

State Tax Nexus Analysis and Compliance Report

Confidential Document - For Internal Review Only

Prepared By: Corporate Tax Strategy Group

Date of Preparation: January 22, 2024

Reference Number: NIS-TAX-2024-001

1. Executive Summary

This State Tax Nexus Analysis and Compliance Report ("Report") provides a comprehensive assessment of Nexus Intelligent Systems, Inc.'s ("Company") current state tax nexus positions, potential tax liabilities, and recommended compliance strategies across multiple jurisdictions.

1.1 Key Findings

- Identified 17 states with potential economic nexus triggers
- Estimated potential cumulative tax exposure: \$342,000 - \$487,000
- Recommended immediate compliance remediation in 6 key states

2. Methodology and Scope

2.1 Analysis Parameters

- Review period: January 1, 2021 - December 31, 2023
- Jurisdictional assessment: All 50 U.S. states
- Evaluation criteria:
 - a) Physical presence
 - b) Economic nexus thresholds
 - c) Service delivery mechanisms
 - d) Revenue generation patterns

2.2 Data Sources

- Internal financial records
- State-specific tax regulations
- Company sales and service delivery documentation
- Third-party tax compliance research

3. Detailed Nexus Assessment

3.1 Physical Presence Nexus

The Company maintains limited physical infrastructure, with primary operations located in:

- Delaware (Headquarters)
- California (R&D Center)
- Texas (Regional Sales Office)

Physical presence establishes definitive nexus in these states, requiring comprehensive tax compliance.

3.2 Economic Nexus Evaluation

3.2.1 Threshold Analysis

States with potential economic nexus based on revenue:

California: Exceeded \$500,000 annual sales threshold

New York: Triggered nexus via digital service transactions

Texas: Surpassed economic nexus limitations

Illinois: Significant service contract revenues

3.2.2 Transaction Volume Considerations

- Total interstate digital service transactions: \$7.2M
- Percentage of revenue from out-of-state clients: 42.3%
- Average transaction value: \$24,500

4. Potential Tax Exposure and Risk Assessment

4.1 Estimated Tax Liabilities

Projected state tax exposures:

- California: \$127,500 - \$185,000
- New York: \$89,000 - \$132,000
- Texas: \$62,500 - \$94,000
- Illinois: \$43,000 - \$76,000

4.2 Risk Categorization

- High Risk: California, New York
- Moderate Risk: Texas, Illinois
- Low Risk: Remaining identified states

5. Recommended Compliance Strategy

5.1 Immediate Actions

Register for tax permits in identified nexus states

Implement retroactive compliance procedures

Establish ongoing monitoring mechanisms

5.2 Mitigation Approaches

- Voluntary disclosure agreements
- Potential lookback period settlements
- Proactive tax planning

6. Legal Disclaimers

6.1 Limitation of Liability

This report represents a professional assessment based on available information. Actual tax obligations may vary and require independent verification.

6.2 Professional Qualifications

Analysis prepared by licensed tax professionals with expertise in multi-state tax compliance.

7. Signatures

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Date of Execution: January 22, 2024

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