-  
10 ticipant's ability to secure and  
11 advance in unsubsidized employ-  
12 ment; or

13 (cc) activities designed to  
14 promote financial literacy and the  
15 use of products and services that  
16 increase personal savings and  
17 build financial assets for family  
18 support, education, homeownership,  
19 and retirement.

20 (VI) DURATION.—

21 (aa) IN GENERAL.—Subject  
22 to item (bb), the duration of any  
23 placement in the program shall  
24 be for a period of 6 consecutive  
25 months.

1 (bb) 3 MONTH EXTEN-  
2 SION.—A program placement  
3 may be extended on a one-time  
4 basis for an additional period of  
5 3 consecutive months upon the  
6 conclusion of the original 6-  
7 month placement period if such  
8 extension would be consistent  
9 with the individual's plan for  
10 transition to unsubsidized em-  
11 ployment.

12 (VII) SUPERVISION.—The work-  
13 site employer or program operator  
14 shall supervise program participants,  
15 consistent with the goal of addressing  
16 the limited work experience and skills  
17 of the participants.

18 (D) REPORTS.—Not later than 120 days  
19 after the end of the grant period, the program  
20 operator shall submit a report to the Secretary  
21 of Health and Human Services and the Sec-  
22 retary of Labor that contains information on  
23 the number of participants in the program who  
24 have entered unsubsidized employment, rates of  
25 retention in such employment for those partici-

1 pants, demographic information regarding the  
2 participants, and information regarding the  
3 wages and benefits received by the participants.

4 (E) TECHNICAL ASSISTANCE.—The Sec-  
5 retary of Health and Human Services, in con-  
6 sultation with the Secretary of Labor, shall  
7 enter into contracts with entities with dem-  
8 onstrated experience in the provision of transi-  
9 tional jobs to provide technical assistance to the  
10 program operators and worksite employers for  
11 the programs assisted under this paragraph.

12 (3) PUBLIC-PRIVATE CAREER PATHWAYS PART-  
13 NERSHIPS.—

14 (A) IN GENERAL.—To allow workforce  
15 education providers representing career path-  
16 way partnerships—

17 (i) to create or expand career path-  
18 ways with specific employers for disadvan-  
19 taged workers, which may include any mix  
20 of such employers' existing lower wage em-  
21 ployees, new hires or potential hires; or

22 (ii) to fill in gaps in career pathways  
23 in particular localities or regions as needed  
24 to ensure that career pathways are acces-  
25 sible to unemployed disadvantaged workers

1 and at risk youth who have lower skills or  
2 limited English proficiency, including  
3 through the creation of workforce edu-  
4 cation services, such as “bridge” programs  
5 that contextualize basic skills, English lan-  
6 guage, or college remedial education serv-  
7 ices to specific career pathways, and ef-  
8 forts to create opportunities for gaining  
9 work experience in a career pathway.

10 (B) USE OF FUNDS.—Funds made avail-  
11 able under a grant under this section to carry  
12 out this purpose may be used by career path-  
13 ways partnerships for any expense reasonably  
14 related to the accomplishment of the specific  
15 objectives of the partnership and the purpose  
16 described in this paragraph, including any of  
17 the activities described in paragraph (1)(B)(iv).

18 (C) LIMITATIONS.—

19 (i) IN GENERAL.—Of the funds made  
20 available to a career pathway partnership  
21 to carry out the purpose described in this  
22 paragraph—

23 (I) not more than 30 percent of  
24 such funds may be used to pay or  
25 subsidize wages during a period of

1 work experience or internship, not to  
2 exceed 90 days; and

3 (II) not more than 10 percent of  
4 such funds may be used for adminis-  
5 trative purposes.

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

14 (D) REQUIREMENTS FOR AWARDING OF  
15 SUBGRANTS.—

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

22 (I) The number of individuals to  
23 be trained.

24 (II) The percentage of such indi-  
25 viduals who complete the program.

1 (III) The percentage of such in-  
2 dividuals who enter or advance in em-  
3 ployment.

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

11 (V) The percentage of individuals  
12 who complete the program and are  
13 placed in jobs who retain employment  
14 for at least 6 months.

15 (VI) The percentage of individ-  
16 uals who owe child support and com-  
17 plete the program who improve in  
18 their payment of child support within  
19 6 months after their program comple-  
20 tion.

21 In establishing goals for such measures,  
22 due consideration shall be given to the edu-  
23 cation, work experience, and job readiness  
24 of the individuals expected to participate in  
25 the program; the barriers of such individ-

1 uals to employment, and the local job mar-  
2 ket.

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

11 (iii) PRIORITIES FOR AWARDS OF SUB-  
12 GRANTS.—In awarding subgrants to carry  
13 out this purpose, a State shall give priority  
14 to applications that—

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

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

1 (III) use instructional materials  
2 and instructors directly used in the  
3 specific business or industry sectors of  
4 the partnership employers;

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

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

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

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

23 (VIII) identify how the sub-  
24 grantee will maximize services to un-  
25 employed disadvantaged workers who

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

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

23 (E) DEFINITIONS.—In this paragraph:

24 (i) ADULT EDUCATION.—The term  
25 “adult education” has the meaning given

1 that term in section 203 of the Workforce  
2 Investment Act of 1998 (20 U.S.C. 9202).

3 (ii) CAREER PATHWAY.—The term  
4 “career pathway” means a linked set of  
5 workforce education and job opportunities  
6 within a specific business or industry sec-  
7 tor, or for an occupational sector that cuts  
8 across multiple business and industry sec-  
9 tors, which begins at the lowest skill and  
10 English language levels, and extends  
11 through for-credit college opportunities  
12 such as earning relevant associate or bach-  
13 elor’s degrees, and prepares individuals for  
14 advancement in jobs in demand in the local  
15 or regional labor market.

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

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

1 (v) CHARTER SCHOOL.—The term  
2 “charter school” has the meaning given  
3 that term in section 5210 of the Elemen-  
4 tary and Secondary Education Act of 1965  
5 (20 U.S.C. 7221i).

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

12 (vii) DISADVANTAGED WORKERS.—  
13 The term “disadvantaged workers” means  
14 unemployed individuals in households  
15 whose income is at or below the lower liv-  
16 ing standard or employed individuals with  
17 wages at or below  $\frac{2}{3}$  of the median wage  
18 for the State or region applying for the  
19 grant or the partnership applying for a  
20 subgrant.

21 (viii) CAREER PATHWAY PARTNER-  
22 SHIP.—The term “career pathway partner-  
23 ship” means collaborations of 1 or more  
24 workforce education providers, 1 or more  
25 employers, 1 or more labor organizations,

1 where applicable, as a result of such orga-  
2 nization's representation of employees at  
3 the worksite who have skills in which the  
4 training or employment programs are pro-  
5 posed, and may include optional additional  
6 entities as needed to provide a comprehen-  
7 sive range of workforce education and an-  
8 cillary support services.

9 (ix) WORKFORCE EDUCATION.—The  
10 term “workforce education” means a set of  
11 career guidance and exploration, adult edu-  
12 cation, job training, registered apprentice-  
13 ship programs, and for-credit postsec-  
14 ondary education services aimed at pre-  
15 paring individuals to enter and sustain em-  
16 ployment in specific occupations and to  
17 have the sufficient skills to respond to  
18 shifting employment opportunities.

19 (x) WORKFORCE EDUCATION PRO-  
20 VIDER.—The term “workforce education  
21 provider” means community-based pro-  
22 viders, institutions of higher education,  
23 area vocational and technical education  
24 schools, charter schools, and other public

1                    nonprofit entities that provide workforce  
2                    education.

3            (c) MATCHING REQUIREMENT.—

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

13                   (2) NON-FEDERAL CONTRIBUTIONS.—In this  
14                   subsection, the term “non-Federal contributions” in-  
15                   cludes contributions by the State and by public and  
16                   private entities that may be in cash or in kind, but  
17                   does not include any amounts provided by the Fed-  
18                   eral Government, or services assisted or subsidized  
19                   to any significant extent by the Federal Government,  
20                   or any amount expended by a State before October  
21                   1, 2006.

22            (d) WORKER PROTECTIONS AND LABOR STAND-  
23            ARDS.—

24                    (1) RATE OF PAY; BENEFITS AND WORKING  
25                    CONDITIONS.—

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

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

23           (2) NONDUPLICATION.—

24           (A) IN GENERAL.—Funds provided  
25 through a grant made under this paragraph

1 shall be used only for a program or activity that  
2 does not duplicate, and is in addition to, a pro-  
3 gram or activity otherwise available in the local-  
4 ity of the program or activity funded under this  
5 section.

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

15 (3) NONDISPLACEMENT.—

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

1 signed to fill any established unfilled position  
2 vacancy.

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

7 (C) LIMITATION ON SERVICES.—

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

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

1           ble personnel procedures, who is on leave  
2           (such as terminal, temporary, vacation,  
3           emergency, or sick leave), who is on strike,  
4           or who is being locked out.

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

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

23          (5) ACCOUNTABILITY.—

24                  (A) IN GENERAL.—Funds provided under  
25          this section shall not be used to subsidize train-

1           ing or employment with an employer that has  
2           a demonstrable record of noncompliance with  
3           Federal labor, civil rights, workplace safety, or  
4           related laws.

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

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

19          (6) GRIEVANCE PROCEDURE.—An entity con-  
20          ducting a program or activity funded under this sec-  
21          tion shall establish and maintain a procedure for the  
22          filing and adjudication of grievances by employees of  
23          worksite employers who are not participants in the  
24          program, or such employees’ representatives, or by  
25          participants in such a program or activity alleging a

1 violation of a provision of this subsection that is  
2 similar to the grievance procedure established by a  
3 State for purposes of section 407(f)(3) of the Social  
4 Security Act (42 U.S.C. 607(f)(3)).

5 (7) NONPREEMPTION OF STATE LAW.—The  
6 provisions of this subsection shall not be construed  
7 to preempt any provision of State law that affords  
8 greater protections to employees or participants than  
9 are afforded by this subsection.

10 (8) TREATMENT OF AMOUNTS PAID TO PAR-  
11 TICIPANTS.—Amounts paid to a participant in a  
12 program or activity funded under this section shall  
13 be—

14 (A) considered earned income for purpose  
15 of determining the participant's eligibility for  
16 the child tax credit established under section 24  
17 of the Internal Revenue Code of 1986, the  
18 earned income tax credit established under sec-  
19 tion 32 of such Code, and any other tax benefit  
20 established under such Code the eligibility for  
21 which is based on earned income; and

22 (B) disregarded for purposes of deter-  
23 mining the participant's, the participant's fam-  
24 ily's, or the participant's household's eligibility  
25 for, or amount of, assistance or benefits pro-

1           vided under any means-tested program funded  
2           in whole or in part with Federal funds.

3           (e) APPLICATION.—

4           (1) REQUIREMENTS FOR ALL APPLICATIONS.—

5           (A) IN GENERAL.—A State desiring to re-  
6           ceive a grant to conduct a demonstration  
7           project under this section to carry out one or  
8           more of the purposes described in subsection  
9           (b) shall submit an application to the Secretary  
10          of Health and Human Services at such time, in  
11          such manner, and containing such information  
12          or assurances as the Secretary may require.

13          (B) COMPLIANCE WITH WORKER PROTEC-  
14          TIONS AND LABOR STANDARDS.—The applica-  
15          tion shall include an assurance that the State  
16          and any entity conducting a program or activity  
17          under the project shall comply with the worker  
18          protections and labor standards established in  
19          accordance with such protections under sub-  
20          section (d),

21          (C) NONDISCRIMINATION.—The applica-  
22          tion shall include an assurance that the State  
23          and any entity conducting a program or activity  
24          under the demonstration project shall comply  
25          with section 188(a)(2) of the Workforce Invest-

1           ment Act of 1998 (29 U.S.C. 2938(a)(2)) to  
2           the same extent that such section would apply  
3           to the entity if the program or activity con-  
4           ducted under the demonstration project was  
5           considered to be funded or otherwise financially  
6           assisted under that Act.

7           (D) ASSURANCE GRANT WILL SUPPLE-  
8           MENT, NOT SUPPLANT, OTHER STATE FUND-  
9           ING.—The application shall include an assur-  
10          ance from the chief executive officer of the  
11          State that funds made available under the  
12          grant will supplement, and not supplant, other  
13          funds used by the State to establish or support  
14          employment placements for low-income parents.

15          (2) SPECIFIC DEMONSTRATION PROJECT RE-  
16          QUIREMENTS.—

17               (A) COURT-SUPERVISED OR IV-D AGENCY-  
18               SUPERVISED EMPLOYMENT PROGRAMS FOR  
19               NONCUSTODIAL PARENTS.—In order to conduct  
20               a demonstration project described in paragraph  
21               (1) of subsection (b), a State shall include in  
22               the application submitted to the Secretary of  
23               Health and Human Services, the following:

24                       (i) Evidence of an agreement between  
25                       the State and 1 or more counties to estab-

1           lish an employment program that meets  
2           the requirements of subsection (b)(2).

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

5           (iii) The purposes specific to that  
6           State's program.

7           (iv) The median income of the target  
8           population.

9           (B) PUBLIC-PRIVATE CAREER PATHWAYS  
10          PARTNERSHIPS.—In order to conduct a dem-  
11          onstration project described in paragraph (3) of  
12          subsection (b), a State shall include in the ap-  
13          plication submitted to the Secretary of Health  
14          and Human Services a description of—

15           (i) the number, characteristics, and  
16           employment and earnings status of dis-  
17           advantaged individuals in the State or ap-  
18           plicable region where the program is to be  
19           conducted;

20           (ii) which business and industry sec-  
21           tors, or occupational clusters that cut  
22           across sectors, will be targeted by the ca-  
23           reer pathways partnership, based on over-  
24           all economic benefit to the community, the  
25           current and future demand for workers,

1 the advancement opportunities for workers,  
2 the wages at each step of the career path-  
3 way, and availability of worker benefits;

4 (iii) the interventions that will be put  
5 in place to address any educational deficits  
6 or learning disabilities of individuals who  
7 participate in the program and to ensure  
8 that such individuals have the academic,  
9 technical, communications, and other job  
10 skills to function in the jobs targeted by  
11 the partnership;

12 (iv) how the members of the partner-  
13 ship will collaborate on the development of  
14 curriculum and delivery of training that  
15 will provide the necessary occupational,  
16 academic and other work-related skills and  
17 credentialing needed for the specific labor  
18 market areas;

19 (v) the supports that will be used to  
20 provide counseling, mentoring or other  
21 support to individuals while in training or  
22 to assist them in navigating in complicated  
23 work environments;

24 (vi) the set of career exposure activi-  
25 ties that will be put in place to provide

1 hands-on experience such as work experi-  
2 ence, on the job training, internships, or  
3 work-study;

4 (vii) the agreements that are in place  
5 with employers, industry groups, and labor  
6 organizations, where applicable, to ensure  
7 access to jobs and advancement opportuni-  
8 ties in the targeted businesses, industry or  
9 occupations;

10 (viii) how the workforce education  
11 providers in the partnership will assess the  
12 employment barriers and needs of local  
13 disadvantaged individuals who participate  
14 in the program and will identify resources  
15 for meeting those needs;

16 (ix) how the workforce education pro-  
17 viders will work with partnership employ-  
18 ers, business and industry groups, labor  
19 organizations, where applicable, and local  
20 economic development organizations to  
21 identify the priority workforce needs of the  
22 local industry;

23 (x) how the partnerships will ensure  
24 that the appropriate program delivery  
25 models and formal agreements are in place

1 to ensure maximum benefits to the individ-  
2 uals receiving career pathway partnership  
3 services and to the employers and labor or-  
4 ganizations, where applicable, in the part-  
5 nership and the industries or businesses  
6 they represent; and

7 (xi) how partnership employers and  
8 labor organizations, where applicable, will  
9 be actively involved in identifying specific  
10 workforce education needs, planning the  
11 curriculum, assisting in training activities,  
12 providing job opportunities, and coordi-  
13 nating job retention for individuals hired  
14 after training through the program and  
15 follow-up support.

16 (3) APPLICATIONS BY INDIAN TRIBES OR TRIB-  
17 AL ORGANIZATIONS.—The Secretary of Health and  
18 Human Services may exempt an Indian tribe or trib-  
19 al organization from any requirement of this section  
20 that the Secretary determines would be inappro-  
21 priate to apply to the Indian tribe or tribal organiza-  
22 tion, taking into account the resources, needs, and  
23 other circumstances of the Indian tribe or tribal or-  
24 ganization.

1 (f) PRIORITIES AND REQUIREMENTS FOR AWARDING  
2 GRANTS.—

3 (1) IN GENERAL.—Subject to paragraphs (2)  
4 and (3), the Secretary of Health and Human Serv-  
5 ices, in consultation with the Secretary of Labor,  
6 shall give priority to making grants to carry out the  
7 purposes described in subsection (b) to entities  
8 that—

9 (A) demonstrate a plan for implementing  
10 measures to track their performance with re-  
11 spect to meeting the goals of quality job place-  
12 ment, long-term unsubsidized job retention, in-  
13 creasing child support payments, decreasing un-  
14 paid child support arrearages, and increasing  
15 the involvement of low-income noncustodial par-  
16 ents with their children; and

17 (B) coordinate with, and link individuals  
18 to, other public and private benefits and em-  
19 ployment services for low-income, noncustodial  
20 parents among the different systems or pro-  
21 grams in which such parents are involved, in-  
22 cluding the criminal justice system, the State  
23 programs funded under each part of title IV of  
24 the Social Security Act (42 U.S.C. 601 et seq.)  
25 (including programs and activities funded under

1 section 403(a)(2) of the Social Security Act (42  
2 U.S.C. 603(a)(2)), educational assistance pro-  
3 grams, and job training or employment pro-  
4 grams, including State employment agencies.

5 (2) REFLECTIVE OF TARGET POPULATIONS.—

6 In making grants to carry out these purposes, the  
7 Secretary of Health and Human Services, in con-  
8 sultation with the Secretary of Labor, shall give pri-  
9 ority to States with proposed demonstration projects  
10 that are designed to target low-income parents, in-  
11 cluding custodial and noncustodial parents, and low-  
12 income married couples.

13 (3) SUBSTANTIAL FUNDING FOR EACH OF THE  
14 PURPOSES.—In making grants under this section,  
15 the Secretary of Health and Human Services, in  
16 consultation with the Secretary of Labor, shall en-  
17 sure that a substantial share of the amount appro-  
18 priated under subsection (i) for a fiscal year is used  
19 for carrying out each of the purposes described in  
20 subsection (b).

21 (g) EVALUATION.—The Secretary of Health and  
22 Human Services, in consultation with the Secretary of  
23 Labor, shall provide for an independent and rigorous eval-  
24 uation of the demonstration projects conducted under this  
25 section that includes, to the maximum extent feasible, ran-

1 dom assignment or other appropriate statistical tech-  
2 niques, in order to assess the effectiveness of the projects.

3 (h) GENERAL DEFINITIONS.—In this section:

4 (1) STATE.—The term “State” means each of  
5 the 50 States, the District of Columbia, the Com-  
6 monwealth of Puerto Rico, the United States Virgin  
7 Islands, Guam, American Samoa, and includes an  
8 Indian tribe or tribal organization.

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

14 (3) INDIAN TRIBE; TRIBAL ORGANIZATION.—  
15 The terms “Indian tribe” and “tribal organization”  
16 have the meaning given such terms in section 4 of  
17 the Indian Self-Determination and Education Assist-  
18 ance Act (25 U.S.C. 450b).

19 (i) APPROPRIATION.—Out of any money in the  
20 Treasury of the United States not otherwise appropriated,  
21 there are appropriated to carry out this section,  
22 \$50,000,000 for each of fiscal years 2007 through 2009.

1 **SEC. 107. STATE ASSESSMENTS OF BARRIERS TO EMPLOY-**  
2 **MENT AND FINANCIAL SUPPORT OF CHIL-**  
3 **DREN.**

4 (a) STATE ASSESSMENTS AND REPORTS.—As a con-  
5 dition of the continued approval of a State plan under part  
6 D of title IV of the Social Security Act (42 U.S.C. 651  
7 et. seq.), each State with an approved such plan, acting  
8 through the appropriate State agencies, shall assess the  
9 State policies with respect to the issues described in sub-  
10 section (b) and submit a report to the Secretary of Health  
11 and Human Services on the results of such assessment  
12 not later than March 15, 2008.

13 (b) ISSUES DESCRIBED.—For purposes of subsection  
14 (a), the issues described in this subsection are the fol-  
15 lowing:

16 (1) The process of setting and modifying child  
17 support obligations, particularly with respect to low-  
18 income parents, including—

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

21 (B) the process of modifying obligations;

22 (C) the consideration of income and em-  
23 ployment status, including efforts to identify  
24 unreported income;

25 (D) the consideration of incarceration;

26 (E) the consideration of disability;

1 (F) the treatment of arrearages, including  
2 interest charged, and laws or procedures that  
3 interfere with forgiveness, adjustment, waiver,  
4 or compromise of arrears owed to the State by  
5 low-income noncustodial parents who lack suffi-  
6 cient ability to pay such arrearages;

7 (G) the procedures related to retroactive  
8 support; and

9 (H) State pass-through and disregard poli-  
10 cies for recipients of means tested public bene-  
11 fits.

12 (2) The impact of state criminal laws and law  
13 enforcement practices on the employment acquisi-  
14 tion, retention, and advancement prospects of indi-  
15 viduals following arrest, conviction, or incarceration,  
16 including—

17 (A) any efforts, including counseling or  
18 employment support, to assist ex-prisoners with  
19 reentry to a community and successful reunifi-  
20 cation with their families; and

21 (B) an assessment of any efforts to seal or  
22 expunge arrest and conviction records and any  
23 efforts to grant certificates or other acknowl-  
24 edgments of rehabilitation to ex-prisoners, and

1 to examine State occupational licensing and cer-  
2 tification procedures.

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

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

23 (d) APPROPRIATIONS.—Out of any money in the  
24 Treasury of the United States not otherwise appropriated,  
25 there are appropriated to the Secretary of Health and

1 Human Services for the period of fiscal years 2007  
 2 through 2008, \$3,000,000, to remain available until ex-  
 3 pended, for the purpose of making—

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

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

8 **SEC. 108. COLLECTION OF CHILD SUPPORT UNDER THE**  
 9 **FOOD STAMP PROGRAM.**

10 (a) ENCOURAGEMENT OF COLLECTION OF CHILD  
 11 SUPPORT.—Section 5 of the Food Stamp Act of 1977 (7  
 12 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 Stamp Act of 1977  
13 (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)(3).

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 Stamp Act of 1977 (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 2006;”.

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, 2007.

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                 2007.

1 **TITLE II—REVENUE PROVISIONS**

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

3 **CREDIT.**

4 (a) INCREASE IN PHASEOUT AMOUNT FOR WORKERS  
5 WITH NO QUALIFYING CHILDREN.—

6 (1) IN GENERAL.—The table under section  
7 32(b)(2)(A) of the Internal Revenue Code of 1986  
8 is amended by striking “\$5,280” and inserting  
9 “\$10,712”.

10 (2) INFLATION ADJUSTMENT.—

11 (A) IN GENERAL.—Subsection (j) of sec-  
12 tion 32 of such Code is amended by redesign-  
13 ating paragraph (2) as paragraph (3) and by  
14 inserting after paragraph (1) the following new  
15 paragraph:

16 “(2) PHASEOUT AMOUNT FOR INDIVIDUALS  
17 WITH NO QUALIFYING CHILDREN.—In the case of  
18 any taxable year beginning after calendar year 2007,  
19 the ‘\$10,712’ dollar amount in section (b)(2)(A)  
20 shall be increased by an amount equal to—

21 “(A) such dollar amount, multiplied by

22 “(B) the cost-of-living adjustment deter-  
23 mined under section 1(f)(3) for the calendar  
24 year in which the taxable year begins, deter-  
25 mined by substituting ‘calendar year 2006’ for

1           ‘calendar year 1992’ in subparagraph (B)  
2           thereof.”.

3           (B) CONFORMING AMENDMENT.—Clause  
4           (i) of section 32(j)(1)(B) of such Code is  
5           amended by inserting “(other than the amount  
6           described in paragraph (2))” after “subsections  
7           (b)(2)(A)”.

8           (3) EFFECTIVE DATE.—The amendments made  
9           by this subsection shall apply to taxable years end-  
10          ing after December 31, 2005.

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 who meets the  
4 age requirements of section 152(c)(3) before  
5 the end of the taxable year of the eligible indi-  
6 vidual,

7           “(C) is required to make child support  
8 payments with respect to such child—

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

12           “(ii) through a State agency respon-  
13 sible for administering the State plan  
14 under part D of title IV of the Social Secu-  
15 rity Act, and

16           “(D) has paid child support during the  
17 taxable year in an amount not less than the  
18 amount of child support due during the taxable  
19 year for every order requiring the individual to  
20 make child support payments.

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

1 (2) VERIFICATION OF PAYMENT.—

2 (A) IN GENERAL.—The Secretary of  
3 Health and Human Services, in consultation  
4 with the Secretary of the Treasury, shall in-  
5 clude in the Federal Case Registry of Child  
6 Support Orders established under section  
7 453(h) of the Social Security Act (42 U.S.C.  
8 653(h)) such information as the Secretary of  
9 the Treasury determines necessary to allow for  
10 verification of the status of individuals as quali-  
11 fied individuals (as defined under section 32(n)  
12 of the Internal Revenue Code of 1986, as added  
13 by paragraph (1)).

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

24 (C) STATE PROCEDURES.—The Secretary  
25 of Health and Human States, in consultation

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

11 (3) EFFECTIVE DATE.—The amendment made  
12 by paragraph (1) shall apply to taxable years begin-  
13 ning after December 31, 2007.

14 (c) MARRIAGE PENALTY RELIEF.—

15 (1) IN GENERAL.—Subparagraph (B) of section  
16 32(b)(2) of the Internal Revenue Code of 1986 is  
17 amended—

18 (A) in clause (ii), by striking “, 2006, and  
19 2007, and” and inserting “and 2006”,

20 (B) in clause (iii) by striking “after 2007.”  
21 and inserting “in 2007, and”, and

22 (C) by adding at the end the following new  
23 clause:

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

1 (2) INFLATION ADJUSTMENT.—Clause (ii) of  
2 section 32(j)(1)(B) of such Code is amended—

3 (A) by striking “\$3,000” and inserting  
4 “\$4,000”, and

5 (B) by striking “subsection (b)(2)(B)(iii)”  
6 and inserting “subsection (b)(2)(B)(iv)”.

7 (3) EFFECTIVE DATE.—The amendments made  
8 by this subsection shall apply to taxable years begin-  
9 ning after December 31, 2005.

10 **SEC. 202. TAX TREATMENT OF INVERTED ENTITIES.**

11 (a) IN GENERAL.—Section 7874 of the Internal Rev-  
12 enue Code of 1986 is amended—

13 (1) by striking “March 4, 2003” in subsection  
14 (a)(2)(B)(i) and in the matter following subsection  
15 (a)(2)(B)(iii) and inserting “March 20, 2002”,

16 (2) by striking “at least 60 percent” in sub-  
17 section (a)(2)(B)(ii) and inserting “more than 50  
18 percent”,

19 (3) by striking “80 percent” in subsection (b)  
20 and inserting “at least 80 percent”,

21 (4) by striking “60 percent” in subsection (b)  
22 and inserting “more than 50 percent”,

23 (5) by adding at the end of subsection (a)(2)  
24 the following new sentence: “Except as provided in  
25 regulations, an acquisition of properties of a domes-

1       tic corporation shall not be treated as described in  
2       subparagraph (B) if none of the corporation’s stock  
3       was readily tradeable on an established securities  
4       market at any time during the 4-year period ending  
5       on the date of the acquisition.”, and

6               (6) by redesignating subsection (g) as sub-  
7       section (h) and by inserting after subsection (f) the  
8       following new subsection:

9       “(g) SPECIAL RULES APPLICABLE TO EXPATRIATED  
10   ENTITIES.—

11               “(1) INCREASES IN ACCURACY-RELATED PEN-  
12   ALTIES.—In the case of any underpayment of tax of  
13   an expatriated entity—

14                       “(A) section 6662(a) shall be applied with  
15                       respect to such underpayment by substituting  
16                       ‘30 percent’ for ‘20 percent’, and

17                       “(B) if such underpayment is attributable  
18                       to one or more gross valuation understatement-  
19                       ments, the increase in the rate of penalty under  
20                       section 6662(h) shall be to 50 percent rather  
21                       than 40 percent.

22               “(2) MODIFICATIONS OF LIMITATION ON INTER-  
23   EST DEDUCTION.—In the case of an expatriated en-  
24   tity, section 163(j) shall be applied—

1           “(A) without regard to paragraph  
2           (2)(A)(ii) thereof, and

3           “(B) by substituting ‘25 percent’ for ‘50  
4           percent’ each place it appears in paragraph  
5           (2)(B) thereof.”.

6           (b) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply to taxable years ending after  
8 March 20, 2002.

9   **SEC. 203. TAX TREATMENT OF CONTROLLED FOREIGN COR-**  
10                           **PORATIONS ESTABLISHED IN TAX HAVENS.**

11           (a) IN GENERAL.—Subchapter C of chapter 80 of the  
12 Internal Revenue Code of 1986 (relating to provisions af-  
13 fecting more than one subtitle) is amended by adding at  
14 the end the following new section:

15   **“SEC. 7875. CONTROLLED FOREIGN CORPORATIONS IN TAX**  
16                           **HAVENS TREATED AS DOMESTIC CORPORA-**  
17                           **TIONS.**

18           “(a) GENERAL RULE.—If a controlled foreign cor-  
19 poration is a tax-haven CFC, then, notwithstanding sec-  
20 tion 7701(a)(4), such corporation shall be treated for pur-  
21 poses of this title as a domestic corporation.

22           “(b) TAX-HAVEN CFC.—For purposes of this sec-  
23 tion—

1           “(1) IN GENERAL.—The term ‘tax-haven CFC’  
2 means, with respect to any taxable year, a foreign  
3 corporation which—

4                   “(A) was created or organized under the  
5 laws of a tax-haven country, and

6                   “(B) is a controlled foreign corporation  
7 (determined without regard to this section) for  
8 an uninterrupted period of 30 days or more  
9 during the taxable year.

10           “(2) EXCEPTION.—The term ‘tax-haven CFC’  
11 does not include a foreign corporation for any tax-  
12 able year if substantially all of its income for the  
13 taxable year is derived from the active conduct of  
14 trades or businesses within the country under the  
15 laws of which the corporation was created or orga-  
16 nized.

17           “(c) TAX-HAVEN COUNTRY.—For purposes of this  
18 section—

19                   “(1) IN GENERAL.—The term ‘tax-haven coun-  
20 try’ means any of the following:

“Andorra	Guernsey	Panama
Anguilla	Isle of Man	Samoa
Antigua and Barbuda	Jersey	San Marino
Aruba	Liberia	Federation of
Commonwealth of the	Principality of	Saint Christ-
Bahamas	Liechtenstein	opher
Bahrain	Republic of the	and Nevis
Barbados	Maldives	Saint Lucia
Belize	Malta	Saint Vincent
Bermuda	Republic of the	and the
British Virgin Islands	Marshall Islands	Grenadines
Cayman Islands	Mauritius	Republic of the
Cook Islands	Principality of Monaco	Seychelles



1           “(6) imported property income for the taxable  
2           year (determined under subsection (j) and reduced  
3           as provided in subsection (b)(5)).”.

4           (b) DEFINITION OF IMPORTED PROPERTY IN-  
5           COME.—Section 954 of the Internal Revenue Code of 1986  
6           is amended by adding at the end the following new sub-  
7           section:

8           “(j) IMPORTED PROPERTY INCOME.—

9           “(1) IN GENERAL.—For purposes of subsection  
10          (a)(6), the term ‘imported property income’ means  
11          income (whether in the form of profits, commissions,  
12          fees, or otherwise) derived in connection with—

13                   “(A) manufacturing, producing, growing,  
14                   or extracting imported property;

15                   “(B) the sale, exchange, or other disposi-  
16                   tion of imported property; or

17                   “(C) the lease, rental, or licensing of im-  
18                   ported property.

19          Such term shall not include any foreign oil and gas  
20          extraction income (within the meaning of section  
21          907(c)) or any foreign oil related income (within the  
22          meaning of section 907(c)).

23                   “(2) IMPORTED PROPERTY.—For purposes of  
24          this subsection—

1           “(A) IN GENERAL.—Except as otherwise  
2 provided in this paragraph, the term ‘imported  
3 property’ means property which is imported  
4 into the United States by the controlled foreign  
5 corporation or a related person.

6           “(B) IMPORTED PROPERTY INCLUDES CER-  
7 TAIN PROPERTY IMPORTED BY UNRELATED  
8 PERSONS.—The term ‘imported property’ in-  
9 cludes any property imported into the United  
10 States by an unrelated person if, when such  
11 property was sold to the unrelated person by  
12 the controlled foreign corporation (or a related  
13 person), it was reasonable to expect that—

14                   “(i) such property would be imported  
15 into the United States; or

16                   “(ii) such property would be used as  
17 a component in other property which would  
18 be imported into the United States.

19           “(C) EXCEPTION FOR PROPERTY SUBSE-  
20 QUENTLY EXPORTED.—The term ‘imported  
21 property’ does not include any property which is  
22 imported into the United States and which—

23                   “(i) before substantial use in the  
24 United States, is sold, leased, or rented by  
25 the controlled foreign corporation or a re-

1           lated person for direct use, consumption,  
2           or disposition outside the United States; or

3           “(ii) is used by the controlled foreign  
4           corporation or a related person as a com-  
5           ponent in other property which is so sold,  
6           leased, or rented.

7           “(3) DEFINITIONS AND SPECIAL RULES.—

8           “(A) IMPORT.—For purposes of this sub-  
9           section, the term ‘import’ means entering, or  
10          withdrawal from warehouse, for consumption or  
11          use. Such term includes any grant of the right  
12          to use intangible property (as defined in section  
13          936(h)(3)(B)) in the United States.

14          “(B) UNITED STATES.—For purposes of  
15          this subsection, the term ‘United States’ in-  
16          cludes the Commonwealth of Puerto Rico, the  
17          Virgin Islands of the United States, Guam,  
18          American Samoa, and the Commonwealth of  
19          the Northern Mariana Islands.

20          “(C) UNRELATED PERSON.—For purposes  
21          of this subsection, the term ‘unrelated person’  
22          means any person who is not a related person  
23          with respect to the controlled foreign corpora-  
24          tion.

1           “(D) COORDINATION WITH FOREIGN BASE  
2           COMPANY SALES INCOME.—For purposes of this  
3           section, the term ‘foreign base company sales  
4           income’ shall not include any imported property  
5           income.”.

6           (c) SEPARATE APPLICATION OF LIMITATIONS ON  
7 FOREIGN TAX CREDIT FOR IMPORTED PROPERTY IN-  
8 COME.—

9           (1) BEFORE 2007.—

10           (A) IN GENERAL.—Paragraph (1) of sec-  
11 tion 904(d) of the Internal Revenue Code of  
12 1986 (relating to separate application of section  
13 with respect to certain categories of income), as  
14 in effect for taxable years beginning before Jan-  
15 uary 1, 2007, is amended by striking “and” at  
16 the end of subparagraph (H), by redesignating  
17 subparagraph (I) as subparagraph (J), and by  
18 inserting after subparagraph (H) the following  
19 new subparagraph:

20           “(I) imported property income, and”.

21           (B) IMPORTED PROPERTY INCOME DE-  
22 FINED.—Paragraph (2) of section 904(d) of  
23 such Code, as so in effect, is amended by redesi-  
24 gnating subparagraphs (H) and (I) as subpara-  
25 graphs (I) and (J), respectively, and by insert-

1 ing after subparagraph (G) the following new  
2 subparagraph:

3 “(H) IMPORTED PROPERTY INCOME.—The  
4 term ‘imported property income’ means any in-  
5 come received or accrued by any person which  
6 is of a kind which would be imported property  
7 income (as defined in section 954(j)).”.

8 (C) LOOK-THRU RULES TO APPLY.—Sub-  
9 paragraph (F) of section 904(d)(3) of such  
10 Code, as so in effect, is amended by striking  
11 “or (D)” and inserting “(D), or (I)”.

12 (2) AFTER 2006.—

13 (A) IN GENERAL.—Paragraph (1) of sec-  
14 tion 904(d) of the Internal Revenue Code of  
15 1986 (relating to separate application of section  
16 with respect to certain categories of income), as  
17 in effect for taxable years beginning after De-  
18 cember 31, 2006, is amended by striking “and”  
19 at the end of subparagraph (A), by redesign-  
20 ating subparagraph (B) as subparagraph (C),  
21 and by inserting after subparagraph (A) the fol-  
22 lowing new subparagraph:

23 “(B) imported property income, and”.

24 (B) IMPORTED PROPERTY INCOME DE-  
25 FINED.—Paragraph (2) of section 904(d) of

1 such Code, as so in effect, is amended by redesi-  
 2 gnating subparagraphs (J) and (K) as sub-  
 3 paragraphs (K) and (L), respectively, and by  
 4 inserting after subparagraph (I) the following  
 5 new subparagraph:

6 “(J) IMPORTED PROPERTY INCOME.—The  
 7 term ‘imported property income’ means any in-  
 8 come received or accrued by any person which  
 9 is of a kind which would be imported property  
 10 income (as defined in section 954(j)).”.

11 (C) CONFORMING AMENDMENT.—Clause  
 12 (ii) of section 904(d)(2)(A) of such Code, as so  
 13 in effect, is amended by inserting “or imported  
 14 property income” after “passive category in-  
 15 come”.

16 (d) TECHNICAL AMENDMENTS.—

17 (1) Clause (iii) of section 952(c)(1)(B) of such  
 18 Code (relating to certain prior year deficits may be  
 19 taken into account) is amended—

20 (A) by redesignating subclauses (II), (III),  
 21 (IV), and (V) as subclauses (III), (IV), (V), and  
 22 (VI), and

23 (B) by inserting after subclause (I) the fol-  
 24 lowing new subclause:

1                                   “(II) imported property in-  
2                                   come,”.

3                   (2) Paragraph (5) of section 954(b) of such  
4                   Code (relating to deductions to be taken into ac-  
5                   count) is amended by striking “and the foreign base  
6                   company oil related income” and inserting “the for-  
7                   eign base company oil related income, and the im-  
8                   ported property income”.

9                   (e) EFFECTIVE DATES.—

10                   (1) IN GENERAL.—Except as provided in para-  
11                   graph (2), the amendments made by this section  
12                   shall apply to taxable years of foreign corporations  
13                   beginning after the date of the enactment of this  
14                   Act, and to taxable years of United States share-  
15                   holders within which or with which such taxable  
16                   years of such foreign corporations end.

17                   (2) SUBSECTION (c).—The amendments made  
18                   by subsection (c)(1) shall apply to taxable years be-  
19                   ginning after the date of the enactment of this Act  
20                   and before January 1, 2007, and the amendments  
21                   made by subsection (c)(2) shall apply to taxable  
22                   years beginning after December 31, 2006.

○