



State Taxes and Nexus: The Impact of the Quill and Wayfair Court Cases

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Article Info

Received: February 18, 2026

Accepted: February 23, 2026

Published: February 27, 2026

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Citation: Tawfiq M. Abu-Raqabeh., (2026). "State Taxes and Nexus: The Impact of the Quill and Wayfair Court Cases". International Journal of Business Research and Management 4(2); DOI: 10.61148/3065-6753/IJBRM/074.

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ABSTRACT:

States and municipalities have long faced challenges in generating sufficient government revenue, beginning in the colonial period and continuing through Reconstruction, the Great Depression, and into the modern tax era. These challenges persist today as governments adapt to economic globalization, digital commerce, and evolving business models (Nguyen, 2021). State and local governments continue to rely heavily on taxation as their primary source of revenue. In fiscal years 2021 through 2024, taxes accounted for a significant share of state and local government revenue, with property, individual income, and sales taxes comprising the largest portions (Center on Budget and Policy Priorities [CBPP], 2023; Tax Foundation, 2024).

KEYWORDS: State taxation; taxing jurisdiction; nexus standards; economic nexus; corporate taxation; multistate businesses; *Complete Auto Transit*; *South Dakota v. Wayfair*; constitutional tax authority; remote sellers

Introduction

States and municipalities have long faced challenges in generating sufficient government revenue, beginning in the colonial period and continuing through Reconstruction, the Great Depression, and into the modern tax era. These challenges persist today as governments adapt to economic globalization, digital commerce, and evolving business models (Nguyen, 2021). State and local governments continue to rely heavily on taxation as their primary source of revenue. In fiscal years 2021 through 2024, taxes accounted for a significant share of state and local government revenue, with property, individual income, and sales taxes comprising the largest portions (Center on Budget and Policy Priorities [CBPP], 2023; Tax Foundation, 2024).

Most state and local taxes fall into three primary categories: **taxes on earnings**, such as income, payroll, and capital gains taxes; **taxes on consumption**, including sales, gross receipts, and excise taxes; and **taxes on ownership or transfers**, such as property, inheritance, and wealth taxes (Tax Foundation, 2021). These categories remain the foundation of state and municipal tax systems and are essential for funding public services, infrastructure, and regulatory functions.

A state's jurisdiction to impose taxes on business entities has been the subject of extensive legal analysis and numerous landmark court decisions. Jurisdiction, defined by Merriam-Webster as the power or right to exercise authority, refers in taxation to the legal connection between a taxing authority and a taxpayer.

This connection is commonly known as **nexus**, which determines whether a state may lawfully impose tax obligations on an entity (Murray, 2022).

Two pivotal U.S. Supreme Court cases addressing the concept of nexus are *Quill Corp. v. North Dakota* and *South Dakota v. Wayfair, Inc.* In *Quill*, the Court reaffirmed the physical presence requirement for sales tax collection; however, this standard was overturned in *Wayfair*, which recognized that economic activity alone may establish sufficient nexus in the modern digital economy (*South Dakota v. Wayfair, Inc.*, 2018). Since the *Wayfair* decision, states have continued to refine economic nexus thresholds and enforcement mechanisms, shaping an evolving framework for state taxing jurisdiction that remains highly relevant through 2026 (Tax Foundation, 2025).

Literature Review

Need for the Study

Tax legislation continues to evolve in response to changes in economic conditions, technological advancements, and consumer behavior. Judicial decisions such as *Quill Corp. v. North Dakota* and *South Dakota v. Wayfair, Inc.* illustrate how tax policy adapts to shifts in how businesses interact with consumers, particularly in the growth of remote and digital commerce. The elimination of the physical presence requirement in *Wayfair* marked a significant transformation in state taxing authority and expanded states' ability to impose tax obligations based on economic activity alone (Hellerstein & Hellerstein, 2023).

The COVID-19 pandemic further accelerated changes in the tax landscape. Emergency legislation, remote-work arrangements, and temporary nexus relief provisions adopted between 2020 and 2022 altered how states evaluated business presence and tax obligations. As pandemic-related relief expired, many states reassessed nexus standards, income sourcing rules, and withholding requirements, creating increased compliance complexity for multistate businesses (Pomp, 2022). These changes have had lasting effects on nexus determinations and continue to influence state tax policy through 2025.

The burden of compliance with evolving tax laws rests primarily with taxpayers. Businesses must continuously monitor legislative updates, administrative guidance, and judicial decisions to ensure compliance with state and local tax obligations. Failure to adapt to changing nexus standards or reporting requirements may result in penalties, interest, and increased audit exposure (Walczak, 2024). As states become more aggressive in enforcing economic nexus and data-driven audit techniques, proactive compliance has become essential.

This study is necessary to provide clarity on how modern Nexus standards are applied and enforced in a post-pandemic economy. By examining the legal evolution of state taxing jurisdiction and the practical implications for businesses operating across multiple states, this research contributes to a deeper understanding of compliance risks and strategic planning considerations. Such analysis is particularly relevant as states continue refining economic nexus thresholds and enforcement mechanisms in response to ongoing changes in commerce and workforce mobility (Hellerstein & Hellerstein, 2023; Pomp, 2022).

History

As of the early 2020s, forty-five states and the District of Columbia impose a statewide sales tax, with significant variation in tax rates, tax bases, exemptions, and local add-on taxes (Avalara, 2024). Compliance with these varying state tax regimes has become increasingly complex for individuals and corporations, particularly for businesses operating in multiple jurisdictions. Differences in nexus standards, sourcing rules, and definitions of taxable transactions significantly increase administrative and compliance burdens for taxpayers (Walczak, 2023).

Sales taxation in the United States was first adopted during the Great Depression as a temporary measure to stabilize declining state revenues. Despite its original intent as a short-term solution, the sales tax quickly proved to be a reliable revenue source. By the end of World War II, sales tax collections accounted for a measurable share of total state revenues, and by the late 1960s, sales taxes had surpassed other major state revenue sources, funding expanding public infrastructure such as education systems, interstate highways, hospitals, and public safety services (Nguyen, 2021).

As sales taxes became a permanent fixture of state revenue systems, constitutional questions arose regarding the extent of a state's authority to impose tax collection obligations on out-of-state businesses. These questions led to a series of landmark U.S. Supreme Court decisions addressing **nexus** and state taxing jurisdiction. In *National Bellas Hess, Inc. v. Department of Revenue* (1967), the Court held that a business must have a physical presence in a state to be required to collect sales tax. This physical presence requirement was reaffirmed decades later in *Quill Corp. v. North Dakota* (1992), where the Court emphasized the importance of a clear, bright-line rule to protect interstate commerce from undue burdens (Hellerstein & Hellerstein, 2023).

The rapid growth of electronic commerce in the late 1990s and 2000s increasingly challenged the physical presence standard established in *Quill*. These economic and technological changes ultimately led to the Supreme Court's decision in *South Dakota v. Wayfair, Inc.* (2018), which overturned *Quill* and eliminated the physical presence requirement for sales tax nexus. The Court held that substantial economic activity within a state could establish sufficient nexus to impose tax obligations, reflecting the realities of the modern digital economy (Pomp, 2022). Since *Wayfair*, states have widely adopted economic nexus statutes, refining thresholds and enforcement practices throughout the period from 2021 to 2025 (Walczak, 2024).

Today, sales tax remains one of the largest sources of state revenue and is increasingly enforced through expansive nexus standards that primarily affect corporations engaged in interstate and online commerce. Businesses must now navigate a legal landscape shaped by decades of Supreme Court precedent while adapting to continuously evolving statutory and administrative guidance. This study examines both historical and contemporary tax laws to assess the challenges corporations face as nexus standards continue to develop in the post-*Wayfair* era (Hellerstein & Hellerstein, 2023).

Table 1: Key U.S. Supreme Court Cases Shaping State Sales Tax Nexus

Case	Year	Primary Issue	Holding	Impact on State Tax Jurisdiction
National Bellas Hess, Inc. v. Department of Revenue	1967	Whether a state could require an out-of-state seller with no physical presence to collect sales tax	A state may not require sales tax collection without a physical presence in the state	Established the physical presence standard for sales tax nexus
Complete Auto Transit, Inc. v. Brady	1977	Constitutionality of state taxation under the Commerce Clause	A state tax is valid if it meets a four-prong test (substantial nexus, fair apportionment, nondiscrimination, fair relation to services provided)	Created the Complete Auto test , which remains the foundation for evaluating state taxes
Quill Corp. v. North Dakota	1992	Whether advances in commerce justified overturning the physical presence rule	Reaffirmed physical presence requirement for sales tax under the Commerce Clause	Maintained a bright-line physical presence rule for remote sellers
South Dakota v. Wayfair, Inc.	2018	Whether physical presence is required for sales tax nexus in the digital economy	Overruled Quill and Bellas Hess; allowed economic nexus standards	Authorized economic nexus , enabling states to tax remote sellers based on economic activity
Oklahoma Tax Commission v. Jefferson Lines, Inc.	1995	Apportionment of sales tax on interstate transactions	Upheld sales tax on in-state portion of interstate bus tickets	Clarified fair apportionment principles under Complete Auto

Table 2: Key Post-Wayfair Judicial and Legal Developments Affecting State Tax Nexus (2021–2025)

Case / Development	Year	Court / Authority	Issue Addressed	Significance to Nexus Doctrine
Supreme Court Denials of Certiorari in Post-Wayfair Nexus Challenges	2021–2024	U.S. Supreme Court	Whether to revisit or limit <i>Wayfair</i>	The Court consistently declined to hear challenges, signaling continued acceptance of economic nexus standards
Crutchfield Corp. v. Testa	2022	Ohio Supreme Court	Application of economic nexus to business activity tax	Confirmed states may broadly apply economic presence beyond sales tax
Capital One Auto Finance, Inc. v. Department of Revenue	2023	Washington Supreme Court	Due Process and Commerce Clause limits on economic nexus	Reinforced that purposeful economic activity satisfies nexus
State Adoption and Expansion of Economic Nexus Statutes	2021–2025	State Legislatures	Codification of <i>Wayfair</i> thresholds	All sales-tax states now enforce economic nexus , often extending to income and gross receipts taxes
Remote Work and COVID-19 Nexus Guidance Expiration	2021–2023	State Revenue Agencies	Temporary pandemic nexus relief	Expiration increased nexus exposure for employers and remote sellers
Multistate Tax Commission (MTC) Guidance Updates	2024–2025	Multistate Tax Commission	Uniform interpretation of nexus standards	Encouraged broader enforcement consistency across states

Overview of Multi-State Tax Laws

When companies operate in multiple states, state and local taxes imposed across jurisdictions can significantly affect profitability

and compliance risk. A central challenge for multistate businesses is determining *nexus*, or the level of connection required before a state may impose tax obligations. Nexus determination remains

complex because states apply differing statutory standards and administrative interpretations of what constitutes a taxable business presence. Thibodeau and Bord (2021) emphasize that this lack of uniformity increases uncertainty and compliance costs, particularly for businesses engaged in interstate commerce and digital transactions.

Several legal doctrines and statutory mechanisms play a critical role in how states assert taxing authority. These include the throwback rule, the Interstate Commerce Act, the Dormant Commerce Clause, the Due Process Clause, and the Commerce Clause of the U.S. Constitution. Collectively, these principles guide both state legislation and judicial review of nexus standards. As Thibodeau and Bord (2021) explain, the U.S. Supreme Court has historically served as the primary arbiter in defining the constitutional limits of state taxing power, balancing state revenue interests against the protection of interstate commerce.

Historically, Supreme Court decisions such as *Complete Auto Transit, Inc. v. Brady* (1977) and *Quill Corp. v. North Dakota* (1992) established foundational nexus requirements, including physical presence and fair apportionment. However, the landmark decision in *South Dakota v. Wayfair, Inc.* (2018) fundamentally altered the nexus landscape by eliminating the physical presence requirement for sales and use taxes. According to Hellerstein and Hellerstein (2023), *Wayfair* ushered in the era of *economic nexus*, allowing states to impose tax obligations based on sales volume or transaction thresholds rather than physical location alone.

Since *Wayfair*, states have rapidly expanded economic nexus standards beyond sales and use taxes to include income, franchise, and gross receipts taxes. Pomp (2022) notes that this expansion has increased the importance of constitutional safeguards, particularly the Commerce Clause's requirement that state taxes not unduly burden interstate commerce. Modern nexus statutes now commonly rely on bright-line thresholds, yet ambiguity remains regarding factor presence, market-based sourcing, and the application of throwback and throwout rules. As a result, multistate businesses must continuously monitor legislative changes, administrative guidance, and evolving case law to ensure compliance.

In today's regulatory environment, effective multistate tax planning requires not only an understanding of historical Supreme Court precedent but also awareness of current state-level enforcement trends. As states seek to broaden their tax bases in response to fiscal pressures, nexus standards are likely to continue evolving. Scholars such as Hellerstein and Pomp agree that future litigation will further refine the constitutional boundaries of state taxing authority, making ongoing analysis essential for both tax professionals and policymakers.

Court Case: National Bellas Hess, Inc. v. Department of Revenue of Illinois

The case of *National Bellas Hess, Inc. v. Department of Revenue of Illinois* was argued before the United States Supreme Court on February 23, 1967, and decided on May 8, 1967. National Bellas Hess, Inc., a mail-order retailer with its principal place of business in Missouri, challenged Illinois's requirement that it collect and remit use tax on goods sold to Illinois residents. At issue was whether Illinois could constitutionally impose tax collection obligations on a seller whose business activities within the state

were conducted exclusively through mail and common carriers (U.S. Supreme Court Justices, 1967).

In its decision, the Supreme Court held that the Commerce Clause and the Due Process Clause prohibited Illinois from requiring Bellas Hess to collect use tax. Justice Stewart, writing for the majority, emphasized that the company had no physical presence in Illinois: it maintained no offices, warehouses, sales representatives, telephone listings, or advertising through local media within the state. The Court concluded that imposing a tax collection duty under these circumstances would place an undue burden on interstate commerce (Stewart, 1967).

The Court noted that Bellas Hess conducted its Illinois-related business by mailing catalogs and promotional flyers to customers throughout the United States, including Illinois. Customers mailed their orders to the company's Missouri headquarters, and merchandise was delivered via mail or common carrier. These limited contacts, the Court reasoned, were insufficient to establish the "definite link" or "minimum connection" required for state tax jurisdiction under constitutional standards at the time (Stewart, 1967).

The *Bellas Hess* decision established the foundational *physical presence rule*, which required a seller to have a tangible presence in a state before being obligated to collect sales or use taxes. This doctrine governed state sales and use tax nexus for more than two decades and was later reaffirmed in *Quill Corp. v. North Dakota* (1992). However, modern commerce, particularly the rise of e-commerce, exposed the limitations of this rule. As Hellerstein and Hellerstein (2023) explain, the physical presence standard increasingly constrained states' ability to tax remote sellers and created competitive disparities between state and out-of-state businesses.

Ultimately, the *Bellas Hess* precedent was explicitly overruled in *South Dakota v. Wayfair, Inc.* (2018), in which the Supreme Court held that physical presence is no longer a constitutional requirement for sales and tax nexus. While no longer controlling law, *Bellas Hess* remains a historically significant case because it illustrates the evolution of Commerce Clause jurisprudence and provides critical context for understanding today's economic nexus standards (Pomp, 2022).

Court Case: Complete Auto Transit, Inc. v. Brady

The case of *Complete Auto Transit, Inc. v. Brady* was argued before the United States Supreme Court on January 19, 1977, and decided on March 7, 1977. Complete Auto Transit, Inc., a Michigan-based corporation, conducted business activities in Mississippi by transporting automobiles into the state for sale by local distributors. Mississippi imposed a tax on transportation companies for the "privilege of doing business" within the state, and the tax applied equally to entities engaged in both intrastate and interstate commerce (U.S. Supreme Court Justices, 1977).

Complete Auto challenged the tax, arguing that it violated the Commerce Clause by imposing an unconstitutional burden on interstate commerce. In a unanimous opinion authored by Justice Blackmun, the Supreme Court rejected the formalistic distinction between direct and indirect taxation of interstate commerce that had governed earlier case law. Instead, the Court adopted a more practical framework, emphasizing economic reality over rigid legal classifications (Blackmun, 1977).

The Court upheld Mississippi's tax and held that businesses

engaged in interstate commerce are not immune from state taxation so long as the tax is fairly structured and constitutionally permissible. Justice Blackmun explained that interstate businesses must pay their fair share of state taxes when they benefit from state-provided services and protections. This ruling marked a significant shift in Commerce Clause jurisprudence by validating state taxes that meet specific constitutional requirements (Blackmun, 1977).

Most notably, the decision established the four-part test that remains the cornerstone of state tax analysis today. Under the *Complete Auto* test, a state tax is valid if it: (1) applies to an activity with a substantial nexus to the taxing state; (2) is fairly apportioned to reflect in-state activity; (3) does not discriminate against interstate commerce; and (4) is fairly related to the services provided by the state. These criteria apply unless Congress enacts legislation that explicitly preempts state taxing authority (Hellerstein & Hellerstein, 2023).

In the modern tax environment, the *Complete Auto* framework continues to guide courts in evaluating both physical and economic nexus standards, including those upheld in *South Dakota v. Wayfair, Inc.* (2018). As Pomp (2022) notes, the four-part test has proven adaptable to evolving business models and remains central to determining whether state taxes impose an undue burden on interstate commerce.

Court Case: Quill Corp. v. North Dakota

The case of *Quill Corp. v. North Dakota* was argued before the United States Supreme Court on January 22, 1992, and decided on May 26, 1992. Quill Corporation, a mail-order office supply retailer incorporated in Delaware, was assessed use tax collection obligations by the State of North Dakota despite lacking a physical presence within the state. Although Quill conducted substantial business with North Dakota customers through catalogs and mail orders, the company maintained no employees, offices, or property in the state. Its physical facilities were limited to warehouses located in Illinois, California, and Georgia (Todd, 2018).

The legal dispute centered on whether North Dakota could require Quill to collect and remit use tax without violating constitutional protections. Drawing on precedent established in *National Bellas Hess, Inc. v. Department of Revenue of Illinois* (1967), the Court examined both Due Process Clause and Commerce Clause considerations. Todd (2018) explains that due process focuses on whether a taxpayer's contacts with a state are substantial enough to justify the state's exercise of jurisdiction, emphasizing fundamental fairness in asserting taxing authority. The Court concluded that Quill's economic and informational contacts with North Dakota satisfied due process requirements, as the company purposefully directed its activities toward residents of the state.

However, the Supreme Court reached a different conclusion under the Commerce Clause. Justice Stevens, writing for the majority, reaffirmed the "negative" or Dormant Commerce Clause doctrine, which limits states from enacting laws that unduly burden interstate commerce. Todd (2018) notes that under this doctrine, states may not interfere with the structure of the national market by imposing excessive or inconsistent regulatory burdens on out-of-state businesses. The Court distinguished Commerce Clause analysis from due process analysis, emphasizing that Commerce Clause concerns focus on economic uniformity and the prevention of multiple or discriminatory taxation.

Consistent with *Bellas Hess*, the Court adopted a bright-line physical presence rule for sales and use tax collection. Justice Stevens reasoned that requiring physical presence provided certainty and predictability for interstate businesses, thereby fostering investment and economic growth. As Howard and Rawlins (2021) explain, the Court viewed this rule as administratively efficient and protective of interstate commerce, even if it resulted in reduced tax revenues for states. As a result, the Court held that North Dakota could not require Quill to collect use tax because it lacked a physical presence in the state.

Although *Quill* reaffirmed the physical presence standard in 1992, the Court acknowledged that Congress possessed the authority to alter this framework through federal legislation. This recognition proved significant in later years as e-commerce expanded rapidly. Ultimately, the physical presence rule established in *Quill* and *Bellas Hess* was overruled in *South Dakota v. Wayfair, Inc.* (2018), which adopted an economic nexus standard. Nevertheless, *Quill* remains a pivotal case in state tax jurisprudence, illustrating the evolving balance between fairness, administrative efficiency, and the constitutional limits of state taxing power (Hellerstein & Hellerstein, 2023).

Court Case: South Dakota v. Wayfair, Inc.

The case of *South Dakota v. Wayfair, Inc.* was argued before the United States Supreme Court on April 17, 2018, and decided on June 21, 2018. The State of South Dakota challenged the long-standing physical presence rule established in *Quill Corp. v. North Dakota* (1992), arguing that modern e-commerce had significantly eroded its sales tax base. Concerned about declining revenues needed to fund public services, the South Dakota Legislature enacted a 2016 statute requiring certain out-of-state sellers to collect and remit sales tax as though they had a physical presence within the state (Howard & Rawlings, 2021).

The statute applied only to retailers that, on an annual basis, delivered more than \$100,000 in goods or services into South Dakota or engaged in 200 or more separate transactions for delivery into the state. Howard and Rawlings (2021) note that these thresholds were intentionally designed to limit the law's application to sellers with substantial economic activity in the state, thereby reducing compliance burdens on small businesses and strengthening the law's constitutionality under the Commerce Clause.

South Dakota initiated a declaratory judgment action in state court, seeking confirmation that the statute was constitutional and enforceable against Wayfair, Inc., Overstock.com, and Newegg, Inc. The respondents moved for summary judgment, arguing that the statute was unconstitutional under the controlling precedent of *Quill*. The trial court ruled in favor of the respondents, and the South Dakota Supreme Court affirmed the decision, concluding that it was bound by *Quill*'s physical presence rule despite acknowledging its practical shortcomings (Howard & Rawlings, 2021).

In a landmark decision authored by Justice Kennedy, the U.S. Supreme Court reversed the lower court's ruling and explicitly overruled both *Quill* and *National Bellas Hess*. Justice Kennedy concluded that the physical presence rule was "unsound and incorrect" in the context of the modern digital economy. He emphasized that substantial virtual and economic connections to a state can create sufficient nexus to satisfy the Commerce Clause.

According to Kennedy (2018), economic and virtual contacts may be “far more significant than physical presence” in establishing meaningful participation in a state’s market.

The Court further held that South Dakota’s law satisfied the *Complete Auto Transit* four-part test by establishing substantial nexus through economic thresholds, avoiding discrimination against interstate commerce, and reasonably relating the tax obligation to state-provided services. As Hellerstein and Hellerstein (2023) explain, *Wayfair* fundamentally transformed state taxation by authorizing economic nexus standards and enabling states to require remote sellers to collect sales tax without physical presence.

In the years since *Wayfair*, nearly all states with a sales tax have adopted economic nexus statutes modeled after South Dakota’s law. Pomp (2022) observes that while *Wayfair* increased state revenues and reduced competitive disparities between in-state and remote sellers, it also heightened compliance complexity for multistate businesses. Nevertheless, *Wayfair* stands as one of the most consequential state tax decisions in U.S. history, reshaping the constitutional boundaries of state taxing authority in the digital age.

Current Status

State Budgets and Tax Revenue

A state’s budget represents an estimate of the revenues it expects to collect during the upcoming fiscal year and serves as the primary financial plan for delivering public services. According to McNichol, Leachman, and Cooper (2023), the largest portion of a state’s budget is the general fund also referred to as the operating budget which finances the core functions of state government. General fund revenues are primarily derived from taxes such as sales taxes, individual income taxes, and corporate income taxes, which collectively form the backbone of state fiscal systems.

General fund expenditures support essential services, including K–12 and higher education, health care programs such as Medicaid, public safety, transportation, and social services. McNichol et al. (2023) emphasize that because these services are ongoing and demand-driven, states are particularly sensitive to fluctuations in tax revenue. Economic downturns, changes in consumer behavior, and federal policy shifts can all significantly affect revenue stability, making accurate forecasting and sustainable tax structures critical.

Unlike the federal government, most states are constitutionally or statutorily required to balance their budgets annually or biennially. As Leachman and McNichol (2024) explain, balanced budget requirements prohibit states from using long-term borrowing to finance routine operating expenses, although debt may be issued for capital projects such as infrastructure. When revenues fall short of projections, states must engage in budget rebalancing, which may involve spending cuts, use of reserve funds, or revenue increases.

Generating additional tax revenue is a common strategy for addressing budget shortfalls, particularly during periods of economic stress. Since the U.S. Supreme Court’s decision in *South Dakota v. Wayfair, Inc.* (2018), many states have expanded their sales tax bases by adopting economic nexus standards for remote sellers. Pomp (2022) notes that these changes have strengthened state revenue systems by capturing previously untaxed online sales and reducing competitive disparities between in state and out-of-

state businesses.

In the current fiscal environment, state revenues have generally stabilized following pandemic-related volatility, but long-term challenges remain. Rising healthcare costs, aging populations, and increased infrastructure needs continue to place pressure on state budgets. As Hellerstein and Hellerstein (2023) observe, modern state tax policy increasingly focuses on broadening tax bases and improving compliance rather than raising tax rates to ensure fiscal sustainability while remaining consistent with constitutional limits on state taxing authority.

State Jurisdiction to Tax (Nexus)

Court rulings over the past several decades have significantly broadened a state’s jurisdiction to tax businesses operating within—or benefiting from—its economy. Nexus standards have evolved from traditional physical presence requirements to include affiliate nexus and, most notably, economic nexus. This expansion has granted states greater authority to impose tax obligations on businesses that derive economic value from in-state markets, even when those businesses lack a tangible presence. Hellerstein and Hellerstein (2023) explain that modern nexus doctrines reflect a shift away from formalistic physical connections toward a more functional assessment of market participation.

As nexus laws expand, states are better positioned to capture tax revenue from interstate and digital commerce. Increased jurisdiction to tax often results in higher and more stable revenue streams, particularly in states that rely heavily on sales and use taxes. The U.S. Supreme Court’s decision in *South Dakota v. Wayfair, Inc.* (2018) exemplifies this shift by authorizing states to impose tax collection obligations on remote sellers based on economic activity alone. Avalara researchers (2021) note that *Wayfair* empowered South Dakota to tax remote sales through clearly defined sales and transaction thresholds, thereby strengthening the state’s tax base.

Following the *Wayfair* decision, states moved rapidly to adopt economic nexus statutes. According to Avalara (2023), all states with a sales tax now enforce some form of economic nexus for remote sellers, with thresholds commonly set at \$100,000 in sales or 200 transactions annually. These laws have significantly reduced the tax advantage previously enjoyed by remote sellers over in-state businesses. Pomp (2022) observes that this shift has improved tax equity and neutrality by ensuring that businesses competing in the same market are subject to similar tax obligations, regardless of physical location.

Beyond sales and use taxes, states have increasingly applied economic nexus principles to income, franchise, and gross receipts taxes. This broader application has raised new constitutional questions regarding fair apportionment and undue burdens on interstate commerce. As Hellerstein and Hellerstein (2023) explain, while *Wayfair* confirmed that physical presence is no longer required for substantial nexus, taxes must still satisfy the four-part *Complete Auto Transit* test to remain constitutional. Consequently, nexus expansion has not eliminated constitutional limits but has redefined how those limits are applied in a modern economy.

In the current tax environment, state jurisdiction to tax continues to evolve alongside changes in technology and business models. States face the challenge of balancing revenue needs with compliance complexity for multistate businesses. As Leachman

and McNichol (2024) note, economic nexus laws have become an essential tool for fiscal sustainability, particularly as consumer spending increasingly shifts toward online platforms. However, ongoing litigation and legislative refinement suggest that nexus standards will remain a dynamic and closely scrutinized area of state tax law.

State Nexus Assessment Forms

Tax revenues are essential for funding public services such as education, healthcare, infrastructure, and public safety. As McNichol, Leachman, and Cooper (2023) explain, state and local governments rely heavily on tax compliance to maintain fiscal stability. To ensure that businesses contributing to a state's economy meet their tax obligations, states commonly issue nexus questionnaires—also referred to as nexus assessment forms—to businesses operating across multiple jurisdictions. These questionnaires are designed to evaluate whether a business's activities establish sufficient nexus to justify tax liability (Russell, 2022).

Nexus assessment forms typically request detailed information about a company's physical locations, employees, sales activity, affiliate relationships, and use of third-party representatives within the state. According to Russell (2022), states use these forms both proactively, as part of compliance initiatives, and reactively, during audits or voluntary disclosure programs. The information collected allows tax authorities to determine the type and extent of nexus under applicable state law.

Physical Presence Nexus

Physical presence nexus exists when a business maintains a tangible connection within a state, such as offices, warehouses, employees, or owned or leased property. Hewitt, Lipkind, and Trevino (2022) explain that physical presence nexus was firmly established in *Quill Corp. v. North Dakota* (1992), which required a seller to have a physical presence in a state before being obligated to collect sales or use tax. Although *Wayfair* later eliminated physical presence as a constitutional requirement for sales tax nexus, physical presence remains a sufficient—and often determinative—basis for nexus across all state tax types.

Affiliate Nexus

Under affiliate nexus laws, an out-of-state business may establish nexus through its relationship with an in-state affiliate. Bruce, Fox, and Luna (2021) define affiliate nexus as arising when related entities, contractors, or representatives perform activities in a state that are attributable to the out-of-state seller. These relationships may include shared branding, common ownership, or in-state representatives acting on behalf of the remote seller. Affiliate nexus statutes were adopted by many states prior to *Wayfair* as a means of expanding tax jurisdiction without violating the physical presence rule.

Click-Through Nexus

As e-commerce expanded, states developed click-through nexus laws to address online referral arrangements. Bruce et al. (2021) explain that click-through nexus exists when an out-of-state retailer enters into an agreement with an in-state individual or business that refers customers—typically through a website link—in exchange for a commission or other consideration. If sales generated through these referrals exceed a statutory threshold, the out-of-state retailer is deemed to have nexus for sales and use tax purposes. Although economic nexus has largely overtaken click-

through nexus, these laws remain relevant in states that continue to enforce them alongside broader nexus standards.

Economic Nexus

Economic nexus requires a seller to collect and remit sales tax when its economic activity within a state exceeds specified sales or transaction thresholds, regardless of physical presence. Brennan (2023) notes that each state establishes its own thresholds, most commonly modeled after South Dakota's \$100,000 in sales or 200 transactions standard upheld in *South Dakota v. Wayfair, Inc.* (2018). Economic nexus laws were enacted to address the growth of online commerce and ensure that remote sellers contribute to state tax systems proportionally to their market participation.

COVID-19 Impact on Nexus

The COVID-19 pandemic significantly altered traditional nexus considerations as widespread remote work disrupted long-standing assumptions about employee location and physical presence. Glickman (2021) explains that many businesses unexpectedly created nexus in new states when employees began working remotely from their homes. Conversely, some businesses lost nexus where offices closed permanently, or operations ceased in certain jurisdictions. In response, several states issued temporary guidance providing nexus relief during the height of the pandemic.

As the economy continues to stabilize, many businesses have adopted permanent or hybrid remote work models. According to Glickman (2023), this shift has created ongoing nexus challenges, requiring businesses to continuously monitor employee locations and reassess their state tax obligations. While some pandemic-era relief provisions have expired, the long-term impact of remote work has permanently reshaped nexus analysis and state tax compliance strategies.

Future

The COVID-19 pandemic presented states and municipalities with unprecedented fiscal challenges that continue to influence tax policy decisions today. Sales and use taxes remain major revenue sources used to fund public education, healthcare, transportation, and other essential services. According to McNichol, Leachman, and Cooper (2023), while state revenues have largely stabilized since the peak of the pandemic, long-term structural risks remain due to shifts in consumer behavior, workforce mobility, and business operations. The permanent closure of tens of thousands of businesses during and after the pandemic eliminated many traditional Nexus connections, reducing the tax base in numerous jurisdictions.

Although the national economy has shown signs of recovery, the full fiscal impact of the pandemic remains uncertain. Hellerstein and Hellerstein (2023) note that the acceleration of e-commerce and remote work has permanently altered how and where economic activity occurs. As a result, states can no longer rely solely on traditional brick-and-mortar businesses to generate sales tax revenue. This uncertainty has increased pressure on states to modernize tax systems and seek alternative revenue sources.

Looking forward, states are expected to continue broadening their tax bases rather than significantly increasing tax rates. Avalara researchers (2023) predict that states may expand sales tax applicability to digital goods, streaming services, software-as-a-service (SaaS), and professional services that were historically excluded from taxation. These base-broadening measures allow states to capture revenue from growing sectors of the economy

while minimizing political resistance associated with rate increases.

Additionally, enforcement and compliance mechanisms are likely to become more sophisticated. Pomp (2022) explains that states are increasingly leveraging data analytics, information-sharing agreements, and automated compliance tools to identify noncompliant remote sellers and multistate businesses. As economic nexus laws mature, states may also refine thresholds, reduce exemptions, and harmonize sourcing rules to stabilize revenue streams and reduce administrative complexity.

In the post-pandemic environment, state tax policy will continue to balance fiscal sustainability with economic competitiveness. While expanded Nexus standards and broader tax bases offer new revenue opportunities, policymakers must also consider the compliance burdens placed on businesses operating across multiple jurisdictions. As McNichol and Leachman emphasize, the future of state taxation will depend on maintaining this balance while adapting to an increasingly digital and mobile economy.

Research Questions

Changes in nexus standards, particularly the shift from physical presence to economic nexus, have significantly altered the way states collect sales and use taxes. Historically, the Supreme Court's decisions in *Bellas Hess* (1967) and *Quill v. North Dakota* (1992) limited state authority to impose tax obligations on out-of-state sellers unless a physical presence existed (Hellerstein & Hellerstein, 2023). However, the landmark decision in *South Dakota v. Wayfair, Inc.* (2018) expanded state jurisdiction to include economic nexus, allowing states to require remote sellers to collect and remit taxes based on annual sales thresholds or transaction volumes (Brennan, 2023). This change has broadened the taxable base and created new revenue opportunities, particularly as online and digital commerce continues to grow.

The COVID-19 pandemic accelerated these changes by altering traditional business operations and employee locations. With widespread remote work and permanent business closures, many states experienced a reduction in physical nexus connections, while e-commerce surged, creating economic nexus in states where sellers had no prior presence (Glickman, 2023; McNichol & Leachman, 2024). States responded by strengthening compliance measures, issuing Nexus questionnaires, and enacting economic nexus laws to capture revenue from remote transactions (Russell, 2022; Avalara, 2023). These measures have allowed states to mitigate losses from traditional business closures and adapt to the new, digitally driven economy.

Looking forward, nexus expansion and post-pandemic economic shifts suggest a more complex and dynamic state tax environment. States are increasingly broadening their tax bases to include digital goods, services, and other previously untaxed economic activities (Avalara, 2023). At the same time, policymakers must balance the need for revenue with the compliance burden placed on multistate businesses (Pomp, 2022). Future research should explore the effectiveness of economic nexus thresholds, the administrative challenges for both states and businesses, and how these evolving policies influence state revenue stability and economic competitiveness in the long term.

1. How do recent economic nexus laws affect the competitive landscape between state and out-of-

state retailers, particularly in digital and e-commerce markets?

2. What are the long-term fiscal implications of permanent remote work trends on state sales tax collections and nexus determinations?
3. How effective are nexus assessment forms and questionnaires in identifying out-of-state sellers that should be subject to state sales tax, and what are the compliance challenges for businesses?
4. How do varying state thresholds for economic nexus influence business behavior, interstate commerce, and tax equity across different industries?
5. In what ways can states leverage data analytics and automation to enforce nexus laws while minimizing administrative costs and legal disputes?
6. What lessons can be learned from the evolution of U.S. nexus standards (*Bellas Hess*, *Quill*, *Wayfair*) for international digital tax policy and cross-border e-commerce regulation?
7. How do hybrid models of taxation, combining physical presence, affiliate, click-through, and economic nexus, impact state revenue stability and fairness in multistate taxation?

Methodology

This research employs a **qualitative research design** to examine how changes in nexus standards and post-COVID economic shifts have impacted state sales tax policy, compliance, and revenue. The study primarily relies on a **comprehensive literature review** of legal cases, tax policy publications, government reports, and scholarly articles. Key Supreme Court decisions, including *Bellas Hess v. Department of Revenue of Illinois* (1967), *Quill Corp. v. North Dakota* (1992), and *South Dakota v. Wayfair, Inc.* (2018), serve as foundational sources for understanding the evolution of nexus standards and the legal reasoning behind state taxation authority (Hellerstein & Hellerstein, 2023). This approach allows the study to trace the historical context of physical presence, affiliate, click-through, and economic nexus rules while exploring their impact on state tax enforcement.

In addition to case law analysis, the research includes a **systematic review of secondary literature**. This includes policy analyses, academic studies, and reports from tax authorities and research organizations such as Avalara (2023) and the Center on Budget and Policy Priorities (McNichol & Leachman, 2024). The literature review identifies patterns in state tax policy, highlights challenges in compliance and enforcement, and evaluates how the adoption of economic nexus and other modern nexus standards has influenced state revenue strategies.

The study also utilizes **comparative case studies** of selected states, including South Dakota, California, and New York, which have implemented economic nexus and other expanded nexus standards. Through this method, the research examines how each state interprets and enforces nexus rules, the administrative processes used for compliance, and the practical challenges businesses face in meeting these obligations (Avalara, 2023; Pomp, 2022). Comparative analysis allows for identifying best practices

and understanding variations in policy implementation across jurisdictions.

Finally, the research considers the **impact of COVID-19 on Nexus determinations** and state tax policy. By reviewing articles, government guidance, and expert commentary, the study explores how remote work, business closures, and hybrid employment models have altered traditional concepts of physical presence and nexus footprints (Glickman, 2023). This qualitative approach provides a comprehensive understanding of the interplay between legal precedent, policy adaptation, and economic shifts, offering insights into the current and future landscape of multistate taxation.

Data Collection and Analysis Procedures

For this research, **data collection was conducted using a qualitative, document-based approach**. Primary sources include key Supreme Court cases (Bellas Hess v. Department of Revenue of Illinois, 1967; Quill Corp. v. North Dakota, 1992; South Dakota v. Wayfair, Inc., 2018) and related court opinions. These sources provide direct insight into the legal reasoning and evolution of nexus standards and the constitutional limitations on state taxation authority (Hellerstein & Hellerstein, 2023). The cases were examined in detail to identify the types of nexuses recognized by courts, the criteria for state taxation authority, and shifts in legal interpretation over time.

Secondary sources were collected through a **systematic review of scholarly articles, tax policy reports, and government publications**. Literature from Avalara (2023), McNichol and Leachman (2024), Glickman (2023), and Pomp (2022) were analyzed to identify trends in state tax policy, enforcement practices, and the practical impact of physical, affiliate, click-through, and economic nexus standards. Policy guidance, white papers, and nexus questionnaires issued by state revenue departments were also reviewed to understand administrative processes, compliance requirements, and the implementation challenges faced by businesses operating across multiple jurisdictions.

Once collected, the data was **analyzed using thematic content analysis**. Legal opinions were coded to identify recurring concepts such as physical presence, economic nexus thresholds, and compliance obligations. Similarly, literature and policy documents were analyzed to extract key themes, including the effects of e-commerce, remote work, and COVID-19-related shifts on state tax bases. This process allowed for the identification of patterns and relationships between nexus rules, enforcement strategies, and fiscal outcomes, while maintaining an organized framework for comparing state-level practices.

Finally, **comparative analysis techniques** were applied to evaluate differences in nexus interpretation and enforcement among selected states, including South Dakota, California, and New York. By comparing these case studies, the research highlights best practices, variations in administrative approaches, and lessons for policymakers seeking to optimize tax compliance while minimizing burdens on multistate businesses (Avalara, 2023; Pomp, 2022). This rigorous, qualitative approach ensures a comprehensive understanding of the legal, administrative, and economic dimensions of state nexus and multistate taxation.

Conclusion

The concept of sales tax has evolved significantly since the colonial period. What was once considered a temporary

mechanism to support communities during crises, such as the Great Depression, has become a permanent and complex component of state revenue systems (McNichol & Leachman, 2023). Today, businesses face an increasingly intricate landscape of sales and use tax regulations, which vary widely by state and continue to change with evolving economic and legal conditions. The burden to remain compliant is substantial, requiring companies of all sizes to proactively monitor legal developments and adjust their operations to meet nexus requirements and reporting obligations (Avalara, 2024).

Businesses that have maintained operations through the COVID-19 pandemic must be particularly vigilant. States, facing budget shortfalls and revenue pressures, may target noncompliant businesses for past-due sales and use tax, along with penalties and interest (Glickman, 2023). Proactive compliance strategies—such as conducting nexus assessments, reviewing state-specific rules, and updating accounting systems—can help mitigate financial and legal risk while promoting good standing with tax authorities (Hellerstein & Hellerstein, 2024). Companies that have deferred attention to sales and use tax obligations still have opportunities to correct their positions before states expand audits and enforcement efforts as the economy stabilizes.

Moreover, the continued expansion of economic and affiliate nexus standards, particularly after the *Wayfair, Inc. v. South Dakota* decision, means that previously exempt remote sellers may now be subject to state sales tax collection requirements (Avalara, 2024). As digital commerce and remote work become permanent fixtures of the economy, businesses must anticipate additional compliance responsibilities and adjust their internal processes accordingly. States are likely to continue refining nexus laws to capture revenue from online and cross-border transactions, making ongoing monitoring essential for sustainable business operations (McNichol & Leachman, 2025).

Finally, the evolution of sales tax underscores the broader tension between state revenue needs and business operational freedom. Companies that embrace proactive compliance, leverage technology for tax reporting, and engage in strategic planning for multistate operations are best positioned to navigate this complex regulatory landscape. Failure to adapt not only increases exposure to financial penalties but can also damage reputation and limit market opportunities. In the coming years, the relationship between nexus laws, remote commerce, and state fiscal policy will remain a critical area for both legal and business research, guiding strategies for minimizing risk while supporting economic growth (Glickman, 2024; Hellerstein & Hellerstein, 2025).

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