



**DEPARTMENT OF
ASSESSMENTS AND TAXATION**

Larry Hogan, Governor · Boyd K. Rutherford, Lt. Governor · Michael L. Higgs, Jr., Director

DATE: February 3, 2021

BILL NUMBER: SB0301

COMMITTEE: Ways and Means

BILL TITLE: Education, Health, and Environmental Affairs

SDAT POSITION: Letter of Information

The State Department of Assessments and Taxation (SDAT) offers the following information for SB0301, a bill that would require SDAT to collect information from publicly held domestic and foreign corporations, and non-stock corporations with total assets exceeding \$100,000,000; and then report annually on strategies for promoting diversity and inclusion among boards of directors and corporate executive officers. As stated below, the Department advises that it does not monitor whether an entity is public or private nor a business' assets, and feels strongly that the reporting requirements are outside of the scope of the Department's mission and subject matter expertise.

§11-101(d)(1): This section could not be efficiently implemented as currently written, as the Department does not monitor whether an entity is publicly or privately held, nor the corporation's assets, and the Department would not be able to verify whether a business should, or should not, submit any additional information required by this legislation. Further, the Department feels that this would create a burden on corporations that is not equally applied to other business entities. SDAT would not be able to verify the accuracy of information regarding self identification.

§11-101(d)(1)(i): The Department would incur a one-time programming cost of \$228,240 to add the categories of race and ethnicity to SDAT's business database (the Maryland Business Entity System). The Department would also have to identify one or two other data points that are currently reported as part of the Annual Report and Personal Property Return, and remove them from the database and reporting requirements. Although SDAT is working diligently to modernize its systems, the current Maryland Business Entity System is a mainframe application running on COBOL programming, and has technological limitations that make changes time-consuming, difficult, and costly.

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The Department would also have to determine what categories of races and ethnicities can be reported and assumes it will be able to rely on categories provided by another government entity.

§11-101(d)(1)(ii)-(iv) & (2): These sections require the Department to collect a significant amount of additional information, including a description of the corporation’s process for identifying and evaluating nominees for the board of directors, including if demographic diversity is considered; a description of the corporation’s process for identifying and appointing executive officers, including if demographic diversity is considered; a description of the corporation’s policies and practices for promoting diversity, equity, and inclusion among its board of directors and executive officers; and the corporation’s consolidated EEO-1 report.

The Department advises that it has never interacted with these types of documents, and would not be able to verify whether businesses are submitting the correct ones or if the ones submitted are sufficiently completed. The documents would be included as “attachments” to the Annual Report and Personal Property Tax Return, and therefore copies would not be available online, but could be requested through SDAT’s Copies Division.

These reporting requirements would result in SDAT having to collect responses of an indeterminate length. The department is concerned that because this data won’t be transcribed or stored in an easily searchable format, it will take a significant amount of time for two full-time staff to manually review the attachments when preparing to complete the Annual Report. SDAT has never had a requirement to *describe a respondent’s process or policies* as part of a report, and doesn’t presently require businesses to report bylaws, ownership structures, operating agreements, etc.

Although all documents would ultimately be digitized, businesses frequently have issues uploading large files if they are not familiar with how to lower the resolution on an image. If a business decides to mail their Annual Report in, the Department would incur costs of approximately \$1.10 per Annual Report mailed in, and \$0.07 per page for storage space and data validation efforts. For documents submitted online, the Department would incur approximately \$0.009 per page for storage space.

§11-101(e): The Department advises that it has no expertise with best practices related to boards of directors or corporate executive officers, nor promoting racial and ethnic diversity on those boards and in those positions; and feels as though those two efforts are not within the scope of the agency’s mission. SDAT’s Charter Division is essentially a repository of documents, and SDAT’s database doesn’t presently store board membership nor executive officer information. The limited amount of information required in §11-101(c) is the exception, and when that legislation was deliberated in 2019 the Department shared some similar concerns as those

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included in this letter. However, §11-101(c) only requires the Department to include two numerical data fields, whereas SB301 would require the Department to collect significantly more data, and then report on the information obtained and strategies for racial and ethnic inclusion.

While the Department appreciates and understands the intent of the bill, the Department feels that SDAT is not the appropriate organization to make recommendations about strategies for promoting diversity and inclusion in businesses. Otherwise, the Department would need to hire two grade 18 employees to study and implement this report, the salary and operating expenses of which would cost \$123,933 in FY22, increasing to \$174,297 in FY25. Among the corporations that are registered with SDAT, the Department is unable to predict or estimate that number of entities that would be subject to this bill, therefore the implementation and staff costs may be significantly higher.

The Department does not offer advice or guidance to businesses.

For these reasons, SDAT respectfully requests the committee strongly consider the information presented as the committee deliberates SB0301.

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