PotomacEdison
A FirstEnergy Company

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OPPOSE – Senate Bill 0766
HB1007 – Fair Share for Maryland Act of 2024
Budget and Tax Committee
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Potomac Edison, a subsidiary of FirstEnergy Corp., serves approximately 285,000 customers in all or parts of seven Maryland counties (Allegany, Carroll, Frederick, Garrett, Howard, Montgomery, and Washington). FirstEnergy is dedicated to safety, reliability, and operational excellence. Its ten electric distribution companies form one of the nation's largest investor-owned electric systems, serving customers in Ohio, Pennsylvania, New Jersey, New York, West Virginia, and Maryland.

Unfavorable

Potomac Edison / FirstEnergy opposes Senate Bill 0766 – *Fair Share for Maryland Act of 2024*. SB-766 would institute combined tax reporting for businesses, including holding companies, operating a unitary business in the state of Maryland beginning in 2028.

Potomac Edison / FirstEnergy requests an Unfavorable report on SB-766 because of its onerous accounting burdens and negative economic development implications of combined reporting.

SB-766 proposes a dramatic change to Maryland's system of taxing businesses, as this legislation would institute combined income tax reporting for businesses that also have revenue generated in other states, territories, and countries. Combined reporting contributes to revenue and tax volatility from year-to-year and creates complex and burdensome tax reporting and accounting requirements. This needlessly increases costs and severs the link between tax liability and true economic activity in the state. This issue is particularly important for regulated utilities and is why the standalone model is preferred for utility taxation.

Potomac Edison / FirstEnergy is highly regulated in each of the jurisdictions in which we serve customers. The regulatory construct over electric distribution and transmission companies imposes extremely strict accounting measures that are intended to ensure that a utility recovers only its actual operating expenses (including taxes) and not those of affiliates operating in other jurisdictions. This is one of the key reasons New Jersey exempted utilities (subject to federal or state regulation) from their unitary taxation statute. If Maryland were to enact combined reporting without such an exemption, regulated utilities would be unable to recover the additional tax liability in the states where the additional income is derived. This would then lead to unrecoverable costs, and eventually negatively impact customer's rates.

From an economic development standpoint, combined reporting will be a competitive disadvantage for Maryland. Within the mid-Atlantic region, neighboring states - including Virginia, Pennsylvania, and Delaware - do not utilize the mandatory combined reporting method. Maryland's economic development efforts could be thwarted by the adoption of a new taxation system that would harm the attraction and retention of businesses, and the jobs and economic opportunities these businesses provide.

Combined reporting has been exhaustively researched and debated for years among policymakers in Maryland. These discussions have always concluded that combined reporting is not an appropriate or accurate method of computing state taxable income or attributing multistate business income to economic activity in Maryland. **For these reasons, Potomac Edison / FirstEnergy respectfully requests an Unfavorable report on SB-766.**