

# **Tax Audit Preparation Workpapers - 2022 Fiscal Year**

**Confidential Document - Nexus Intelligent Systems, Inc.**

## **PRELIMINARY STATEMENT**

These Tax Audit Preparation Workpapers ("Workpapers") have been prepared by the Tax Compliance Department of Nexus Intelligent Systems, Inc. (the "Company") in anticipation of potential federal and state tax examinations for the fiscal year ending December 31, 2022.

### **1. SCOPE OF DOCUMENTATION**

#### **1 Purpose**

These Workpapers represent a comprehensive compilation of tax-related documentation, supporting schedules, and analytical materials prepared to substantiate the Company's tax positions for the 2022 fiscal year.

#### **2 Covered Tax Jurisdictions**

- Federal Income Tax (IRS)
- Delaware State Corporate Tax
- Multistate Nexus Tax Filings
- Research & Development Tax Credit Documentation

### **2. FINANCIAL OVERVIEW**

#### **1 Company Financial Summary**

- Total Annual Revenue: \$12,500,000
- Gross Profit: \$6,375,000
- Net Income: \$2,187,500
- Effective Tax Rate: 28.4%

#### **2 Revenue Composition**

- Enterprise AI Services: 62%
- Consulting Services: 23%
- Software Licensing: 15%

### **3. TAX METHODOLOGY AND ACCOUNTING PRINCIPLES**

## 1 Accounting Standards

- Generally Accepted Accounting Principles (GAAP)
- Accrual Basis Accounting
- Consistent Application of Accounting Policies

## 2 Key Accounting Estimates

- Depreciation Method: Straight-Line
- Capitalization Threshold: \$5,000
- R&D Expense Allocation: Direct Cost Methodology

# 4. RESEARCH & DEVELOPMENT TAX CREDIT ANALYSIS

## 1 Qualified Research Expenses (QREs)

- Total R&D Expenditures: \$2,750,000
- Qualified Personnel Costs: \$1,975,000
- Qualified Supply Expenses: \$425,000
- Contract Research Expenses: \$350,000

## 2 Credit Calculation

- Federal R&D Tax Credit: \$412,500
- State R&D Tax Credit: \$87,500
- Total R&D Tax Credits: \$500,000

# 5. INCOME TAX RECONCILIATION

## 1 Statutory Tax Rate Reconciliation

- Federal Statutory Rate: 21%
- State Tax Rate: 8.7%
- Effective Tax Rate Adjustment: (1.3%)

## 2 Permanent and Temporary Differences

- Stock-Based Compensation: \$275,000
- Meals and Entertainment Disallowance: \$37,500
- Depreciation Timing Differences: \$125,000

# 6. TRANSFER PRICING DOCUMENTATION

#### 1 Intercompany Transactions

- No material intercompany transactions for 2022
- Arm's Length Pricing Principles Applied

### **7. AUDIT RISK ASSESSMENT**

#### 1 Potential Audit Triggers

- High R&D Tax Credit Claim
- Significant Year-Over-Year Expense Variations
- Complex Technology Service Revenue Recognition

#### 2 Recommended Proactive Measures

- Maintain Detailed Documentation
- Prepare Comprehensive Workpapers
- Engage Independent Tax Consultant Review

### **8. SUPPORTING DOCUMENTATION**

#### 1 Attached Schedules

- General Ledger Reconciliation
- Detailed Expense Breakdowns
- Payroll and Personnel Cost Allocations
- Fixed Asset Depreciation Schedules

### **9. LEGAL DISCLAIMER**

These Workpapers are prepared solely for internal tax compliance and potential audit defense purposes. The information contained herein is confidential and subject to attorney-client privilege.

### **10. CERTIFICATION**

We certify that the information presented in these Tax Audit Preparation Workpapers is true, accurate, and complete to the best of our knowledge.

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Date: January 22, 2024

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Date: January 22, 2024