

IRS Audit Correspondence and Response Documentation - 2021 Tax Year

Confidential Legal Document

Nexus Intelligent Systems, Inc.

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1. Introduction and Background

1.1 Parties and Context

This document represents the comprehensive response and supporting documentation for the Internal Revenue Service (IRS) audit of Nexus Intelligent Systems, Inc. ("Company") for the tax year ending December 31, 2021. The audit correspondence was initiated via official IRS Communication Reference Number: 2023-AI-8742-NIS.

1.2 Audit Scope

The current audit encompasses a comprehensive review of the Company's:

- Corporate income tax returns
- Research and development tax credit claims
- Employee compensation and benefits reporting
- Depreciation and capital expenditure documentation
- Transfer pricing and intercompany transaction records

2. Audit Correspondence Summary

2.1 Initial Audit Notice

- Date of Initial IRS Communication: September 15, 2022
- Audit Notification Reference: LTR-2022-0915-NIS

- Primary IRS Examining Agent: Jennifer Hartley, Senior Revenue Agent
- Audit Focus Areas: R&D Tax Credits, Capital Expenditure Verification

2.2 Correspondence Timeline

- September 15, 2022: Initial audit notification received
- October 3, 2022: Company acknowledged audit request
- November 15, 2022: Initial document production completed
- December 20, 2022: Supplemental documentation submitted
- January 15, 2023: Preliminary audit findings discussed

3. Detailed Response Framework

3.1 Research and Development Tax Credit Substantiation

The Company provides detailed substantiation for R&D tax credit claims, specifically addressing:

3.1.1 Qualified Research Expenditures

- Total R&D Expenditures: \$2,375,000
- Qualified Personnel Costs: \$1,875,000
- Qualified Supply Expenses: \$325,000
- Contract Research Expenses: \$175,000

3.1.2 Technological Innovation Documentation

Comprehensive documentation demonstrating technological uncertainty, process of experimentation, and technological advancement in:

- AI predictive maintenance algorithm development
- Machine learning diagnostic tool refinement
- Enterprise automation platform engineering

3.2 Capital Expenditure Verification

3.2.1 Major Capital Investments

- Enterprise AI Infrastructure: \$1,250,000
- Advanced Computing Hardware: \$675,000
- Software Development Platforms: \$425,000

3.2.2 Depreciation Methodology

Straight-line depreciation applied consistently across asset classes, with detailed tracking and documentation for each significant capital investment.

4. Supporting Documentation

4.1 Financial Records

- Audited Financial Statements for 2021
- General Ledger Extracts
- Detailed Expense Journals
- Bank Statement Reconciliations

4.2 Personnel and Payroll Documentation

- Comprehensive payroll records
- Employee time allocation reports
- Professional certification and qualification documentation for R&D personnel

5. Legal Representations and Warranties

5.1 Corporate Representations

The undersigned hereby certifies that:

- All provided documentation is true, complete, and accurate
- No material misstatements or omissions exist
- Full cooperation has been extended to IRS examining agents

5.2 Compliance Statement

Nexus Intelligent Systems, Inc. affirms complete compliance with all applicable tax regulations and accounting standards.

6. Signature Certification

6.1 Authorized Corporate Representatives

Dr. Elena Rodriguez

Chief Executive Officer

Nexus Intelligent Systems, Inc.

Michael Chen

Chief Financial Officer

Nexus Intelligent Systems, Inc.

Date: January 22, 2024

6.2 Legal Counsel Verification

Corporate Legal Counsel

Signature and Seal

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Unauthorized disclosure is prohibited.**