

## **TAX MATTERS DOCUMENT 24**

THIS TAX MATTERS DOCUMENT (this "Document") is made and entered into as of January 15, 2024 (the "Effective Date"), by NEXUS INDUSTRIAL INTELLIGENCE, INC., a Delaware corporation with its principal place of business at 2500 Innovation Drive, Wilmington, Delaware 19801 ("Company") (EIN: 81-3456789).

WHEREAS, the Company develops and commercializes proprietary artificial intelligence and machine learning solutions for industrial applications through its NexusCore™ platform and related services;

WHEREAS, the Company generates revenue through various channels including software licensing, implementation services, and maintenance fees across multiple tax jurisdictions;

WHEREAS, the Company seeks to document its tax treatment methodologies and compliance frameworks for its various revenue streams and intellectual property assets;

NOW, THEREFORE, the Company hereby establishes the following tax matters documentation:

### **1.0 PREAMBLE AND RECITALS**

1.1 This Document shall serve as Tax Matters Document 24 in the Company's regulatory compliance series, establishing comprehensive guidelines for tax-related matters and reporting obligations.

1.2 The Company, incorporated in Delaware on March 15, 2017, maintains its registration in good standing under Delaware Secretary of State File Number 6543210, having satisfied all statutory requirements and filing obligations pursuant to Delaware General Corporation Law.

1.3 Principal Operations. The Company conducts operations primarily through: (a) Its headquarters facility in Wilmington, Delaware, comprising 50,000 square feet of commercial space (b) Research and development facilities in Cambridge, Massachusetts, dedicated to product innovation (c) Sales offices in various U.S. states and European locations, including but not limited to New York, California, London, and Frankfurt (d) Remote workforce operations in accordance with relevant state employment regulations

1.4 Tax Registration Status. The Company maintains active tax registrations in: (a) All U.S. states where nexus has been established through physical presence, economic activity, or statutory requirements (b) Relevant European jurisdictions for VAT purposes, including registration numbers in applicable EU member states (c) Federal tax registration under EIN 81-3456789

1.5 Document Purpose and Scope. This Document shall: (a) Establish protocols for multi-jurisdictional tax compliance (b) Define reporting hierarchies and responsibilities (c) Outline procedures for tax audit responses (d) Specify documentation requirements for international transactions (e) Provide guidance on transfer pricing methodologies (f) Detail requirements for maintaining tax-exempt status where applicable

1.6 This Document supersedes all previous versions and shall be reviewed annually for regulatory compliance updates.

## **2.0 DEFINITIONS AND INTERPRETATIONS**

2.1 "SaaS Revenue" means revenue derived from subscription-based access to the NexusCore™ platform, including: (a) Base platform licensing fees (b) Module-specific subscription fees (c) User-based access charges (d) API consumption fees (e) Data storage and processing fees (f) Premium support service fees (g) Platform enhancement subscriptions

2.2 "Implementation Services" means revenue from: (a) Initial platform deployment services (b) Custom integration development (c) Training and enablement services (d) Configuration and customization services (e) Migration assistance and data transformation (f) Performance optimization services (g) Security implementation and hardening

2.3 "Intellectual Property" includes: (a) Patents and patent applications (b) Proprietary algorithms and models (c) Software code and architecture (d) Trade secrets and know-how (e) Database structures and schemas (f) User interface designs and workflows (g) Documentation and technical specifications (h) Training materials and methodologies

2.4 "R&D Qualified Activities" means research and development activities meeting the criteria under IRC Section 41, including: (a) Algorithm development and optimization (b) Machine learning model training and validation (c) Computer vision system development (d) Edge computing optimization research (e) Neural network architecture design (f) Natural language processing enhancements (g) Quantum computing applications research

2.5 "Cross-Border Revenue" means revenue generated from: (a) Multi-jurisdictional deployments (b) International data processing activities (c) Global API access and consumption (d) Transfer pricing arrangements (e) Currency conversion transactions

2.6 "AI/ML Components" refers to: (a) Machine learning models and algorithms (b) Neural network architectures (c) Training datasets and annotations (d) Model optimization tools (e) Inference engines and processors

2.7 "Tax Jurisdiction" means: (a) Primary place of business (b) Secondary operational locations (c) Data center locations (d) Customer deployment regions

2.8 For the purposes of this Agreement: (a) Words importing the singular include the plural and vice versa (b) References to sections, clauses, and schedules are to those in this Agreement (c)

Headings are for convenience only and do not affect interpretation (d) References to "including" mean "including but not limited to" (e) References to currency are in United States dollars unless otherwise specified (f) References to time are to Eastern Standard Time (g) References to "writing" include email and electronic communications (h) References to "party" or "parties" mean the signatories to this Agreement (i) Technical terms have the meaning commonly understood in the software industry (j) Tax-related terms align with IRC definitions unless otherwise specified

## **3.0 TAX CLASSIFICATIONS AND TREATMENTS**

### **3.1 NexusCore™ Platform Revenue Classification**

3.1.1 The Company shall treat its SaaS Revenue as follows: (a) Federal tax treatment as services revenue under IRC Section 451, with recognition occurring when the taxpayer has a fixed right to receive the income (b) State tax treatment according to market-based sourcing rules, with revenue allocated based on customer location and usage patterns (c) International treatment as royalty payments where applicable, subject to relevant treaty provisions and withholding requirements (d) Multi-jurisdictional revenue allocation based on documented usage metrics and server locations

3.1.2 Revenue Recognition Timing: (a) Recognition occurs ratably over the subscription term, with specific consideration for multi-year contracts (b) Implementation revenue recognized as services are performed, tracked through detailed time and milestone documentation (c) Custom development revenue recognized upon milestone completion, subject to acceptance criteria (d) Advance payments treated according to IRC Section 451(c) deferral provisions (e) Performance obligations separately identified and allocated according to standalone selling prices

### **3.2 Intellectual Property Tax Treatment**

3.2.1 Development Costs: (a) Internal development costs capitalized per IRC Section 174, including: (i) Direct labor costs for software engineers and developers (ii) Allocable overhead expenses related to R&D activities (iii) Cloud infrastructure costs directly related to development (b) Third-party technology acquisitions amortized over 15 years, with specific identification of: (i) Purchase price allocation to various IP components (ii) Integration costs subject to capitalization (iii) Ongoing maintenance versus improvement expenditures (c) Patent costs amortized over legal life of the patent, including: (i) Application and prosecution expenses (ii) Maintenance fees and renewal costs (iii) Defense and enforcement expenditures

3.2.2 IP Transfer Pricing: (a) Cost-plus methodology for intercompany licensing, incorporating: (i) Direct and indirect cost allocation bases (ii) Markup percentages supported by benchmarking studies (iii) Regular review and adjustment procedures (b) Comparable uncontrolled transaction basis for third-party licensing, documented through: (i) Market

comparability analysis (ii) Functional and risk profiles (iii) Economic conditions assessment (c) Regular transfer pricing studies to validate methodologies, including: (i) Annual documentation requirements (ii) Contemporaneous documentation maintenance (iii) Adjustment procedures for material changes

### 3.3 State and Local Tax Considerations

3.3.1 Nexus Determination: (a) Economic nexus thresholds monitored across all jurisdictions (b) Physical presence analysis for employees and servers (c) Marketplace facilitator obligations where applicable (d) Local tax registration and compliance requirements

3.3.2 Apportionment Methodology: (a) Sales factor computation based on customer location (b) Property factor treatment of cloud-based assets (c) Payroll factor allocation for remote workers (d) Special industry formula considerations

### 3.4 International Tax Compliance

3.4.1 Permanent Establishment Analysis: (a) Server location implications (b) Employee activities assessment (c) Digital services tax considerations (d) Treaty qualification requirements

3.4.2 Value Added Tax Treatment: (a) Place of supply determinations (b) B2B versus B2C transaction classification (c) Electronic service provisions (d) Registration thresholds monitoring

### 3.5 Tax Reporting and Documentation

3.5.1 Required Documentation: (a) Revenue recognition policies and procedures (b) Transfer pricing documentation (c) State nexus analysis and determinations (d) International tax position support

3.5.2 Compliance Calendar: (a) Federal, state, and local filing deadlines (b) International reporting obligations (c) Information return requirements (d) Documentation update schedules

3.5.3 Audit Support: (a) Revenue classification documentation (b) Development cost capitalization records (c) Transfer pricing support (d) Nexus determination evidence

## **4.0 INTERNATIONAL TAX CONSIDERATIONS**

### 4.1 European Operations

4.1.1 VAT Treatment: (a) B2B SaaS services subject to reverse charge mechanism (b) Implementation services taxed at point of performance (c) Training services taxed at delivery location (d) Digital service provisions under EU VAT Directive 2006/112/EC (e) Threshold monitoring for distance selling regulations (f) Real-time reporting requirements for specified jurisdictions

4.1.2 Permanent Establishment: (a) Sales offices structured to avoid PE where possible (b) Technical implementation teams managed to prevent PE trigger (c) Server locations evaluated for PE implications (d) Fixed place of business considerations under Article 5 OECD Model (e) Agency PE risk assessment and mitigation strategies (f) Digital PE provisions under MLI implementation

4.1.3 EU Specific Compliance: (a) DAC6 mandatory disclosure requirements (b) Economic substance requirements for holding structures (c) Ultimate beneficial ownership reporting obligations (d) Local country filing requirements and deadlines (e) EU-wide tax information exchange compliance

#### 4.2 Transfer Pricing Methodology

4.2.1 Intercompany Transactions: (a) Cost-plus markup for support services (b) Residual profit split for technology licensing (c) Comparable uncontrolled price for standard services (d) Profit level indicators for routine functions (e) Value chain analysis for IP-related transactions (f) Risk allocation documentation requirements

4.2.2 Documentation Requirements: (a) Annual transfer pricing studies (b) Contemporaneous documentation maintenance (c) Country-by-country reporting compliance (d) Master file and local file preparation (e) Benchmark analysis updates (f) Intercompany agreement maintenance

#### 4.3 International Revenue Attribution

4.3.1 Revenue Recognition Principles: (a) Source-based income categorization (b) Service income attribution methodology (c) Digital revenue characterization (d) Withholding tax implications (e) Treaty benefit qualification assessment

4.3.2 Tax Treaty Applications: (a) Principal purpose test compliance (b) Limitation on benefits clause analysis (c) Reduced treaty rates qualification (d) Beneficial ownership documentation (e) Treaty shopping prevention measures

#### 4.4 Foreign Tax Credit Management

4.4.1 Credit Optimization: (a) Direct and indirect foreign tax credit calculation (b) Tax credit carryforward planning (c) Foreign branch basket allocation (d) High-tax kickout considerations (e) Credit limitation computation methodology

4.4.2 Compliance Requirements: (a) Foreign tax credit documentation (b) Substantial presence test monitoring (c) Foreign income verification procedures (d) Tax credit recapture prevention (e) Annual foreign tax position reconciliation

#### 4.5 Special Considerations

4.5.1 Digital Services Tax: (a) DST applicability assessment (b) Revenue threshold monitoring (c) User-based nexus evaluation (d) Unilateral measure compliance (e) Double taxation relief mechanisms

4.5.2 Cross-Border Restructuring: (a) Exit tax implications (b) Step-up basis considerations (c) Asset transfer documentation (d) Post-restructuring compliance obligations (e) Business purpose documentation requirements

## **5.0 REPRESENTATIONS AND WARRANTIES**

### **5.1 Tax Compliance Representations**

The Company hereby represents and warrants that:

5.1.1 All required tax returns and reports have been timely filed in all jurisdictions, including federal, state, local, and international tax authorities, with no material omissions or misstatements.

5.1.2 All taxes shown as due on such returns have been paid or adequately reserved, including but not limited to income tax, sales tax, use tax, property tax, payroll tax, and value-added tax obligations.

5.1.3 No material tax audits or proceedings are currently pending, and no written notice has been received regarding potential examinations or investigations by any taxing authority.

5.1.4 The Company maintains comprehensive records of all tax positions taken, including supporting documentation for all deductions, credits, and exemptions claimed.

5.1.5 All transfer pricing arrangements with affiliated entities comply with applicable regulations and are supported by contemporaneous documentation.

### **5.2 R&D Credit Qualification**

The Company represents that:

5.2.1 Its R&D activities qualify under IRC Section 41 criteria, meeting all four tests: permitted purpose, technological uncertainty, systematic process, and technological in nature.

5.2.2 Proper documentation is maintained supporting all claimed credits, including: (a) Contemporary laboratory notebooks and technical documentation (b) Time tracking records for qualified research personnel (c) Project-specific expenditure documentation (d) Technical uncertainty analysis reports

5.2.3 Technical uncertainty exists at the outset of each claimed project, as evidenced by documented capability, methodology, or design uncertainties.

### **5.3 Additional Tax-Related Warranties**

5.3.1 The Company has implemented adequate internal controls to ensure ongoing tax compliance and timely reporting.

5.3.2 All intercompany transactions are conducted at arm's length and properly documented.

5.3.3 The Company has not participated in any reportable transactions as defined in Treasury Regulation Section 1.6011-4.

5.3.4 All required information returns, including Forms 1099 and W-2, have been timely filed.

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

NEXUS INDUSTRIAL INTELLIGENCE, INC.

By: \_\_\_\_\_ Name: James Wilson Title: Chief Financial Officer

EXHIBITS: A: State Tax Registration Schedule B: Transfer Pricing Methodology Detail C:  
R&D Credit Documentation Requirements

[Exhibits follow on separate pages]