

# **Tax Credit Qualification Verification Report**

## **Confidential Document**

**Prepared for:** Nexus Intelligent Systems, Inc.

**Date of Preparation:** January 22, 2024

**Internal Reference:** NIS-TAX-2024-001

## **1. Executive Summary**

This Tax Credit Qualification Verification Report ("Report") provides a comprehensive analysis of Nexus Intelligent Systems, Inc.'s ("Company") eligibility and substantiation for federal and state tax credit qualifications, specifically focusing on Research and Development (R&D) Tax Credits and Technology Innovation Incentives for the fiscal years 2022 and 2023.

## **2. Scope of Verification**

### **2.1 Objectives**

The primary objectives of this verification report include:

- Validate the Company's compliance with applicable tax credit qualification criteria
- Substantiate claimed research and development expenditures
- Assess potential tax credit recovery opportunities
- Provide a comprehensive documentation framework for potential audit scenarios

### **2.2 Methodology**

The verification process encompassed:

- Comprehensive review of financial records
- Detailed analysis of research and development project documentation
- Examination of technological innovation expenditure records
- Cross-referencing of internal documentation with external regulatory standards

## **3. Qualifying Research and Development Activities**

### **3.1 Technological Domain Identification**

Nexus Intelligent Systems, Inc. demonstrates qualifying R&D activities within the following

technological domains:

- Artificial Intelligence predictive maintenance algorithms
- Machine learning diagnostic tool development
- Enterprise digital transformation technological solutions

### **3.2 Expenditure Qualification Criteria**

Verified qualifying expenditures include:

- Wages for qualified research personnel
- Direct research supply and material costs
- Contract research expenses
- Technological prototype development costs

## **4. Tax Credit Substantiation**

### **4.1 Federal Tax Credit Analysis**

- Total Qualified R&D Expenditures: \$2,375,000
- Estimated Federal R&D Tax Credit: \$356,250
- Qualification Confidence Level: High (95%)

### **4.2 State-Level Incentive Potential**

- Delaware Technology Innovation Credit: Estimated \$127,500
- Potential Carry-Forward Credit: \$78,375

## **5. Compliance and Risk Assessment**

### **5.1 Regulatory Compliance**

The Company demonstrates substantial compliance with:

- Internal Revenue Code Section 41
- Delaware State Technology Investment Statutes
- Generally Accepted Accounting Principles (GAAP) documentation standards

### **5.2 Potential Risk Factors**

Identified potential risk factors include:

- Incomplete contemporaneous documentation

- Potential over-estimation of qualified research expenses
- Need for enhanced internal tracking mechanisms

## **6. Recommendations**

### **6.1 Documentation Enhancement**

- Implement more granular project tracking systems
- Develop standardized research activity documentation protocols
- Create dedicated R&D expense categorization framework

### **6.2 Tax Strategy Recommendations**

- Engage specialized tax credit consulting firm
- Conduct annual proactive tax credit eligibility assessments
- Develop multi-year strategic approach to R&D tax credit optimization

## **7. Limitations and Disclaimers**

This report represents a professional assessment based on available documentation. It does not constitute a definitive legal determination or guarantee of tax credit approval. The Company is advised to consult with qualified tax professionals for comprehensive tax strategy development.

## **8. Certification**

### **8.1 Professional Certification**

I hereby certify that this Tax Credit Qualification Verification Report has been prepared with professional diligence and represents an accurate assessment of the Company's tax credit qualification status.

#### **Prepared By:**

[Signature Redacted]

Alexandra Hartman, CPA, Tax Credit Specialist

License No. CT-45692

**Date of Certification: January 22, 2024**

## **9. Confidentiality Notice**

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