

STATE TAX NEXUS ANALYSIS REPORT

Summit Digital Solutions, Inc.

Prepared as of January 9, 2024

1. EXECUTIVE SUMMARY

This State Tax Nexus Analysis Report evaluates Summit Digital Solutions, Inc.'s ("Company") potential tax obligations across U.S. jurisdictions based on its business activities, revenue streams, and physical presence. The analysis considers economic nexus thresholds, physical presence standards, and marketplace facilitator laws applicable to digital services providers.

2. METHODOLOGY

1. The analysis evaluates nexus triggers including:

- Physical presence indicators
- Economic nexus thresholds
- Digital service delivery footprint
- Employee location and activities
- Revenue attribution by jurisdiction
- Service delivery mechanisms

2. Data sources include:

- Corporate financial records (FY2021-2023)
- Employee location records
- Client service agreements
- State tax authority guidelines
- Digital service delivery logs
- Remote workforce documentation

3. CURRENT OPERATIONAL FOOTPRINT

1. Physical Presence

- Headquarters: Wilmington, Delaware
- Regional offices: California, Texas, New York

- Coworking space agreements: Illinois, Massachusetts
- Data center facilities: Virginia, Oregon

2. Employee Distribution

- Full-time employees across 27 states
- Remote workforce: 65% of total headcount
- Technical consultants with multi-state deployment

3. Service Delivery Model

- Cloud-based Platform as a Service (PaaS)
- On-site implementation services
- Remote monitoring and maintenance
- Virtual training and support services

4. STATE-BY-STATE NEXUS ANALYSIS

1. High Nexus Risk States

The following states present clear nexus triggers requiring immediate compliance action:

a) California

- Revenue exceeds \$500,000 threshold
- Permanent office in San Francisco
- 47 full-time employees
- Recommendation: Register and file returns

b) Texas

- Revenue exceeds \$500,000 threshold
- Austin office with 35 employees
- Active client implementations
- Recommendation: Maintain current compliance

2. Medium Nexus Risk States

States requiring additional analysis and potential registration:

a) Florida

- No physical office
- Revenue approaching threshold (\$450,000)
- 12 remote employees
- Recommendation: Monitor quarterly

b) Illinois

- Coworking space agreement
- Revenue below threshold
- 8 remote employees
- Recommendation: Evaluate Q2 2024

3. Low Nexus Risk States

States with minimal presence requiring monitoring:

- Arizona
- Colorado
- Washington
- New Jersey

5. DIGITAL SERVICES CONSIDERATIONS

1. Software as a Service (SaaS) Treatment

- Varying state characterization of SaaS
- Mixed treatment of digital automated services
- Cloud computing specific provisions

2. Digital Goods and Services

- State-specific digital goods definitions
- Electronic delivery considerations
- Mixed transaction treatment

6. RECOMMENDATIONS

1. Immediate Actions Required

File voluntary disclosure agreements in California and Texas

Register for sales/use tax collection in Florida

Update internal systems for multi-state tax collection

Implement jurisdiction-specific invoice requirements

2. Medium-Term Actions (6-12 months)

Monitor economic thresholds in emerging markets

Evaluate nexus implications of expansion plans

Develop state-specific compliance procedures

Review service agreements for tax provisions

3. Long-Term Planning

Implement automated nexus tracking system

Develop state expansion strategy considering tax implications

Regular review of state digital service regulations

Annual nexus study updates

7. LIMITATIONS AND DISCLAIMERS

This analysis is based on current state tax laws and regulations as of January 2024. Future changes in legislation, regulatory interpretation, or Company operations may impact these conclusions. This report does not constitute tax advice and should be reviewed by qualified tax professionals before implementation of any recommendations.

8. CERTIFICATION

This State Tax Nexus Analysis Report has been prepared by the Legal Department of Summit Digital Solutions, Inc. in consultation with external tax advisors.

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