

Research and Development Expense Tax Analysis

Confidential Document

Prepared for: Confidential Due Diligence Review

Date of Preparation: January 22, 2024

Company: Nexus Intelligent Systems, Inc.

1. EXECUTIVE SUMMARY

1 This Research and Development (R&D) Expense Tax Analysis provides a comprehensive review of Nexus Intelligent Systems, Inc.'s ("Company") tax positioning, R&D credit strategies, and potential tax optimization opportunities related to research and development expenditures for fiscal years 2021-2023.

2 The analysis encompasses a detailed examination of:

- Qualified research expenses (QREs)
- R&D tax credit calculations
- Compliance with Internal Revenue Code Section 41
- Potential risk assessments and tax strategy recommendations

2. QUALIFIED RESEARCH EXPENSE OVERVIEW

1 Total Qualified Research Expenses:

- FY 2021: \$2,340,000
- FY 2022: \$3,750,000
- FY 2023: \$4,620,000

2 Expense Categorization:

- a) Wages for Qualified Research Activities
- b) Supplies and Materials
- c) Contract Research Expenses
- d) Computer Rental and Usage Costs

3. TAX CREDIT CALCULATION METHODOLOGY

1 Calculation Approach

The Company utilizes the Regular Research Credit (RRC) method, calculating credits based on:

- Base Amount: Historical research spending
- Current Year Qualified Research Expenses
- Incremental Research Expenditures

2 Credit Computation

- FY 2021 R&D Tax Credit: \$351,000
- FY 2022 R&D Tax Credit: \$562,500
- FY 2023 R&D Tax Credit: \$693,000

4. COMPLIANCE ASSESSMENT

1 Regulatory Compliance

The Company demonstrates substantial compliance with:

- Internal Revenue Code Section 41
- Treasury Regulations 1.41-2 through 1.41-8
- Generally Accepted Accounting Principles (GAAP)

2 Documentation Standards

Comprehensive documentation maintained for:

- Technological Uncertainty Assessments
- Process of Experimentation
- Technological Advancement Evidence
- Qualified Purpose Verification

5. RISK EVALUATION

1 Potential Tax Examination Risks

- Moderate risk of IRS scrutiny
- Recommended enhanced documentation protocols
- Suggested third-party verification of R&D methodologies

2 Risk Mitigation Strategies

- Annual independent tax credit review
- Enhanced contemporaneous documentation
- Systematic tracking of research activities

6. RECOMMENDATIONS

1 Strategic Tax Planning

- Maximize available R&D tax credits
- Implement robust documentation frameworks
- Consider cost segregation studies
- Explore state-level R&D incentive programs

2 Future Optimization

- Develop comprehensive R&D tracking systems
- Create dedicated research documentation protocols
- Engage specialized tax credit consultants

7. LIMITATIONS AND DISCLAIMERS

1 This analysis represents a professional assessment based on available information as of January 22, 2024. The document is intended for internal review and should not be considered definitive tax advice.

2 Recommendations are contingent upon ongoing compliance and potential changes in tax regulations.

8. SIGNATURES

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