

February 21, 2020

To: Members of the House Ways & Means Committee
From: Delegate Mary Ann Lisanti

Re: Support for HB 371 Tax – Subtraction Modification – Military Retirement Income
(Defense Workforce Opportunity Act)

I've recently received letters supporting HB 371 from active duty retired military from major commands throughout the USA Army. I've heard from Retired Colonels, Major Generals, Lt. Colonels, and program directors. Each of their comments are included here for your review. Their desire to remain Maryland residents is apparent but their frustration around our state's high tax burden.

Delegate Lisanti,

My name is MG (ret) Kirk Vollmecke. I echo and I want to reinforce Jim's comments. Maryland should be the state of choice for post-military and retirement residency. I just retired from APG, 31 August 2019 after over 35 years of service, and I now live in Havre de Grace with my family. It is important for the state legislature and local community councils to help champion active military, retirees, veteran, and family member issues and support. My wife and I help other military families with Autistic kids and we have found the support in this county and local area great. I also hope Perry Point will become a flag ship in long-term care for the VA. There are so many generations that have served and depend upon quality care and support.

To encourage retirees and veterans to stay in Maryland and contribute to the regional and local economies, I ask Maryland to consider exempting military retirement pay from state taxes. It is an important differential as military families transition. In addition, I would ask in attracting more veteran owned businesses and A&D companies to relocate or operate here, especially innovation, software/IT/communications, AI, 5G/telecommunications, EO-IR/optics, space, and cyber security companies. There are major opportunities to balance commercial high-tech R&D and defense in this regional corridor, and Maryland should be the leader of innovation centers spurring disruptive technologies across all markets.

My contact information is below. Again, thank you for considering and/or helping to champion exempting military retirement pay from state taxes.

Kirk

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Here are my comments:

- MD has dramatically changed via the BRAC 2005 with a much larger technological footprint at places like APG and Ft Meade. The new missions of these two installations alone, bring greater importance to the state of Maryland, the security of the United States, and her Soldiers, Sailors, Airmen, Marines, and Coast Guardsmen and women along with their families. The exodus of experienced military personnel could have a negative impact on the cyber readiness of the nation. It could also result in a technological drain of incredible talent which could have second and third order negative impacts on the next generation of young people wanting to serve our nation in this technologically challenging times which will only get more challenging over time.
- The simple point is that people like me want to stay in MD when they retire from the military. Many have lived here most of their lives or have moved here because of what the state offers. These incredibly talented people will go somewhere else that doesn't tax their retirement thus improving their overall quality of life. Pennsylvania, for instance, doesn't tax military retirement so many leave MD.
- The other simple point is that it really treats those that have served the nation in faraway lands and all throughout the continental United States all throughout their adult lives in a lousy way. We can do better.

I hope that his helps. I'm sorry that I can't be there on Friday. Good luck and thank you.

All other addressees, I apologize for this last minute request, but Maryland State Delegate Mary Ann Lisanti needs your opinion on why it is important for a state to not tax military retirement. She is testifying on Friday. Some of you are not living here in MD. Perhaps you still have an opinion on this matter.

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FYI, the attached report released yesterday, says to transition Kirk Army Health Center outpatient facility to an Active Duty only and Occupational Health clinic (AD/OH). All base support functions and pharmacy workload supporting all beneficiaries will be maintained." Put that on top the taxing of military retirement and watch the increase in folks leaving MD...in this case, especially Harford County. (2020.02.20 TAB B NDAA Section 703 Report to the Congressional Defense Committees clean Final approved Letters.pdf)

Delegate Lisanti,

I retired last year after 28 years in the Army, keeping my Texas residency through retirement. My home of record is ID. I have lived in Harford County since 2009, choosing it for the school system. I now work for an AL based company that provides contract technical and programmatic services mostly to the Army and Air Force. I certainly understand the challenges of proposing the elimination of military retirement income taxes. The reality is some do stay because they have overtime (like me) become part of the community. However, most military are not like me. This could be their last duty assignment and very often its their first posting in MD. Since most do not have a tie to the community (different home of record and/or legal residency), taxes for retirement are very much in the forefront of their calculations. We have a retirement process that start at least a year from retirement and is called Soldier For Life (SFL) Transition Assistance Program (TAP). SFL TAP ensures we understand our future finances and taxes really stand out. Everyone knows which states don't tax military retirement. For someone (like almost all military to include spouses) who has never paid state income tax even while living in MD, that number comes across as big or at least big enough to shape our choices. Frankly, the reality is you get what you pay for and the services MD offers are significantly different than PA. But to a retiring soldier that value (cost) is hard to accept especially with our benefits (can't see how we are a burden to the state). Typical military retirement pay can start as early as someone who is 38 years old. That person will likely be doing a new full time job that the state taxes in the same way. The point I'm making is the state is getting income tax anyway. The tax on the retirement pay comes across as gratuitous - especially when military pay was never taxes before. Can't give you thoughts on enticing a retiree to come to APG; my assumption is that its probably not an easy thing to do without community ties.

This discussion reminds me of a conversation I had with my neighbor who lived and worked his whole life as a teacher in Harford County and was living on his MD/Teacher retirement pay. He told me that he wanted to move to TX or somewhere where the taxes were less. I told him you get what you pay for - like retirement benefits for teachers and other nonessential things... Point i'm making is i understand its hard to strike a balance.

Hope this gives you another perspective to generate thoughts. Thanks for your assistance.

BJ Stephens

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Bryan Stephens <bj26stephens@gmail.com>

Ma'am, I will echo Jim's comments about challenges. I recently retired from the Army. Although I currently rent in Maryland, I am looking at purchasing across the line in Pennsylvania because they don't tax my retirement income.

I believe the fact Maryland taxes military retirement is a major factor when folks consider accepting positions at Aberdeen Proving Grounds as well as where they will live even if they take the position.

I fully support any effort to reduce/eliminate taxing military retirement.

Joseph Roberts

Colonel, US Army Retired

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Joseph Roberts <josephw.roberts@gmail.com>

Good morning Delegate Lisanti,

I am among a dwindling number of retired Army friends and family that have stayed in Maryland. One friend and my brother rave about Florida, another retired nearby in Pennsylvania, another in North Carolina. The main reason I am still here is that my wife (also retired military) is still working part time at Johns Hopkins. When she retires from there in the next 2 years, we will have to take a hard look at whether our retirement from 46 combined years serving would be better spent in a different state.

Respectfully,

Gregg Petersen
US Army (retired) Colonel

G Petersen <sig29@aol.com>

Delegate Lisanti-

My friend COL Jim Costigan in Maryland advised that you are supporting a bill in the Maryland Assembly to stop taxing retired pay.

My experience in 13 years of residency in Maryland ended in 2013 when my wife and I moved to FL for primarily financial reasons.

I prepared the attached letter to you as my summary of this experience.

Best wishes in your future endeavors,

David R. Gust

MG, US Army (RET)

David Gust <davidgustllc@gmail.com>

19 February 2020

Delegate Lisanti-

My name is David Gust. I served in the Army for 34 years after being drafted in 1966. I retired as a Major General in November, 2000 and accepted a job position with a small business named TAMSCO with headquarters located in Beltsville, MD. I took my one final "Army-funded" move from a leased house in Springfield, VA to a new home we purchased in Brookeville, MD. My wife and I moved to Maryland in September, 2000.

I will admit that I located to Montgomery County, MD and expected a good quality of life on a home-site of 4.5 acres. But I was not prepared for the continuous growth and expense of government. We paid for our own trash pick-up and also paid for periodic septic tank clean-out. The only county services I used were snowplowing of the roads and Montgomery County police coverage. I lived in the country on Gold Mine Road and was not within the city of Olney, MD nor in the downtown area of old Brookeville, MD. Later, they installed two speed cameras on my road within one mile of my home, one on each direction from my driveway. Speed limit was set at 25 miles an hour, when inside the town of Olney the speed limit was 30 MPH.

I made a good salary as President and CEO of TAMSCO as well as drawing my Army retired pay. I applied and received "homestead exemption" and recorded my Veteran status with the county. We registered to vote, got Maryland drivers' licenses and registered our two cars in Maryland.

My employment status with TAMSCO ended after four years when the company was purchased. I then worked for Bechtel Federal in Frederick, MD for 2 1/2 years. (The Federal company moved out of Frederick, MD to Reston, VA several years ago, primarily due to the State tax on the business, most of which was not done inside Maryland.) I took one more small business job opportunity at USfalcon with offices again in Beltsville, MD. Finally, after nine years working for someone else, I opened a MD LLC and did consulting on my own terms from 2009 to 2013. All of these jobs supported the Army CECOM community in NJ and then after BRAC, in Aberdeen, MD.

We supported the Olney community and had a church home in nearby Derwood, MD. My wife volunteered for 11 years at the Montgomery County General Hospital Thrift Shop.

I provide all of the above info to put in context: "Why did we decide in 2013 to buy a new home in Tampa, FL and relocate from Maryland?" Here are some reasons:

- a. The real estate taxes on my Brookeville, MD house were \$3900 in 2001. By 2013, the taxes had increased to \$11,500.
- b. Military retired pay was taxed.
- c. The MD Estate Tax was set at 11% of any amount in the estate above \$1 M. This was when the Federal Estate tax exempted any estate amount lower than \$2.5 M.
- d. The Maryland Transportation Fund was drained of millions of dollars collected for roads and bridges, as Gov O'Malley authorized free Metro cards for residents of Baltimore and suburbs of Washington, DC and also to balance the state budget from this dedicated fund.
- e. My MD LLC annual fees were about \$400, including tax on the office equipment.
- f.. Fees seemed to always increase in MD.
 - 1) There was a plastic bag tax of \$.05 in Montgomery County.
 - 2) During a business recovery time in 2010-2011, Montgomery County gave TWO pay raises to police, fire and school employees in one year. (see a above)

3) The famous "rain tax" was passed by the Maryland Assembly.

g. We paid thousands of dollars in state income taxes during those 13 years of residency.

My trust attorney in Columbia, MD planted the seed when she advised that many of her attorney and CPA friends moved to Florida for six months and established residency, then worked part time in Maryland.

We made the move to FL in late 2013. One last attempt at collecting money from departing residents was obvious at the house closing. The closing agent took the drivers' licenses of both buyers and sellers. If the sellers were not both residents of Maryland, the closing agent was obligated to withhold 7% of the sales price to pay state taxes on capital gains made by the seller. The decision as to the amount of the capital gains tax is entirely made by the Comptroller of Maryland and could not be protested. Some of my peers who left MD received any residual amount from the capital gains tax assessment about 8 months later.

So, what is my status today in FL?

a. As a consultant, my Florida LLC costs me a state fee of \$139 annually with property tax of just \$50. Total is about half of Maryland's for a small business LLC.

b. Sales tax in FL is less than in Maryland, even with local county add-on taxes.

c. FL has no state income tax, so military retired pay is not taxed.

d. FL has no State Estate tax.

e. I have calculated that my annual tax savings from moving to Florida is \$17,000 a year.

My wife and I never look back at that decision to move out of Maryland.

Thanks for listening to my experience as a former Maryland resident.

David R. Gust

Major General, US Army (RET)

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Delegate Lesanti,

I just retired In October after serving over 25 years in the Army. I would love to stay in Maryland long term as I've been here for the past ten years and my kids have a solid education and friendship base. However, because of the taxes, especially the taxing of my military retirement, I will be looking to retire long term in states such as Pennsylvania, Texas or Florida that do not tax military retirement. It's a simple matter of being able to live anywhere because of the technical field I am in and choosing to live where my money can go a lot farther than if we stayed in Maryland.

States that don't tax military retirement also attract military retirees. There is a tribal element I want long term. I want to be where other veterans are living and feel appreciated. Maryland is not a military friendly state compared to others.

Feel free to reach out to me if you'd like to discuss in person.

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Ms. Lisanti

I would like to reinforce the comments of Jim Costigan. I am also a retired Army Officer. I am currently employed in a second career and paying Maryland taxes, because my job keeps me here. I am nearing retirement and my wife and I have frequent discussions about "where are we going to go for retirement"? Many other states do not tax military pensions, so this is not a complicated decision process. We have concluded it makes no sense to stay in Maryland because of the tax burden. Maryland will not only lose the revenue from the tax on my pension, they will lose the revenue from the tax on all my other sources of income, which is more than the pension tax. That seems dumb to me. Finally, I will take my life savings elsewhere, where Maryland cannot tax my estate.

Sincerely,

Carl

Carl M. Tegen
Lieutenant Colonel, Retired
US Army
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Delegate Lisanti,

I am a retired Army Officer. My final duty assignment was in Maryland after 28 years serving in the Army. I served all around the country and abroad, to include combat zones. I decided to stay in Maryland when I retired because I enjoyed living here, believed Maryland had a lot to offer, and truly wanted to stabilize my family.

I accepted a job with Army Research Laboratory at Aberdeen Proving Ground. The laboratory was looking for a retired Army Officer with program management and operational experience. Interestingly, I was replacing another retired military Officer who left after a year for a more tax friendly state (Tennessee). Many of my peers could not understand why I chose to stay here, as there were many opportunities in Alabama, which does not tax military retirement.

Having lived in Alabama for six years, I strongly considered going back after retirement since my retirement would have much more value since it was not taxed. In the end, I decided to stay because I loved Maryland, but recently I have been considering relocating to Alabama or Florida as I know my pension will stretch much further there once I retire from the workforce a second time. It is simply an unfortunate fact of the value of taxable income.

I can attest many of my fellow officers left Maryland upon retirement or simply would not seek final military assignment here because of the advantage of living in a state that does not tax military pension. Many are tremendously smart and talented leaders who started their own business or entered the workforce in other states like Florida and Alabama. It would have been good for Maryland if they would have stayed.

Please feel free to contact me for thoughts/questions. I truly appreciate the chance to speak with you on this important topic. Thank you for your service to our community. Maryland Strong!

Sincerely,
Frederick Hughes
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Frederick Hughes <frederick.hughes14@icloud.com>

Delegate Lisanti,

I'm a recent military retiree from Aberdeen Proving Ground, and stayed in Harford County. I stayed because I married a local woman. However, before making that decision to live and work in MD we considered living in PA and DE simply because they do not tax my pension. Several colleagues mentioned this to me as I was retiring because that was the decision they made. We weighed the options carefully, to include living AND working in more "tax friendly" states. With

the proximity of Aberdeen Proving Ground to PA and DE, and Ft Detrick to PA and WV; how many military retirees is the great State of MD losing to residency in those other states.

It seems worth losing potential Income Tax Revenue on those pensions to gain potential Property and Sales Tax Revenue when the Veteran decides to homestead in MD.

I also noted in previous Bills, that MD treats the Military pension different than State First Responders pension. We should all be on equal ground with respect to that.

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Delegate Lisante,

Thank you for the opportunity to share our voices. As a bit of background, I transitioned from the Army just over a year ago after 30 years gratefully serving our country. I am blessed to have had the opportunity to serve and recognize the benefit that a military pension provides. There were, however, many years of sacrifice for me and my family to earn that benefit. The sacrifice came in many forms as you can imagine but the financial sacrifice was not insignificant. We consistently earned less than our peers in the civil sector and did not have the benefit of

overtime or bonuses nor were we allowed to accept any form of financial incentive for the excessive hours worked and commitment to mission. We accepted this construct gracefully because it was both an honor to serve and the promise of some sense of family security in the form of a pension and benefits.

A pension though is not enough and almost all military retirees transition into the workforce to catch up on lost earnings, to pay for our kids' college, to supplement our retirement savings and to use our exceptional skills to the betterment of the communities where we live. It is during this period where we become a victim of our benefit. After a career as successful leaders, transitioned soldiers often have opportunities for success in the civil sector. Success that is compensated and compensation that is well-taxed. This combination of pension and salary pushes more income into the higher federal and the highest state income tax brackets. This erodes the military retirement benefit.

This benefit is also eroded with high sales tax and substantial property taxes. This compounded tax drives the incentive for our skilled military retirees to flee MD. I have witnessed many prospective employees turn down opportunities to set permanent roots in MD due to Military pension tax implications.

MD has a lot to offer our Veterans but the economics of caring for and paying back our families that have stood by us for decades while in service to Nation is a strong impetus for veterans to seek out those states that can offer both opportunity and understanding that a military pension is earned by the soldier not the State.

Respectfully
Mike

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Costigan, Jim <Jim.Costigan@gd-ms.com>
Ms. Lisanti,

I'd echo Jim's analysis. I'd also add that the tax burden in Maryland is so high that it makes economic sense to move. For me, I'd pay at least \$20k on my military retirement over 5 years, if I stay. I can move for that amount and probably less. If you want retired military members to stay, eliminate the taxes on our retirement. Maryland will still reap the benefit of our other retirement plans. If we leave, Maryland will lose it all.

Dennis Card, PhD
Lieutenant Colonel, USA(retired)

From: David Carey <dcarey@quantechserv.com>
Sent: Wednesday, February 19, 2020 5:03 PM
To: Maryann.lisanti@house.state.md.us
Cc: Costigan, Jim <Jim.Costigan@gd-ms.com>
Subject: Fwd: Taxing Military Retirement

Good Afternoon Ma'am,

I too would like to see MD provide tax free military retirement. I grew up in Baltimore City and joined the military in 1983. I retired in January of 2013 after 29 years of service including tours

in Iraq, Afghanistan and Bosnia. I now work in industry supporting APG as a Director of Business Development. I own two homes in Maryland, one in Harford County and one in Ocean Pines. My Family grew up in Maryland as well, we love it here, however, when my wife and I retire again, we are looking to move to a state that does not tax my military pension. The loss to the state of Maryland would be two to four people (my adult children included) who currently pay taxes on both their incomes and their residences.

From an industry perspective, we struggle consistently trying to find qualified, cleared personnel to execute the civilian missions required to support our military. It takes years to garner the skills required to support the tech jobs at APG and Fort Meade. On top of that, it takes years to get an initial security clearance. Retiring military personnel possess both the skills and clearances to begin supporting the mission right away. Many choose not to retire here because states like Alabama, Florida and Pennsylvania possess similar technical vacancies with non taxed military retirement.

Maryland offers a great quality of life for its citizens but in the end, it costs too much for retired military personnel to stay.

I appreciate whatever you can do to support this endeavor.

Thank you for your service to our state and nation.

V/R,
Dave

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Well said Dave.

Delegate Lisanti, what Dave failed to tell you is that he grew up as an Army Aviator in the MD Army National Guard. He commanded the 29th Aviation Brigade (MD ARNG) and deployed the brigade to SWA in support of the combat theater of operation. For Dave to say he would consider leaving speaks volumes. You'll find no one who loves this state more than Dave.

Jim Costigan

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Jim - thanks for including me on this message. I've also included the Harford County Commission on Veterans Affairs President, Bob Brown. I've had the honor to serve with Bob over the past five years advocating for Harford County veterans..

Delegate Lisanti - fully agree with my colleague Jim. I would suggest this transcends industry touch points. It's about honoring the sacrifice of the one percent who served this country selflessly ensuring the freedoms of our nation and national security. Maryland ranks 31st in the nation in veteran population with over 369,800 members or 7.9% of our state population (that's higher than Pennsylvania, Texas, California, New Jersey and New York).

This incentive (which 21 states have already enacted) promotes workforce participation by military members after retirement, improves our state's competitiveness for future federal military investments and honors the courageous service of our military servicemen and women.

I would ask, unless it is already included in the legislation language, adding our surviving spouses to the tax free incentive. As an Army Officer with over 30 years active duty service, my spouse and children served and sacrificed and we should not forget them as we evaluate this incentive.

Let me know how I and the Harford County Veterans Commission can support this cause as you pursue the incentive.



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