

SOFTWARE DEVELOPMENT COST TAX ANALYSIS

Summit Digital Solutions, Inc.

Tax Year 2023

Prepared: January 9, 2024

1. EXECUTIVE SUMMARY

This analysis examines the tax treatment of software development costs incurred by Summit Digital Solutions, Inc. ("Company") in connection with the development of its proprietary Peak Performance Platform and related digital transformation solutions. This document provides a comprehensive review of capitalization requirements, amortization schedules, and tax positions taken with respect to research and development expenditures.

2. SCOPE OF ANALYSIS

1. This analysis covers software development activities conducted during tax years 2021-2023, including:

- Core Platform Development
- Machine Learning Algorithm Development
- IoT Integration Framework
- Analytics Engine Development
- User Interface Components

2. Total development costs under review: \$14,275,000

3. REGULATORY FRAMEWORK

1. Internal Revenue Code Section 174
2. Revenue Procedure 2000-50
3. Treasury Regulations 1.174-2
4. ASC 350-40 (Internal-Use Software)

4. CAPITALIZATION ANALYSIS

1. ****Development Phase Classification****

The Company's software development activities have been categorized as follows:

- Preliminary Project Stage: \$1,275,000
- Application Development Stage: \$11,500,000
- Post-Implementation Stage: \$1,500,000

2. ****Capitalization Requirements****

Development costs meeting the following criteria have been capitalized:

- Technical feasibility of completion established
- Management commitment to complete development
- Ability to use or sell the software demonstrated
- Adequate technical, financial, and other resources available
- Revenue generation capability verified

5. TAX TREATMENT DETERMINATION

1. ****Research & Development Credit Qualification****

The following activities qualify for R&D tax credits under IRC 41:

- ML Algorithm Development: \$4,200,000
- IoT Framework Architecture: \$3,100,000
- Analytics Engine Innovation: \$2,800,000

2. ****Amortization Schedule****

Capitalized costs are amortized as follows:

- Core Platform: 36-month straight-line
- Supporting Components: 60-month straight-line
- Third-Party Integrations: 36-month straight-line

6. SPECIFIC COST ALLOCATIONS

1. ****Direct Development Costs****

- Employee Salaries: \$7,500,000
- Contractor Fees: \$2,100,000
- Development Tools: \$875,000

- Testing Equipment: \$550,000
2. ****Indirect Costs****
- Overhead Allocation: \$1,850,000
 - Facility Costs: \$900,000
 - Administrative Support: \$500,000

7. TAX POSITION SUMMARY

1. The Company has adopted the following tax positions:
- a) Classification of \$8,100,000 as qualified research expenses
 - b) Capitalization of \$4,275,000 in development costs
 - c) Current expense treatment for \$1,900,000 in maintenance costs
2. ****Risk Assessment****
- Position Strength: Strong
 - Documentation: Complete
 - Precedent Support: Substantial
 - IRS Challenge Risk: Low

8. CERTIFICATIONS AND REPRESENTATIONS

1. The Company hereby represents that:
- a) All cost allocations are based on reasonable methodologies
 - b) Supporting documentation is maintained for all claimed amounts
 - c) Technical requirements for R&D credit qualification have been met
 - d) Capitalization decisions comply with applicable regulations

9. DISCLAIMERS

- 1. This analysis is based on current tax law and regulations as of January 2024.
- 2. Future regulatory changes may impact the positions taken.
- 3. This document should be reviewed in conjunction with the Company's audited financial statements

and tax returns.

10. AUTHORIZATION

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Date: January 9, 2024

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