

# **Tax Compliance Risk Assessment Report**

## **Confidential Document - For Internal Review Only**

### **1. Executive Summary**

This Tax Compliance Risk Assessment Report ("Report") has been prepared by independent tax compliance specialists to evaluate the potential tax risks and regulatory exposures for Nexus Intelligent Systems, Inc. (the "Company") as of January 22, 2024.

#### **1.1 Scope of Assessment**

The assessment encompasses a comprehensive review of the Company's tax compliance practices, historical tax filings, potential contingent liabilities, and jurisdictional tax risk exposure across federal, state, and international tax regimes.

#### **1.2 Key Risk Findings**

- Overall Tax Compliance Risk Rating: Moderate
- Estimated Potential Tax Exposure: \$275,000 - \$425,000
- Primary Risk Areas: State Nexus Compliance, R&D Tax Credit Documentation, International Service Contracting

### **2. Jurisdictional Tax Profile**

#### **2.1 Corporate Tax Registration**

- Primary Jurisdiction: Delaware (State of Incorporation)
- Federal Tax ID: 87-2193847
- State Tax Registrations: California, Texas, New York
- International Tax Registrations: Canada (Ontario), United Kingdom

#### **2.2 Tax Filing History**

- Federal Income Tax Returns: Consistently Filed (2018-2023)
- State Tax Returns: Compliant with Multi-State Filing Requirements
- Last External Tax Audit: September 2022 (No Material Findings)

### **3. Identified Tax Compliance Risks**

#### **3.1 State Nexus Compliance Risks**

Potential exposure exists related to economic nexus standards in multiple states where the Company provides digital services. Specific concerns include:

- Inconsistent application of economic nexus thresholds
- Potential underreporting of service-based revenue in California and New York
- Variability in sales and use tax collection methodologies

Estimated Potential Exposure: \$175,000 - \$250,000

### **3.2 Research & Development Tax Credit Documentation**

Risks associated with R&D tax credit substantiation:

- Incomplete contemporaneous documentation of qualified research expenses
- Potential over-allocation of personnel time to qualifying research activities
- Insufficient granularity in tracking direct research expenditures

Estimated Potential Exposure: \$75,000 - \$110,000

### **3.3 International Service Contract Tax Implications**

Potential risks in international service delivery, specifically:

- Transfer pricing documentation for cross-border technology services
- Permanent establishment considerations in Canadian and UK markets
- Withholding tax compliance for international contractor payments

Estimated Potential Exposure: \$25,000 - \$65,000

## **4. Recommended Mitigation Strategies**

### **4.1 Immediate Action Items**

Conduct comprehensive nexus study across all operating jurisdictions

Enhance R&D expense tracking and documentation protocols

Implement robust transfer pricing documentation framework

Engage specialized tax compliance consultant for detailed review

### **4.2 Long-Term Compliance Enhancement**

- Develop centralized tax compliance management system
- Implement quarterly internal tax risk assessment protocols

- Establish dedicated tax compliance training program

## **5. Limitations and Disclaimers**

### **5.1 Scope Limitations**

This report represents a point-in-time assessment based on available documentation and represents professional judgment. Actual tax exposures may vary.

### **5.2 Professional Disclaimer**

This assessment is provided for informational purposes and does not constitute definitive legal or tax advice. Consultation with qualified tax professionals is recommended.

## **6. Certification**

This Tax Compliance Risk Assessment Report has been prepared with professional diligence and represents our best professional assessment as of the date of preparation.

### **Prepared By:**

Thompson & Associates Tax Compliance Solutions

January 22, 2024

### **Authorized Signature:**

[Digital Signature Placeholder]

Alexandra Reyes, CPA, Lead Tax Compliance Specialist

## **7. Confidentiality Notice**

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