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THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

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Senator Justin Ready
SB 363 – Procurement Contracts – Disclosures to Secretary of State – Beneficial Ownership

Chair Guzzone, Vice-Chair Rosapepe and members of the Budget and Tax Committee:

Senate Bill 363 was requested by a constituent. It would alter the definition of “beneficial ownership” under State procurement law, which alters the types of individuals who must disclose the ownership stake in businesses that have contracts with the State.

Currently, if a business has a contract with the State of Maryland, anyone owning more than 5% of that business that does more than \$200,000 worth of the business with the State, must report their ownership to the Secretary of State. Senate Bill 363 would change the amount of ownership 25% of business and/or if the person is a director in the business.

While owners having 5% ownership typically do not make any management decisions or legally bind the company in any way the current law could subject them to criminal convictions and fines, nonetheless. Senate Bill 363 protects employees who are fortunate to gain minority ownership interest as a means of promotion for exemplary work. If these owners own less than 25% of the company and have no contractual/legal authority why subject them to Maryland’s current Beneficial Ownership rules? At their level of ownership, it is conceivable that they will not be privy to any or all agreements the business has with the State, no matter the dollar amount. The Federal Government realized that their Beneficial Ownership rules were overly burdensome for minority interest owners. Therefore, on May 11 2016, the federal government published a final rule that amended the definition of Beneficial Ownership that became effective on May 11, 2018, as outlined below.

- (i) Each individual, if any, who owns, directly or indirectly, 25 percent or more of the equity interests of the legal entity customer (e.g. each natural person that owns 25 percent or more of the shares of a corporation);

- (ii) An individual with significant responsibility for managing the legal entity customer (e.g. Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Managing Member, General Partner, President, Vice President, or Treasurer).

The purpose of SB 363 is to bring Maryland current Beneficial Ownership law to meet federal standards and protect an owner/officer having less than 25% ownership with no control of the company from potential criminal penalties and fines.

I respectfully request a **favorable** vote on Senate Bill 363.