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Written Testimony in Support of SB 403

Sales and Use Tax – Elementary or Secondary School Book Fairs – Exemption

I am the parent of a fifth grader in a Maryland public school and am a committed Parent-Teacher Association (PTA) volunteer. The book fair is often a highlight of the school calendar – an opportunity to expose kids to new books and share in a mutually reinforcing celebration of reading and literacy. The memories are wonderful but the tangible takeaways, the ones that remind children of the experience, are the books they get to purchase and call their own.

However, the effect of the sales tax artificially and needlessly limits the number of books a child can purchase at the fair by adding costs the child does not expect or understand. At the moment a volunteer parent should be praising the child's choice of books and the fact they added the prices correctly, they instead find themselves explaining to the child what sales tax is and why they will need to put one or more of the books back on the shelf. Children should not be walking away confused and disappointed from what ought to be a positive memory surrounding reading and literacy.

Inconsistent Treatment with Other PTA Activities

The current sales and use tax regime already provides that the PTA is itself exempt from paying sales tax,¹ while sales by the PTA are similarly exempt from collection of sales tax.² The law also offers that sales of magazine subscriptions by children for the benefit of the PTA, even when fulfilled by a third-party vendor, are also exempt from the sales and use tax.³ However, sales of new books by the PTA, when utilizing a third-party vendor, are **not** exempt from collection of sales tax.

During the year, a child, or their caregivers, could purchase cookies at a PTA bake sale, snacks at a PTA-sponsored picnic, school supplies at a monthly PTA sale, school-branded spiritwear sold by the PTA, and engage in various other PTA fundraising activities, and they

¹ *Md. Code, TG § 11-204(a)(6)*

² *Md. Code, TG § 11-204(b)(6)*

³ *Md. Code, TG § 11-204(b)(5)*

can do so at the price listed. The annual book fair is the first time they have experienced sales tax applied to a PTA activity and, therefore, do not account for it when they put together their budget for the book fair.

Practical Limitations of Collecting Sales Tax at the Book Fair

Children come to the book fair with a set amount of cash or funds contributed into a virtual wallet by their caregiver in advance. They do not have the ability to cover unexpected charges, like the unexpected sales tax, at the time of the transaction. To provide a common example:

At the book fair each class gets a window of 20-30 minutes for students to review the sale and make purchases. Imagine a child coming to the sale, excited about new books. She selects a book about dinosaurs for \$6 and one about Superwoman for \$8. She counts the allowance she saved up and has \$14 to buy books. She does the math – and she is excited to find out she has enough money for both books!

She comes up to the register and discovers her total is actually \$14.84. The parent volunteer must explain to the child that she does not have enough money to buy both books and must put one back. The child looks longingly at both books and hands the book about dinosaurs back to the parent. This conversation generally takes a few minutes with each child.

During this time, other children line up to buy their new favorite books. However, as the next child comes to the register the teacher calls out that book fair time for their class is over and everyone else needs to put their books back.

This happens multiple times a day every day of the sale. At a register you might find five or six kids excited about their new favorite books each but in the end only a single sale is made.

What could have been six kids excited about reading their new favorite books, raising \$15 or \$20 for the school and PTA, becomes six disappointed kids, with one new book, about \$2 for the PTA, and 48 cents for the state.

Parallels to Exempted Magazine Sales

The state already recognizes that third-party vendors may be necessary to effectuate a PTA fundraising program, as evidenced in § 11-204(b)(5)

(b) The sales and use tax does not apply to a sale by:...

(5) an elementary or secondary school in the State or a nonprofit parent-teacher organization or other nonprofit organization within an elementary or secondary

school in the State for the sale of magazine subscriptions in a fund-raising campaign, if the net proceeds are used solely for the educational benefit of the school or its students, **including a sale resulting from an agreement or contract with an organization to participate in a fund-raising campaign for a percentage of the gross receipts under which students act as agents or salespersons for the organization by selling or taking orders for the sale;** [emphasis added]

School-based book fairs are coordinated through a third-party, commonly Scholastic, which provides the sale inventory and point of sale systems (registers) to run the sale. The vendor at the sale is technically the third-party organization, which bears the responsibility to remit the sales tax collected to the state. However, the labor of organizing the sale, setting up the sales area, providing daily support for the sale as children view the sale and make purchases, and finally, tearing down the sales area, is performed exclusively by parents or student volunteers.

Under the agreements with Scholastic to coordinate the sale, the PTA receives 20-25% of the proceeds (a higher percentage is provided for in-kind proceeds, such as additional books for the library or classrooms). Aside from the form of the product – magazine subscription rather than a book – the structure of a book fair is indistinguishable from that contemplated by the existing exemptions for magazine subscription sales.

Fiscal Impact

The fiscal and policy analysis prepared for this bill assumes \$2,500,000 of annual book fair-based revenue state-wide and potential loss to the state of \$150,000 in annual tax revenue. Using the same assumptions, the book fairs would have generated somewhere between \$500,000 and \$625,000 of benefit to the PTA and schools.

Removing those practical limitations – the lack of financial flexibility and time restrictions to complete sales – by ending the collection of sales tax would reasonably generate significant additional sales at such book fairs. Even a modest 20% increase in book fair receipts would almost totally offset the lost revenue by contributing an additional \$100,000 to \$125,000 in direct benefit to the PTAs and schools – *as well as putting more books in the hands of more kids!*

Summary

The sales lost to confusion and time mean less money raised for the school and PTA and fewer books in the hands of our children, particularly as the book fair commonly funds additional books for the school library and to be placed in individual classrooms. PTA funds also help support projects across the school, from “snack pantries” for children who cannot afford enough lunch to additional classroom materials and playground equipment.

PTAs sponsor international nights, where students learn about other cultures, arts nights and science fairs, and support field trips, providing children the opportunity to explore and express themselves in ways that their work during the school day does not allow, and many schools cannot provide directly.

Every effort should be made to ensure children have positive experiences with books and are encouraged to read. The annual book fair and the attendant celebration of literacy and reading is one of those critical, memory-forming touchpoints.

The tax code already recognizes the valuable work the PTA performs and, appropriately, provides for it to conduct its business without imposing sales tax. The exclusion that has arisen around the annual book fair is at odds with that clear statutory priority and should be addressed. For those reasons, I support SB 403.