

# **TAX MATTERS DOCUMENT 27**

## **1.0 PREAMBLE AND RECITALS**

THIS TAX MATTERS DOCUMENT (this "Document") is made and entered into as of January 15, 2024 (the "Effective Date"), by and on behalf of NEXUS INDUSTRIAL INTELLIGENCE, INC., a Delaware corporation with its principal place of business at 2500 Innovation Drive, Wilmington, Delaware 19801 ("Company") (Delaware Entity No. 6438291; Federal EIN: 82-3749102), operating pursuant to its Certificate of Incorporation filed with the Delaware Secretary of State on March 12, 2018.

WHEREAS, the Company is engaged in the business of developing and commercializing proprietary machine learning and computer vision solutions for industrial process optimization and predictive maintenance through its NexusCore™ Industrial AI Platform, including but not limited to software licensing, technical support services, and consulting services;

WHEREAS, the Company conducts business operations across multiple tax jurisdictions, including the United States and European Union member states, maintaining substantial business presence in Germany (VAT ID: DE329476102) and France (SIRET: 84726395100014);

WHEREAS, the Company seeks to document and establish standardized treatment of tax matters relating to its software licensing, international operations, and research and development activities, particularly concerning revenue recognition, transfer pricing, and intellectual property rights;

WHEREAS, this Document shall serve as the controlling instrument for tax classification, treatment, and compliance matters relating to the Company's operations, superseding all prior agreements or understandings regarding such matters; and

WHEREAS, the Company acknowledges its obligations to comply with all applicable tax laws, regulations, and reporting requirements in each jurisdiction where it conducts business operations.

NOW, THEREFORE, the Company hereby adopts and establishes the following tax matters provisions:

## **2.0 DEFINITIONS AND INTERPRETATIONS**

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

(a) "SaaS Revenue" means all revenue derived from subscription-based access to and licensing of the NexusCore™ Industrial AI Platform, including recurring license fees, usage-based fees, platform access charges, and any ancillary subscription-based services. This encompasses both fixed-term and perpetual licensing arrangements, including multi-tenant and dedicated instance deployments.

(b) "Implementation Services" means professional services revenue derived from platform deployment, configuration, integration, and customer-specific customization activities, including but not limited to initial setup, data migration, system integration, custom development, training services, and ongoing technical consulting.

(c) "Qualified Research Expenses" or "QREs" means expenses that qualify for research and development tax credits under IRC Section 41 and similar international provisions, specifically including AI/ML algorithm development, computer vision system enhancement, and related technological advancement activities. This encompasses direct research labor, cloud computing costs for R&D activities, contracted research services, and supplies used in qualified research.

(d) "International Revenue" means revenue derived from customers located outside the United States, subject to foreign tax jurisdiction, including revenue subject to transfer pricing considerations, withholding taxes, and value-added tax requirements.

2.2 Technology Classifications. The Company's proprietary technology shall be classified for tax purposes as follows:

(a) "Core AI Technology" means the Company's proprietary machine learning models, algorithms, and related intellectual property, including neural networks, deep learning systems, predictive analytics engines, and associated training methodologies.

(b) "Computer Vision Systems" means the Company's patented visual inspection and analysis technology, including image processing algorithms, object detection systems, and automated quality control solutions.

(c) "Edge Computing Solutions" means hardware-software combinations deployed at customer facilities, including embedded AI processors, local processing units, and associated firmware.

2.3 Revenue Recognition Principles. Revenue shall be recognized in accordance with ASC 606 and applicable international standards, with specific consideration for:

(a) Performance obligations in SaaS arrangements, including distinct service components, setup activities, and ongoing platform access rights

(b) Multi-element contracts combining software and services, requiring allocation of transaction price based on standalone selling prices

(c) Usage-based revenue components, including variable consideration constraints and estimation methodologies

(d) International revenue timing and allocation, considering multi-jurisdiction contracts and foreign currency transactions

2.4 Technical Service Categories. Professional services shall be classified as follows:

- (a) "Implementation Services" for initial deployment and configuration
- (b) "Integration Services" for connecting with customer systems
- (c) "Customization Services" for customer-specific modifications
- (d) "Support Services" for ongoing technical assistance and maintenance

2.5 Interpretation Guidelines. In interpreting these definitions:

- (a) Technical terms shall be construed according to industry standards
- (b) Revenue classifications shall align with GAAP principles
- (c) Tax-related terms shall be interpreted consistently with applicable tax regulations
- (d) International terms shall consider relevant jurisdictional requirements

### **3.0 TAX TREATMENT OF SOFTWARE LICENSING**

#### **3.1 SaaS License Classification**

- (a) The Company's SaaS offerings shall be treated as service arrangements for tax purposes, with revenue recognized ratably over the subscription term.
- (b) Platform access rights shall not constitute a transfer of software ownership or license of intellectual property.
- (c) For tax classification purposes, the following characteristics shall determine SaaS treatment: (i) No permanent transfer of software possession (ii) Hosted deployment model (iii) Subscription-based access rights (iv) Centralized maintenance and updates
- (d) The Company shall maintain documentation evidencing the service nature of its offerings, including: (i) Customer agreements (ii) Service level commitments (iii) Usage metrics (iv) Support provisions

#### **3.2 Multi-jurisdictional Treatment**

- (a) Primary hosting location shall determine initial tax jurisdiction for SaaS revenue.
- (b) Customer location shall determine applicable sales/use tax and VAT obligations.
- (c) The Company shall implement the following jurisdictional compliance measures: (i) Regular nexus studies (ii) Documentation of physical presence (iii) Economic nexus threshold monitoring (iv) Registration in applicable jurisdictions

(d) For international transactions, the Company shall: (i) Apply appropriate VAT/GST treatment (ii) Maintain evidence of customer location (iii) Document permanent establishment considerations (iv) Monitor treaty implications

### 3.3 Implementation Services

(a) Implementation services shall be treated as separate performance obligations for tax purposes.

(b) Revenue allocation between SaaS and implementation services shall follow the relative standalone selling price methodology.

(c) Implementation services shall be categorized as follows: (i) Initial configuration (ii) Data migration (iii) Training services (iv) Custom development (v) Integration services

(d) The Company shall maintain detailed time tracking and service documentation to support: (i) Service characterization (ii) Revenue allocation (iii) Jurisdictional sourcing (iv) Transfer pricing compliance

### 3.4 Revenue Allocation Methodology

(a) The Company shall maintain documentation supporting the allocation of revenue between: (i) SaaS components (ii) Professional services (iii) Hardware elements (iv) Support and maintenance

(b) Allocation methodologies shall be reviewed annually and updated as required to reflect market conditions.

(c) The following factors shall be considered in revenue allocation: (i) Observable standalone prices (ii) Market comparables (iii) Cost-plus margin analysis (iv) Residual approach when applicable

(d) Documentation requirements shall include: (i) Pricing studies (ii) Competitive analysis (iii) Historical transaction data (iv) Cost allocation models

### 3.5 Special Tax Considerations

(a) Research and development tax credits shall be evaluated for: (i) Platform development activities (ii) Custom feature development (iii) Integration components (iv) Security enhancements

(b) Transfer pricing implications shall be documented for: (i) Intercompany services (ii) IP development (iii) Support functions (iv) Profit allocation

### 3.6 Compliance and Reporting

(a) The Company shall maintain systems to track and report: (i) Revenue by jurisdiction (ii) Tax collection and remittance (iii) Exemption certificates (iv) Filing obligations

(b) Regular reviews shall be conducted of: (i) Tax positions (ii) Documentation adequacy (iii) System capabilities (iv) Compliance procedures

(c) The Company shall engage qualified tax advisors to: (i) Review significant transactions (ii) Validate methodologies (iii) Assess compliance obligations (iv) Recommend process improvements

### 3.7 Documentation Requirements

(a) The Company shall maintain the following documentation for a minimum of seven years: (i) Revenue allocation studies (ii) Jurisdictional analysis (iii) Tax determinations (iv) Supporting calculations (v) Filed returns and supporting schedules

(b) Documentation shall be reviewed and updated: (i) Annually for routine matters (ii) Upon significant business changes (iii) When tax laws change (iv) As required by taxing authorities

## 4.0 INTERNATIONAL TAX CONSIDERATIONS

### 4.1 European Market Compliance

(a) The Company shall maintain VAT registration in all EU member states where required by revenue thresholds or business presence. (i) Registration thresholds shall be monitored quarterly (ii) Local fiscal representatives shall be appointed where mandated by law (iii) Economic nexus analysis shall be conducted bi-annually

(b) Documentation requirements for reverse charge mechanisms shall be maintained. (i) Supplier declarations must be obtained and archived for 7 years (ii) Evidence of customer VAT status verification must be documented (iii) Intrastat reporting obligations shall be fulfilled where applicable

### 4.2 Transfer Pricing

(a) All intercompany transactions shall be conducted at arm's length prices supported by contemporaneous documentation. (i) Functional and risk analyses shall be updated annually (ii) Comparable company benchmarking studies shall be conducted (iii) Cost-plus arrangements shall be documented with detailed cost calculations

(b) Transfer pricing studies shall be updated annually for material cross-border transactions. (i) Materiality threshold set at \$500,000 per transaction type (ii) Advanced Pricing Agreements shall be pursued for recurring transactions (iii) Local country transfer pricing documentation requirements must be met

### 4.3 Revenue Sourcing

(a) Revenue shall be sourced based on customer location for direct sales. (i) IP address verification systems shall be maintained (ii) Customer self-certification procedures shall be implemented (iii) Multiple points of evidence shall be documented

(b) Partner transactions shall be analyzed based on ultimate customer location where determinable. (i) Partner agreements shall include location reporting requirements (ii)

Quarterly reconciliation of partner-reported locations (iii) Default sourcing rules shall be documented where location is uncertain

#### 4.4 VAT/GST Considerations

(a) The Company shall maintain systems capable of: (i) Identifying applicable VAT rates by jurisdiction (ii) Properly collecting and remitting VAT (iii) Maintaining required documentation (iv) Filing timely returns

(b) Specific compliance measures shall include: (i) Real-time VAT determination engines (ii) Automated invoice compliance checks (iii) Digital audit trail maintenance (iv) Recovery procedure documentation

#### 4.5 Permanent Establishment Considerations

(a) Regular assessment of permanent establishment risk factors: (i) Physical presence monitoring (ii) Agency relationships evaluation (iii) Server and digital presence analysis

(b) Documentation requirements: (i) Travel records for mobile employees (ii) Contract review for agency relationships (iii) Technical infrastructure mapping

#### 4.6 Withholding Tax Obligations

(a) The Company shall maintain procedures for: (i) Identifying applicable withholding tax rates (ii) Collecting valid tax residency certificates (iii) Applying treaty benefits where appropriate

(b) Relief at source procedures shall include: (i) Beneficial ownership documentation (ii) Principal purpose test analysis (iii) Treaty entitlement verification

#### 4.7 Digital Services Tax Compliance

(a) The Company shall monitor and comply with: (i) Emerging digital services tax legislation (ii) Revenue threshold calculations by jurisdiction (iii) Registration requirements in applicable countries

(b) Reporting obligations shall include: (i) User location tracking mechanisms (ii) Revenue allocation methodologies (iii) Digital activity documentation

## **5.0 R&D TAX CREDITS AND INNOVATION INCENTIVES**

#### 5.1 AI/ML Development Qualification

(a) The Company shall maintain contemporaneous documentation supporting the qualification of AI/ML development activities as QREs, including: (i) Technical uncertainty documentation (ii) Process of experimentation records (iii) Scientific principles application (iv) Algorithmic development methodologies (v) Model validation protocols (vi) Testing and iteration documentation

(b) Qualifying activities must demonstrate: (i) Systematic approach to uncertainty resolution (ii) Multiple design alternatives consideration (iii) Hypothesis formulation and testing (iv) Data collection and analysis methodologies

#### 5.2 Patent-Related Benefits

(a) Patent development expenses shall be tracked separately for tax credit purposes.

(b) The Company shall maintain documentation supporting the technological advancement nature of patent activities.

(c) Patent-related expenses shall be categorized as: (i) Direct research costs (ii) Patent application expenses (iii) Legal fees related to technical specifications (iv) Prototype development costs

#### 5.3 Research Expense Categorization

(a) Research expenses shall be categorized as: (i) Core technology development (ii) Applied research activities (iii) Product enhancement (iv) Customer-specific development

(b) Each category must include: (i) Direct labor costs (ii) Supplies and materials (iii) Contract research expenses (iv) Cloud computing costs (v) Equipment depreciation

#### 5.4 Credit Calculation Methodology

The Company shall apply consistent methodologies for: (a) Identifying qualified research expenses (b) Allocating employee time to qualified activities (c) Computing base period amounts (d) Documenting qualification criteria

#### 5.5 Documentation Requirements

(a) The Company shall maintain: (i) Project-specific technical documentation (ii) Time tracking records (iii) Expense allocation worksheets (iv) Technical uncertainty assessments (v) Research progression documentation

#### 5.6 Compliance and Reporting

(a) The Company shall: (i) Conduct quarterly reviews of R&D activities (ii) Maintain contemporaneous documentation (iii) Update qualification criteria annually (iv) Submit detailed credit calculations (v) Retain supporting documentation for seven years (vi) Obtain third-party validation as required

#### 5.7 Excluded Activities

(a) The following activities do not qualify: (i) Routine software maintenance (ii) Market research (iii) Quality control testing (iv) Style or cosmetic changes (v) Management studies (vi) Commercial production activities

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