

Tax Provision and Reconciliation Workpapers

Confidential Document

Prepared for: Nexus Intelligent Systems, Inc.

Reporting Period: Fiscal Year Ended December 31, 2023

Prepared By: Internal Tax Compliance Department

Date of Preparation: January 22, 2024

1. EXECUTIVE SUMMARY

1 This document represents the comprehensive tax provision and reconciliation workpapers for Nexus Intelligent Systems, Inc. (hereinafter "the Company"), detailing the company's tax position, effective tax rate calculations, and material reconciling items for the fiscal year 2023.

2 The workpapers have been prepared in accordance with generally accepted accounting principles (GAAP) and reflect a comprehensive analysis of the Company's tax provisions, deferred tax assets and liabilities, and effective tax rate reconciliation.

2. FINANCIAL STATEMENT TAX PROVISION OVERVIEW

1 Statutory Tax Rate Reconciliation

- Federal Statutory Tax Rate: 21.0%
- State Tax Rate (Weighted Average): 5.3%
- Effective Tax Rate for Fiscal Year 2023: 18.7%

2 Material Reconciling Items

- a) Research and Development Tax Credits: (\$425,000)
- b) Stock-Based Compensation Deductions: (\$187,500)
- c) State Tax Adjustments: \$76,250
- d) Foreign Derived Intangible Income (FDII) Deduction: (\$92,750)

3. DETAILED TAX PROVISION ANALYSIS

1 Current Tax Expense Calculation

- Pre-Tax Income: \$8,750,000

- Total Current Tax Expense: \$1,637,500
- Effective Current Tax Rate: 18.7%

2 Deferred Tax Assets and Liabilities

a) Deferred Tax Assets:

- Net Operating Loss Carryforwards: \$475,000
- Research and Development Credits: \$325,000
- Accrued Compensation: \$187,500

b) Deferred Tax Liabilities:

- Accelerated Depreciation: (\$250,000)
- Capitalized Research Expenses: (\$175,000)

3 Valuation Allowance Assessment

The Company has determined that a full valuation allowance is not required against deferred tax assets based on the following considerations:

- Projected future taxable income
- Existing taxable temporary differences
- Historical profitability and growth trajectory

4. TAX JURISDICTION AND COMPLIANCE

1 Jurisdictional Coverage

- Primary Jurisdiction: Delaware
- Additional Operational Jurisdictions: California, New York, Texas
- International Presence: Limited consulting activities in Canada and United Kingdom

2 Tax Examination Status

- No ongoing federal or state tax examinations
- Last comprehensive tax audit: Fiscal Year 2020
- No material unresolved tax controversies

5. SIGNIFICANT TAX ACCOUNTING POLICIES

1 Revenue Recognition

- Consistent application of ASC 606 revenue recognition principles
- Comprehensive documentation of contract-based revenue allocation

2 Research and Development Capitalization

- Adherence to ASC 730 guidelines
- Systematic capitalization of qualifying research and development expenses

6. RISK AND UNCERTAINTY DISCLOSURE

1 The Company acknowledges potential tax risks associated with:

- Evolving technology sector tax regulations
- Potential changes in research and development tax credit legislation
- International expansion and transfer pricing considerations

7. PROFESSIONAL CERTIFICATION

1 These workpapers have been prepared with professional care and represent a true and accurate representation of the Company's tax provision for the fiscal year ended December 31, 2023.

Certified By:

Michael Chen, Chief Financial Officer

Nexus Intelligent Systems, Inc.

8. DISCLAIMER

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