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South Dakota v. Wayfair

585 U.S. __ (2018)

Parties

Petitioners: State of South Dakota
Respondents: Wayfair Inc., Overstock.com, and Newegg Inc.

Procedure

This case originally appeared before the South Dakota Supreme Court, which had considered whether a customer's physical presence in a business was required for the state to issue sales tax obligations to the establishment. Upon their review, the court ruled against the state, citing prior legal precedent set in place by *Quill Corp. v. North Dakota.* The case was then elevated to the U.S. Supreme Court, whom agreed to reconsider the case materials.

Issue

Should a state be able to issue tax obligations to business, even when their customers are not physically present inside their establishment?

Facts

In 2016, South Dakota passed Senate Bill 106, also known as the *South Dakota Remote Seller Compliance Law.* This law stated out-of-state sellers must collect and remit a sales tax on every transaction, even those that occur with no customers present in a physical South Dakota location. Major online retailers, like Wayfair Inc., Overstock.com, and Newegg Inc., all businesses with no physical establishments in the state, sought legal action against the state, citing prior U.S. Supreme Court rulings that had set the opposite precedent.

Rule

As stated by the U.S. Constitution's Commerce Clause, the physical presence of a consumer is not inherently required for any one state to impose sales tax requirements.

Analysis/Application

Upon review, the court concluded that Commerce Clause's language regarding the matter of a customer's physical presence was "outdated", citing how online retailers can maintain a sizable presence in the market space while have no physical locations. The court delegated to take a more modern interpretation of the Commerce Clause, essentially asking the state instead to focus on whether a seller had "substantial nexus" with the state in question before electing to issue impose sales tax requirements on the business rather than the physical presence of their customers.

Holding

States can, in fact, force out-of-state businesses, and even online retailers, to collect and remit sales taxes, regardless of whether or not their customers complete a transaction physically inside a brick-and-mortar location in the state of South Dakota.

Judgement

Ultimately, the U.S. Supreme Court elected to reverse the lower court's previous decision, finding South Dakota's *Remote Sellers Compliance Clause* to be indeed constitutional.

Policy (Optional)

By reaching this verdict, the U.S. Supreme court intended to even the "playing field" between online retailers and physical, brick-and-mortar businesses. Additionally, the court sought to ensure a legal precedent would be set regarding a state's ability to collect sales taxes effectively in the wake on an explosion on online e-commerce in the past decade.

Dicta (Optional)

During their review, the U.S. Supreme Court made a point to note that modern inventions, such as the internet and high-speed travel, have drastically changed the landscape of our economy, in turn nullifying the original physical presence requirements under the guise of them being "artificial" and "anachronistic".

Dissent (Optional)

In this case, Chief Justice Roberts offered the only descent among the panel. He noted that despite the physical presence requirements being somewhat outdated, the decision to overturn the rule should be that of Congress's to make, and not the court.