

# **Tax Audit Preparation Checklist**

**Nexus Intelligent Systems, Inc.**

**Confidential Document**

**Revision Date: January 22, 2024**

## **1. INTRODUCTION AND PURPOSE**

### **1 Scope of Checklist**

This comprehensive Tax Audit Preparation Checklist ("Checklist") is designed to provide a systematic and thorough approach to preparing Nexus Intelligent Systems, Inc. (the "Company") for potential federal, state, and local tax examinations and audits.

### **2 Objectives**

The primary objectives of this Checklist are to:

- a) Ensure complete and accurate tax documentation readiness
- b) Minimize potential tax liability exposure
- c) Streamline the audit response process
- d) Maintain comprehensive record-keeping standards

## **2. DOCUMENT ORGANIZATION AND MAINTENANCE**

### **1 Documentation Categories**

The Company shall maintain the following primary documentation categories:

- Federal Income Tax Returns
- State Income Tax Returns
- Payroll Tax Documentation
- Sales and Use Tax Records
- Property Tax Documentation
- International Tax Compliance Materials

### **2 Record Retention Requirements**

#### **2.1 Minimum Retention Periods:**

- Federal Tax Returns and Supporting Documentation: 7 years

- Payroll Tax Records: 4 years
- Property Tax Documentation: 6 years
- International Transaction Records: 7 years

### 3 Digital and Physical Storage Protocols

a) All tax-related documents must be:

- Digitally scanned with high-resolution imaging
- Stored in encrypted, secure cloud storage
- Backed up on redundant enterprise-grade storage systems
- Maintained with strict access control protocols

## **3. FINANCIAL RECORD PREPARATION GUIDELINES**

### 1 Financial Statement Reconciliation

The following financial reconciliation steps must be completed prior to any potential audit:

#### 1.1 Income Reconciliation

- Verify total revenue alignment between:
- General ledger
- Tax returns
- Financial statements
- Subsidiary income reports

#### 1.2 Expense Verification

- Cross-reference all expense categories with:
- Accounting records
- Vendor invoices
- Corporate credit card statements
- Reimbursement documentation

### 2 Transaction Documentation Requirements

Each significant transaction must be accompanied by:

- Original invoice
- Proof of payment

- Internal approval documentation
- Relevant contract or agreement
- Accounting journal entry reference

#### **4. TAX COMPLIANCE CHECKLIST**

##### **1 Annual Tax Preparation Workflow**

- a) Q4 Financial Close Procedures
- b) Tax Document Collection
- c) Initial Reconciliation
- d) External Accountant Review
- e) Final Tax Return Preparation
- f) Internal Executive Approval
- g) Timely Filing Submission

##### **2 Specific Documentation Requirements**

###### **2.1 Income Tax Documentation**

- Complete federal and state income tax returns
- Detailed revenue recognition schedules
- Transfer pricing documentation
- R&D tax credit substantiation materials

###### **2.2 Payroll Tax Documentation**

- Quarterly payroll tax returns
- Employee classification records
- Compensation and benefits documentation
- Independent contractor agreements

#### **5. AUDIT RESPONSE PROTOCOL**

##### **1 Initial Audit Notification Procedures**

- Immediate notification to Chief Financial Officer
- Engagement of external tax counsel
- Preservation of all potentially relevant documents

- Internal communication lockdown

## 2 Audit Response Team Composition

- CFO (Primary Coordinator)
- Corporate Tax Director
- External Tax Counsel
- Designated Compliance Manager
- Corporate Legal Representative

## 6. COMPLIANCE AND RISK MITIGATION

### 1 Potential Risk Areas

- Transfer pricing methodologies
- R&D tax credit substantiation
- International transaction documentation
- Employee classification determinations

### 2 Proactive Compliance Strategies

- Annual internal tax compliance audit
- Continuous documentation updates
- Regular external tax advisory consultations
- Comprehensive staff training programs

## 7. DISCLAIMER AND LIMITATIONS

### 1 Legal Disclaimer

This Checklist represents internal guidance and does not constitute legal or tax advice. The Company strongly recommends consulting qualified tax professionals for specific interpretations and guidance.

### 2 Modification Rights

The Company reserves the right to modify this Checklist at any time without prior notice.

## 8. EXECUTION

Approved By:

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Chief Financial Officer

Nexus Intelligent Systems, Inc.

Date: January 22, 2024