

# **TAX MATTERS DOCUMENT 26**

THIS TAX MATTERS DOCUMENT (this "Document") is made and entered into as of January 15, 2024 (the "Effective Date"), by NEXUS INDUSTRIAL INTELLIGENCE, INC., a Delaware corporation with its principal place of business at 2500 Innovation Drive, Wilmington, Delaware 19801 ("Company").

## **1.0 PREAMBLE AND RECITALS**

WHEREAS, the Company is a Delaware corporation (File No. 6372941) with Employer Identification Number 81-3456789, engaged in the development and commercialization of industrial technology software and artificial intelligence solutions, maintaining its principal place of business at 2500 Innovation Drive, Suite 400, Wilmington, Delaware 19801;

WHEREAS, the Company operates primarily through its proprietary NexusCore™ Industrial AI Platform and related implementation services, including but not limited to software licensing, technical consulting, system integration, and ongoing maintenance support;

WHEREAS, the Company conducts business operations across multiple tax jurisdictions, including various U.S. states and international markets, necessitating compliance with diverse tax regulations, reporting requirements, and international tax treaties;

WHEREAS, the Company maintains subsidiary operations in key markets, including Nexus Industrial GmbH (Germany), Nexus Industrial Ltd. (United Kingdom), and Nexus Industrial K.K. (Japan), each subject to their respective jurisdictional tax requirements;

WHEREAS, the Company generates revenue through multiple channels, including software licensing fees, subscription services, professional services, and technology implementation, requiring specific tax treatment considerations;

WHEREAS, the Company seeks to ensure full compliance with all applicable tax laws, regulations, and reporting requirements while optimizing its tax position within legal parameters; and

WHEREAS, the Company desires to establish comprehensive documentation regarding its tax treatment methodologies, obligations, and compliance procedures across all operational jurisdictions.

NOW, THEREFORE, the Company hereby adopts and implements this Document to govern its tax matters as follows:

## **2.0 DEFINITIONS AND INTERPRETATIONS**

2.1 Defined Terms. For purposes of this Document, the following terms shall have the meanings specified below:

(a) "AI Development Costs" means direct and indirect expenses incurred in the development, enhancement, and maintenance of the Company's artificial intelligence algorithms and machine learning models, including but not limited to computational resources, data acquisition, model training, validation processes, and associated personnel costs.

(b) "Implementation Revenue" means fees received for professional services related to platform deployment, integration, and customer training, including configuration services, data migration, customization work, and end-user training programs.

(c) "International Revenue" means revenue derived from customers located outside the United States, including subscription fees, implementation services, and consulting fees, subject to applicable international tax treaties and transfer pricing regulations.

(d) "Platform Revenue" means subscription fees received from licensing the NexusCore™ platform, including recurring access fees, user-based charges, and feature-specific premium offerings.

(e) "Qualified R&D Activities" means research and development activities meeting the criteria under IRC Section 41 for purposes of the research tax credit, including systematic investigation aimed at developing new technological capabilities.

(f) "Cloud Infrastructure Costs" means expenses related to hosting, maintaining, and scaling the platform's cloud-based architecture, including third-party service provider fees and associated security measures.

(g) "Data Processing Revenue" means fees generated from computational services, data analysis, and automated processing capabilities provided through the platform.

(h) "Technical Support Services" means customer assistance activities, including help desk operations, troubleshooting, and technical documentation provision.

2.2 Interpretation. In this Document:

(a) References to sections and exhibits are to those contained in this Document unless otherwise specified.

(b) Headings are for convenience only and do not affect interpretation.

(c) Words importing the singular include the plural and vice versa.

(d) References to any statute, regulation, or standard include amendments, modifications, and replacements as subsequently made from time to time.

(e) "Including" and similar expressions are not words of limitation and shall be deemed to be followed by "without limitation."

(f) References to currency are to United States dollars unless explicitly stated otherwise.

(g) Technical terms shall be interpreted in accordance with industry standards prevailing at the time of document execution.

#### 2.3 Calculation Principles:

(a) Revenue recognition shall follow GAAP principles and ASC 606 guidelines for software-as-a-service arrangements.

(b) International revenue shall be converted to USD using the exchange rate on the last business day of each calendar month.

(c) AI Development Costs shall be categorized and allocated according to specific project phases and technological components.

#### 2.4 Territorial Applications:

(a) References to jurisdictions include their territories and possessions.

(b) International operations shall comply with local data protection and privacy regulations.

(c) Cross-border transactions shall be documented in accordance with OECD transfer pricing guidelines.

#### 2.5 Technology Classifications:

(a) AI and machine learning components shall be classified according to their primary function and technological maturity level.

(b) Platform features shall be categorized based on their revenue-generating capability and resource utilization.

(c) Research and development activities shall be documented to support tax credit claims and intellectual property protection.

### **3.0 TAX TREATMENT OF CORE OPERATIONS**

#### 3.1 Revenue Classification

(a) Platform Revenue shall be recognized as software service revenue under ASC 606 and treated as follows for tax purposes: (i) Subscription fees shall be recognized ratably over the service period (ii) Usage-based fees shall be recognized as the services are consumed (iii) Multi-year contracts shall be analyzed for significant financing components (iv) Volume discounts shall be accounted for as variable consideration (v) Early termination fees shall be recognized when the termination occurs

(b) Implementation Revenue shall be: (i) Recognized upon completion of defined project milestones (ii) Treated as services revenue for tax purposes (iii) Allocated based on the location where services are performed (iv) Documented with detailed time tracking and deliverable acceptance (v) Segregated from ongoing support and maintenance fees

### 3.2 R&D Tax Credit Qualification

(a) The Company shall maintain documentation supporting qualification of the following activities as Qualified R&D Activities: (i) Development of new AI algorithms and machine learning models (ii) Enhancement of computer vision capabilities (iii) Creation of new predictive maintenance features (iv) Integration of edge computing technologies (v) Development of novel data processing methodologies (vi) Creation of proprietary cybersecurity protocols

(b) Qualified R&D Activities must satisfy the following criteria: (i) Technical uncertainty elimination (ii) Process of experimentation (iii) Technological in nature (iv) Qualified purpose (v) Contemporary documentation requirements (vi) Direct supervision by qualified technical personnel

(c) Excluded Activities: (i) Routine software maintenance (ii) Quality assurance testing (iii) Market research (iv) Data collection for non-experimental purposes (v) Foreign research activities

### 3.3 IP Development Cost Allocation

(a) AI Development Costs shall be: (i) Capitalized when meeting capitalization criteria (ii) Amortized over the estimated useful life (iii) Allocated based on development activity location (iv) Tracked separately for domestic and foreign development (v) Subject to annual impairment testing

(b) Cost Allocation Methodology: (i) Direct labor costs shall be tracked by project (ii) Overhead allocation shall follow established cost pools (iii) Third-party contractor costs shall be segregated (iv) Hardware costs shall be capitalized separately (v) Cloud computing costs shall be evaluated for capitalization

### 3.4 International Tax Considerations

(a) Transfer Pricing Requirements: (i) Development cost sharing agreements shall be maintained (ii) Intercompany service agreements shall be documented (iii) Arm's length pricing shall be established annually (iv) Cost-plus arrangements shall be reviewed quarterly (v) Benchmark studies shall be updated biennially

(b) Permanent Establishment Risk: (i) Server locations shall be monitored for nexus (ii) Employee activities shall be tracked by jurisdiction (iii) Remote worker policies shall address tax implications (iv) Local entity requirements shall be evaluated regularly

### 3.5 State Tax Apportionment

(a) Revenue Sourcing Rules: (i) Market-based sourcing shall be applied where required (ii) User location data shall be maintained (iii) Multiple points of use shall be documented (iv) Alternative apportionment methods shall be evaluated

(b) Nexus Determination: (i) Economic nexus thresholds shall be monitored (ii) Physical presence shall be tracked (iii) Marketplace facilitator obligations shall be assessed (iv) Local tax obligations shall be reviewed quarterly

### 3.6 Documentation Requirements

(a) The Company shall maintain: (i) Contemporaneous documentation of R&D activities (ii) Time tracking records for development activities (iii) Project authorization and completion documents (iv) Technical uncertainty assessments (v) Experimentation process records (vi) Cost allocation worksheets (vii) Transfer pricing documentation (viii) State nexus analysis records

(b) Record Retention: (i) Documentation shall be maintained for seven years (ii) Electronic records shall be backed up quarterly (iii) Access controls shall be implemented (iv) Annual review procedures shall be established

## 4.0 INTERNATIONAL TAX CONSIDERATIONS

### 4.1 European Market Revenue

(a) Revenue from European customers shall be: (i) Recognized in accordance with local VAT requirements (ii) Reported under applicable tax treaties (iii) Subject to transfer pricing adjustments as required (iv) Monitored for digital services tax obligations (v) Evaluated for permanent establishment implications

(b) VAT Compliance Requirements: (i) Registration in jurisdictions exceeding statutory thresholds (ii) Maintenance of prescribed documentation for cross-border transactions (iii) Implementation of real-time reporting systems where mandated (iv) Adherence to invoice formatting requirements by jurisdiction (v) Regular review of VAT recovery positions

### 4.2 Transfer Pricing Methodology

(a) The Company shall apply the following transfer pricing methods: (i) Comparable Uncontrolled Price method for platform licensing (ii) Cost Plus method for implementation services (iii) Profit Split method for technology development activities (iv) Transactional Net Margin Method for routine functions (v) Berry Ratio analysis for distribution activities

(b) Documentation Requirements: (i) Maintenance of contemporaneous documentation (ii) Annual preparation of Master File and Local File (iii) Country-by-Country reporting where applicable (iv) Benchmark studies updated every three years (v) Intercompany agreements reviewed annually

### 4.3 International IP Rights

(a) Income from IP licensing to international affiliates shall be: (i) Priced according to arm's length principles (ii) Documented through intercompany agreements (iii) Reported consistent with BEPS guidelines (iv) Structured to reflect economic substance (v) Reviewed for withholding tax implications

(b) IP Development and Cost Sharing: (i) Implementation of cost contribution arrangements (ii) Documentation of development costs and benefits (iii) Regular valuation of IP contributions (iv) Monitoring of DEMPE functions (v) Compliance with local substance requirements

#### 4.4 Foreign Subsidiary Operations

(a) Operational Considerations: (i) Evaluation of CFC rules and implications (ii) Monitoring of thin capitalization rules (iii) Assessment of participation exemption regimes (iv) Review of branch vs. subsidiary structures (v) Implementation of tax-efficient repatriation strategies

(b) Compliance Requirements: (i) Maintenance of local statutory accounts (ii) Timely filing of tax returns and declarations (iii) Response to tax authority inquiries (iv) Management of tax audits and disputes (v) Coordination with global tax position

#### 4.5 International Tax Planning

(a) Strategic Considerations: (i) Assessment of treaty network optimization (ii) Evaluation of holding company structures (iii) Review of financing arrangements (iv) Analysis of supply chain efficiency (v) Implementation of tax risk management procedures

(b) Compliance with Anti-Avoidance Rules: (i) Monitoring of principal purpose test applications (ii) Assessment of economic substance requirements (iii) Review of hybrid mismatch arrangements (iv) Evaluation of controlled foreign corporation rules (v) Compliance with mandatory disclosure rules

#### 4.6 Tax Governance and Risk Management

(a) Governance Framework: (i) Implementation of tax control framework (ii) Regular review of tax positions (iii) Documentation of tax planning decisions (iv) Monitoring of tax controversy developments (v) Coordination with global tax strategy

## 5.0 COMPLIANCE AND REPORTING

### 5.1 Filing Requirements

(a) Annual Tax Returns (i) Federal returns due by April 15 with extensions as needed (ii) State returns per respective jurisdictional deadlines (iii) International filings per local requirements (iv) Quarterly estimated tax payments due on the 15th of April, June, September, and December (v) Information returns including Forms 1099, W-2, and 1042-S due by January 31

(b) Supplemental Filings (i) Sales and use tax returns filed monthly or quarterly as required (ii) Property tax declarations by jurisdiction-specific deadlines (iii) Foreign bank account reporting (FBAR) by April 15 (iv) State business activity reports as mandated

#### 5.2 Documentation Requirements

(a) The Company shall maintain: (i) Revenue recognition documentation for 7 years (ii) R&D tax credit support for 5 years (iii) Transfer pricing documentation for 6 years (iv) Employment tax records for 4 years (v) Fixed asset and depreciation records for asset life plus 3 years (vi) Sales and use tax exemption certificates for 5 years (vii) Corporate formation and ownership documents indefinitely

(b) Electronic Record Requirements (i) Backup systems maintained with redundancy (ii) Access controls and audit trails implemented (iii) Regular testing of data retrieval systems (iv) Annual review of retention policies

#### 5.3 Audit Procedures

(a) Upon receipt of any tax audit notice, the Company shall: (i) Notify appropriate personnel within 5 business days (ii) Assemble required documentation within 30 days (iii) Engage external advisors as needed (iv) Establish dedicated audit response team (v) Implement communication protocols

(b) Audit Response Protocol (i) Initial assessment within 48 hours (ii) Written response strategy within 10 business days (iii) Regular status updates to management (iv) Documentation of all audit communications (v) Post-audit review and process improvement

#### 5.4 Compliance Monitoring

(a) Quarterly Internal Reviews (i) Documentation completeness checks (ii) Filing deadline compliance verification (iii) Update of jurisdiction requirements (iv) Risk assessment updates

(b) Annual Compliance Certification (i) Senior management sign-off required (ii) Independent review of key filings (iii) Verification of documentation retention (iv) Assessment of control effectiveness

IN WITNESS WHEREOF, this Document has been executed as of the Effective Date.

[Remaining signature block, exhibits, and appendices as previously stated]