

# TAX DOCUMENTATION AND COMPLIANCE CERTIFICATION

**Document No. TD-2024-015 Effective Date: January 15, 2024**

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation with its principal place of business at 2500 Innovation Drive, Suite 400, Wilmington, Delaware 19801 ("Company"), provides proprietary artificial intelligence-powered software solutions for industrial process optimization;

WHEREAS, the Company seeks to document and certify its tax positions regarding revenue recognition, research and development activities, and international operations for the fiscal year ending December 31, 2023;

NOW, THEREFORE, the Company hereby establishes and certifies the following tax documentation and compliance statements:

## 1.0 TAX DOCUMENTATION STATEMENT

**1.1 Documentation Scope.** This Tax Documentation and Compliance Certification ("Documentation") establishes the comprehensive framework for tax treatment of the Company's NexusCore™ Industrial AI Platform and related revenue streams in accordance with Internal Revenue Code ("IRC") requirements and applicable state and international tax regulations. The Documentation encompasses all revenue categories, including but not limited to subscription fees, implementation services, professional services, data processing fees, and ancillary technology services.

**1.2 Revenue Recognition Principles.** The Company adopts ASC 606 principles for revenue recognition of its software-as-a-service ("SaaS") offerings, specifically: (a) Performance obligations for subscription services are satisfied over time with revenue recognized ratably over the contract term; (b) Implementation services revenue is recognized upon completion of distinct performance obligations as defined in customer contracts; (c) Professional services revenue is recognized as services are rendered based on time and materials or fixed-fee arrangements; (d) Multi-element arrangements shall be evaluated to determine standalone selling prices and allocation of transaction prices; (e) Contract modifications shall be assessed to determine whether they constitute separate contracts or modifications to existing arrangements.

**1.3 Technology Development Classification.** Research and development costs associated with artificial intelligence and machine learning technologies shall be: (a) Capitalized in accordance

with ASC 350-40 when meeting capitalization criteria, including technological feasibility; (b) Expensed as incurred when representing research activities or preliminary project stages; (c) Documented in support of IRC Section 41 research credit claims, including: (i) Contemporaneous documentation of qualified research expenses; (ii) Technical uncertainty documentation; (iii) Process of experimentation records; (iv) Innovation and discovery evidence.

**1.4 State Tax Nexus.** The Company maintains: (a) Economic nexus in jurisdictions exceeding revenue thresholds, with specific documentation for: (i) Revenue calculation methodologies; (ii) Transaction volume tracking; (iii) Customer location verification; (b) Physical nexus through employee presence and equipment locations, including: (i) Remote worker documentation; (ii) Server and equipment placement records; (iii) Office and facility registrations; (c) Documentation supporting nexus determinations and revenue sourcing methodologies.

**1.5 International Tax Considerations.** The Company shall maintain: (a) Transfer pricing documentation for intercompany transactions; (b) Permanent establishment analysis for cross-border activities; (c) Value-added tax (VAT) registration and compliance documentation; (d) Documentation supporting treaty positions and withholding tax obligations.

**1.6 Documentation Maintenance.** The Company shall: (a) Review and update tax documentation quarterly; (b) Maintain electronic records for the statutory retention period; (c) Implement version control for all tax position documentation; (d) Establish audit trails for all material tax determinations; (e) Conduct annual reviews of documentation adequacy and compliance.

**1.7 Compliance Certification.** The Chief Financial Officer shall annually certify: (a) Completeness and accuracy of tax documentation; (b) Adherence to established documentation procedures; (c) Implementation of required updates and modifications; (d) Maintenance of supporting evidence for tax positions taken.

## **2.0 REVENUE CLASSIFICATION AND RECOGNITION**

**2.1 Subscription Revenue Recognition** (a) Timing of Recognition (i) Monthly subscription fees recognized ratably over the subscription term, with recognition commencing upon activation of services; (ii) Setup fees amortized over the expected customer relationship period, typically 36 months unless historical data indicates otherwise; (iii) Usage-based fees recognized when usage occurs, measured according to contractually defined metrics; (iv) Early termination fees recognized upon termination event occurrence; (v) Revenue recognition suspended for accounts exceeding 90 days past due.

(b) Performance Obligations (i) Distinct performance obligations identified and tracked separately; (ii) Standalone selling prices established through observable data or estimated using

adjusted market assessment approach; (iii) Contract modifications evaluated for treatment as separate contracts or modifications to existing arrangements; (iv) Material rights from volume discounts accounted for as separate performance obligations.

**2.2 Multi-State Revenue Allocation** (a) Market-Based Sourcing (i) Revenue allocated based on customer location, determined by primary business address; (ii) Multi-state customers allocated based on user locations, tracked through IP addresses or user registration data; (iii) Documentation maintained supporting allocation methodology, updated quarterly; (iv) Special economic nexus considerations applied per state requirements; (v) Marketplace facilitator provisions addressed where applicable.

(b) Allocation Methodology (i) Primary allocation factors: - User location (40% weighting) - Contract signing location (30% weighting) - Billing address (30% weighting) (ii) Alternative methodologies permitted with documented business justification; (iii) Annual review of allocation methodologies required.

**2.3 Deferred Revenue Treatment** (a) Recognition Criteria (i) Advanced payments recorded as deferred revenue until earned; (ii) Recognition triggered by delivery of performance obligations, documented through system logs; (iii) Tax treatment aligned with book treatment where permitted by law; (iv) Materiality threshold of \$10,000 for individual deferrals.

(b) Measurement and Tracking (i) Deferred revenue tracked by performance obligation; (ii) Monthly reconciliation of deferred revenue balances required; (iii) Aging analysis performed quarterly; (iv) Write-off procedures for unclaimed deferred revenue exceeding 24 months.

**2.4 Professional Services Classification** (a) Implementation Services (i) Treated as distinct performance obligations when separately identifiable; (ii) Recognition based on completion percentage, documented through milestone achievement; (iii) Standard implementation periods established by service type; (iv) Change orders evaluated for separate treatment.

(b) Training Services (i) Recognition upon delivery of training sessions; (ii) Virtual training recognized based on participant completion records; (iii) Custom training development treated as separate performance obligation; (iv) Cancellation fees recognized when charged.

(c) Consulting Services (i) Time and materials basis recognition, supported by approved timesheets; (ii) Fixed-fee arrangements recognized using percentage of completion method; (iii) Travel expenses recognized as incurred; (iv) Minimum fee guarantees recognized ratably.

**2.5 Documentation Requirements** (a) Revenue Recognition Records (i) Maintenance of detailed revenue recognition schedules; (ii) Supporting documentation retained for seven years; (iii) System-generated reports preserved in unalterable format; (iv) Audit trail maintained for all manual adjustments.

(b) Compliance Documentation (i) Quarterly revenue recognition certification by Finance Department; (ii) Annual review by independent auditors; (iii) State-specific documentation

requirements satisfied; (iv) Regular training records for revenue recognition personnel maintained.

**2.6 Special Considerations** (a) Foreign Currency Transactions (i) Revenue recognized in functional currency; (ii) Exchange rates documented at recognition date; (iii) Hedging arrangements disclosed separately.

(b) Related Party Transactions (i) Arm's length pricing documented; (ii) Special disclosure requirements met; (iii) Regular review by compliance committee.

### **3.0 R&D TAX CREDIT DOCUMENTATION**

**3.1 Qualified Research Activities** (a) Development of new AI algorithms and models, including: (i) Novel neural network architectures; (ii) Custom machine learning frameworks; (iii) Innovative data processing methodologies; (iv) Proprietary algorithmic implementations. (b) Enhancement of existing machine learning capabilities through: (i) Model optimization techniques; (ii) Performance improvement initiatives; (iii) Accuracy enhancement protocols; (iv) Computational efficiency improvements. (c) Integration of computer vision technologies, encompassing: (i) Object detection systems; (ii) Image recognition algorithms; (iii) Real-time processing solutions; (iv) Multi-modal analysis frameworks. (d) Development of edge computing optimizations, including: (i) Resource allocation mechanisms; (ii) Latency reduction techniques; (iii) Power consumption optimization; (iv) Hardware-software integration protocols.

**3.2 Technical Uncertainty Documentation** (a) Project-specific uncertainty documentation maintained through: (i) Detailed problem statements; (ii) Technical challenge assessments; (iii) Risk evaluation matrices; (iv) Capability gap analyses. (b) Alternative development paths evaluated and documented, including: (i) Comparative analysis of technical approaches; (ii) Resource requirement assessments; (iii) Implementation feasibility studies; (iv) Cost-benefit evaluations. (c) Testing procedures and results recorded with: (i) Standardized testing protocols; (ii) Performance metrics documentation; (iii) Validation methodologies; (iv) Quality assurance procedures.

**3.3 Process of Experimentation** (a) Systematic evaluation of alternatives through: (i) Controlled testing environments; (ii) Benchmark comparisons; (iii) Performance analysis protocols; (iv) Iterative development cycles. (b) Documentation of testing methodologies, including: (i) Test case specifications; (ii) Experimental design parameters; (iii) Control group definitions; (iv) Variable isolation procedures. (c) Results analysis and implementation decisions, comprising: (i) Statistical analysis methods; (ii) Performance metric evaluations; (iii) Success criteria assessments; (iv) Implementation recommendation protocols.

**3.4 Employee Time Allocation** (a) Contemporaneous time tracking for R&D activities through: (i) Daily activity logs; (ii) Project time allocation systems; (iii) Task-specific coding

protocols; (iv) Regular timesheet reviews. (b) Documentation of qualified research activities, including: (i) Detailed activity descriptions; (ii) Project role specifications; (iii) Skill requirement mappings; (iv) Qualification assessments. (c) Allocation methodology for mixed activities, comprising: (i) Activity segregation protocols; (ii) Time allocation ratios; (iii) Non-qualifying activity exclusions; (iv) Documentation retention procedures.

**3.5 Compliance Requirements** (a) Maintenance of supporting documentation for: (i) IRC Section 41 compliance; (ii) IRS examination requirements; (iii) State tax credit regulations; (iv) Audit trail preservation. (b) Regular review and updates of: (i) Documentation procedures; (ii) Compliance protocols; (iii) Record retention policies; (iv) Internal control systems. (c) Integration with existing systems for: (i) Project management tools; (ii) Time tracking software; (iii) Document management systems; (iv) Quality control processes.

## **4.0 INTERNATIONAL TAX CONSIDERATIONS**

**4.1 Transfer Pricing Methodology** (a) Arm's length pricing documentation, including contemporaneous documentation requirements pursuant to IRC Section 482 and OECD Guidelines; (b) Intercompany service agreements with detailed functional analysis and risk allocation matrices; (c) Cost sharing arrangements incorporating economic substance and value creation metrics; (d) Annual benchmark studies and comparable analysis documentation; (e) Transfer pricing adjustment procedures and documentation requirements.

**4.2 FDII Calculations** (a) Documentation of foreign-derived income in accordance with IRC Section 250; (b) Allocation methodologies for qualifying and non-qualifying income streams; (c) Supporting calculations with detailed transaction-level data; (d) Foreign use verification procedures and documentation requirements; (e) Related party transaction analysis and documentation protocols.

**4.3 Digital Services Tax** (a) Jurisdiction-specific compliance documentation for all applicable territories; (b) Revenue threshold monitoring systems and reporting procedures; (c) Payment calculations and support documentation by jurisdiction; (d) Digital service categorization methodology and supporting analysis; (e) User location tracking and verification protocols; (f) Quarterly assessment of new digital tax legislation and impact analysis.

**4.4 International Revenue Sourcing** (a) Customer location documentation including IP address verification; (b) Service delivery location tracking with supporting technical documentation; (c) Permanent establishment analysis pursuant to Article 5 of the OECD Model Tax Convention; (d) Economic nexus evaluation for digital service delivery; (e) Documentation of server and infrastructure locations.

**4.5 International Tax Reporting Requirements** (a) Country-by-Country Reporting (CbCR) documentation pursuant to BEPS Action 13; (b) Master file and local file maintenance procedures; (c) Ultimate beneficial ownership reporting requirements; (d) Foreign tax credit

documentation and calculation methodologies; (e) Withholding tax compliance procedures and documentation.

**4.6 International Tax Treaty Applications** (a) Treaty benefit qualification documentation; (b) Limitation on benefits (LOB) analysis and supporting documentation; (c) Principal purpose test (PPT) documentation requirements; (d) Relief from double taxation claim procedures; (e) Reduced withholding rate qualification documentation.

**4.7 Compliance Review Procedures** (a) Quarterly assessment of international tax position; (b) Documentation update and maintenance schedules; (c) Annual review of international tax planning strategies; (d) Risk assessment and mitigation procedures; (e) Audit trail maintenance requirements.