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February 2, 2023

The Honorable Venessa E. Atterbeary
Chair, House Ways and Means Committee
Room 131, House Office Building
Annapolis, Maryland 21401

RE: House Bill 15- Income Tax Subtraction Modification - Military and Public Safety
Retirement Income - FAVORABLE

Dear Chair Atterbeary and Members of the Committee,

On behalf of the Army Alliance, I am pleased to support the referenced legislation and thank Delegate Rogers for its introduction. With respect to the provisions of House Bill 15 that propose to affect the taxable treatment of military retirement income, the bill is identical to Senate Bill 83. We should remind the Committee that Senate Bill 130 from 2022 passed out of the Senate but failed to advance in the House Ways and Means Committee. We hope the outcome this year will be different.

The Army Alliance is a nonprofit advocacy organization whose sole mission is to provide support for one of our major military installations in the State – the Aberdeen Proving Ground (APG). From its founding in 1917, APG has grown into the central research facility for the United States Army, one of a number of such military installations in our State. APG and the defense community in the surrounding area are the largest employer in Northeastern Maryland.

With respect to the military retirement income taxation provisions in House Bill 15, we wish to draw the Committee's attention to the language on page 2, line 25 of the bill. This reflects a longstanding effort by legislative leaders to recognize the importance of the defense community as a whole to our State economy. As we explain below, the rate of State personal income taxation for employees in the defense industry has a direct and substantial effect on workforce availability for the industry. This represents an ongoing and significant challenge to the ability of defense contractors to secure qualified employees to work in Maryland.

The challenge may be understood this way: while the defense industry has the same need for highly qualified, knowledge-based employees that many businesses in Maryland have, there is a unique requirement in the defense industry. That requirement is for many employees to possess an active security clearance. Other industries have no such requirement. As a result, military retirees are uniquely qualified to fulfill this workforce need.

Complicating this situation is the fact that other states close to Maryland impose a lower rate of personal income tax on military retirees or even no state income tax at all. In an effort to attract and retain employees at Maryland military installations, the Maryland personal income tax can be a major factor in the prospective employee's decision. Because Maryland is behind other states in reducing the income tax rate on military retirees, it is more difficult to attract them to defense industry jobs in our State.

There is an additional issue in 2023 of which the Committee should be aware. In our federal legislature, where the Army Alliance also maintains an active advocacy role, the current debate in the House of Representatives over whether, and under what terms, to enact an increase in our national debt ceiling has involved all segments of federal spending, including our defense budget. We do not know, and make no prediction, on the outcome of that debate. We should point out, however, that the subject of military base closures, last seen in the early part of this century, has been revived by some House members. We also know that our military leaders closely monitor the activities of states in which military installations are located, and states that actively support our national defense with the adoption of appropriate policies have an advantage in this ongoing evaluation.

The defense industry is perhaps Maryland's largest industry. We are fortunate, as a small state, to have the legacy and the continuing development of installations such as the 100+ year history of Aberdeen Proving Ground as a primary research center for the United States Army. We urge the members of this Committee and this General Assembly to acknowledge the importance of the defense industry and installations like APG. We likewise encourage you to demonstrate your support for this vitally important activity with the passage of House Bill 15. Lastly, we note that the military retirement taxation provisions in the bill represent a modest and incremental change to our State tax policy – easily absorbed by our State economy. APG itself is the largest employer in Northeast Maryland. Other military installations enjoy that status in other regions of the State. House Bill 15 is truly an opportunity for the General Assembly to send a long-needed message about our support for the defense industry and for the military installations that call Maryland home. The people who continue to serve our country in this industry, and who wish to remain in Maryland to do so, need the encouragement of elected officials in the form of this legislation. We respectfully request that you demonstrate that encouragement and that support.

For these reasons, the Army Alliance respectfully requests a favorable report on House Bill 15.

Very truly yours,

A handwritten signature in cursive script that reads "Bryson Popham". The signature is written in black ink and is positioned above the printed name.

Bryson F. Popham

cc: Tony Lisuzzo, President, Army Alliance
Jill McClune, Past President, Army Alliance
Lisa Swoboda, Senior Director, Office of Military & Federal Affairs Maryland