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Sales Tax Nexus and Earnings Management

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This article assesses the extent of deferred tax asset changes, which represent earnings management, in response to a change of the number of nexus states online retailers have. We extracted financial data from the quarterly financial reports of Amazon and eBay Inc. from 2009 to 2019. We found that changes of the number of nexus states Amazon and eBay were engaged in negatively affected the change of deferred tax assets in these companies. The finding implies that earnings management would decrease in Amazon and eBay when these online retailers have nexus in more states. We also found an inverted U-shaped relationship between the number of nexus states and the change of deferred tax assets, representing the extent of earnings management. This finding pointed out that when 22 states claim sales tax nexus to Amazon and eBay, these two companies presented maximum extent of earning management.

