

TAX DOCUMENTATION AND COMPLIANCE REQUIREMENTS

Effective Date: January 15, 2024

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation with its principal place of business at 2500 Innovation Drive, Wilmington, Delaware 19801 ("Company"), develops and provides artificial intelligence-powered software solutions and related services;

WHEREAS, the Company seeks to establish comprehensive documentation requirements for tax compliance related to its software, technology services, and research and development activities; and

WHEREAS, the Company operates across multiple jurisdictions requiring specific tax treatment considerations for its various revenue streams and business activities;

NOW, THEREFORE, the Company hereby adopts the following Tax Documentation Requirements:

1.0 TAX DOCUMENTATION PURPOSE AND SCOPE

1.1 General Purpose

This document establishes mandatory requirements for documenting, reporting, and maintaining records related to the Company's tax obligations arising from its artificial intelligence software and technology service operations. The requirements herein are designed to ensure compliance with federal, state, and international tax regulations while maintaining comprehensive documentation standards for emerging technology services.

1.2 Scope of Coverage

(a) These requirements shall apply to all revenue streams, business activities, and operations of the Company, including but not limited to: (i) SaaS subscription revenue; (ii) Implementation services; (iii) Professional services and consulting; (iv) License fees; (v) Maintenance and support fees; (vi) Data processing services; (vii) AI model training and deployment fees; (viii) Custom software development; and (ix) Technical support services.

(b) Documentation requirements extend to all subsidiary operations, joint ventures, and strategic partnerships where the Company maintains operational control or significant influence.

1.3 Jurisdictional Applicability

These requirements shall apply to all jurisdictions where the Company: (a) Maintains a physical presence; (b) Meets economic nexus thresholds; (c) Provides cloud-based services; (d) Conducts research and development activities; (e) Maintains data centers or computing infrastructure; (f) Employs remote workers; or (g) Generates revenue exceeding local reporting thresholds.

1.4 Treatment of Recurring Revenue

The Company shall maintain detailed documentation of: (a) Monthly recurring revenue calculations; (b) Revenue recognition timing; (c) Deferred revenue balances; (d) Contract term modifications affecting revenue recognition; (e) Usage-based billing metrics; (f) Multi-year contract revenue allocation; and (g) Revenue adjustments due to service level agreements.

1.5 Documentation Standards

(a) All tax-related documentation must: (i) Be maintained in electronic format for a minimum of seven (7) years; (ii) Include detailed transaction logs with timestamps; (iii) Provide clear audit trails for revenue recognition; (iv) Document the basis for tax positions taken; (v) Include supporting calculations for complex transactions.

1.6 Special Considerations for AI Services

(a) The Company shall maintain specific documentation for: (i) Cross-border data processing activities; (ii) AI model licensing arrangements; (iii) Intellectual property revenue allocation; (iv) Research and development tax credits; (v) Transfer pricing for international operations.

1.7 Compliance Monitoring

(a) The Company shall establish: (i) Quarterly reviews of tax documentation completeness; (ii) Annual audits of documentation procedures; (iii) Regular updates to reflect changes in tax law; (iv) Monitoring systems for jurisdictional threshold tracking; (v) Documentation quality control procedures.

1.8 Implementation

These requirements shall be implemented through detailed procedures established by the Tax Department in consultation with Legal and Finance departments, subject to annual review and updates as necessary to maintain compliance with evolving tax regulations and business operations.

2.0 REVENUE CLASSIFICATION AND RECOGNITION

2.1 SaaS Revenue Classification

(a) Subscription Revenue. The Company shall classify and document NexusCore™ platform subscription revenue as follows: (i) Base platform fees, including standard access licenses and core functionality; (ii) User-based pricing components, calculated per active user per billing period; (iii) Usage-based fees, including API calls, storage utilization, and computational resources; and (iv) Premium feature revenues, encompassing advanced functionality and enterprise-grade capabilities.

(b) Documentation Requirements. For each revenue stream, maintain: (i) Detailed customer contracts with explicit terms of service; (ii) Pricing schedules, including all applicable discounts and volume-based adjustments; (iii) Usage reports with granular activity metrics and timestamp data; and (iv) Revenue allocation worksheets demonstrating compliance with ASC 606 principles.

(c) Revenue Recognition Timing (i) Recognition shall occur upon delivery of service or feature activation; (ii) Deferred revenue shall be properly documented and amortized; (iii) Revenue recognition triggers must be clearly defined and consistently applied; (iv) Material right considerations must be evaluated and documented.

2.2 Professional Services Revenue

(a) Implementation Services (i) Project-based revenue recognition aligned with completion percentage; (ii) Milestone completion documentation, including client sign-off requirements; (iii) Time and materials billing records with detailed activity logs; (iv) Change order documentation and corresponding revenue adjustments; (v) Resource allocation and utilization tracking.

(b) AI Consulting Services (i) Hourly rate calculations based on service level and expertise; (ii) Project deliverables documentation with acceptance criteria; (iii) Revenue recognition timing aligned with service delivery; (iv) Intellectual property considerations and licensing implications; (v) Performance obligation satisfaction criteria.

(c) Service Level Requirements (i) Documentation of service level agreements (SLAs); (ii) Performance metric tracking and reporting; (iii) Penalty and credit calculations; (iv) Customer satisfaction requirements.

2.3 Multi-Year Contract Considerations

(a) Contract term documentation requirements: (i) Explicit start and end dates; (ii) Renewal terms and conditions; (iii) Price escalation clauses; (iv) Service level commitments.

(b) Revenue allocation across periods: (i) Systematic and rational allocation methodologies; (ii) Fair value determination procedures; (iii) Material right considerations; (iv) Contract modification impacts.

(c) Modification tracking requirements: (i) Change order documentation; (ii) Pricing adjustment records; (iii) Service level modifications; (iv) Term extension documentation.

(d) Renewal terms and conditions: (i) Auto-renewal provisions; (ii) Notice requirements; (iii) Price adjustment limitations; (iv) Service level continuity requirements.

2.4 International Revenue Recognition

(a) Transfer pricing documentation: (i) Intercompany service agreements; (ii) Pricing methodology documentation; (iii) Benchmark analysis requirements; (iv) Annual review and adjustment procedures.

(b) Cross-border service delivery records: (i) Service delivery location tracking; (ii) Resource allocation documentation; (iii) Regulatory compliance evidence; (iv) Data residency requirements.

(c) Foreign currency translation documentation: (i) Exchange rate sources and methodologies; (ii) Timing of translations; (iii) Gain/loss calculations; (iv) Hedging documentation requirements.

(d) International tax treaty implications: (i) Permanent establishment considerations; (ii) Withholding tax documentation; (iii) Treaty benefit claims; (iv) Tax residency certificates.

2.5 Compliance and Reporting Requirements

(a) Regular compliance reviews: (i) Quarterly revenue recognition assessments; (ii) Annual audit preparation procedures; (iii) Internal control documentation; (iv) Regulatory filing requirements.

(b) Documentation retention: (i) Minimum retention periods; (ii) Electronic storage requirements; (iii) Access control procedures; (iv) Destruction protocols.

(c) Reporting obligations: (i) Internal management reporting; (ii) External stakeholder communications; (iii) Regulatory filings; (iv) Tax authority submissions.

3.0 R&D TAX CREDIT DOCUMENTATION

3.1 Qualified Research Expenses

(a) Personnel Costs (i) Salary and wages allocation, including detailed documentation of employee compensation directly attributable to qualified research activities; (ii) Time tracking requirements, comprising daily or weekly logs with specific project codes and activity

descriptions; (iii) Project assignment records, including formal documentation of staff assignments to qualified research initiatives; (iv) Benefits and overhead allocation methodology, with clear formulas for calculating research-related portions; (v) Documentation of supervisory activities related to qualified research projects.

(b) Contract Research (i) Third-party agreements, including detailed scope of work, payment terms, and intellectual property provisions; (ii) Scope of work documentation, clearly delineating research activities from non-qualifying services; (iii) Payment records, including invoices, proof of payment, and allocation worksheets; (iv) Contractor qualification verification, including technical expertise documentation; (v) Geographic location requirements and compliance documentation.

3.2 Development Activity Documentation

(a) Required Records: (i) Project plans and specifications, including detailed technical requirements and success criteria; (ii) Technical uncertainty documentation, specifically identifying knowledge gaps and research challenges; (iii) Testing and validation results, including experimental data, prototype evaluations, and failure analyses; (iv) Development methodology documentation, detailing systematic investigation approaches; (v) Alternative solutions considered and evaluation criteria; (vi) Documentation of technical meetings, design reviews, and decision-making processes; (vii) Source code version control records and development environment configurations.

(b) Process Documentation: (i) Research hypothesis formulation and documentation; (ii) Experimental design protocols and methodologies; (iii) Data collection procedures and quality control measures; (iv) Analysis of results and conclusions drawn; (v) Documentation of modifications and iterations based on findings.

3.3 Innovation Metrics

(a) Documentation of: (i) Algorithm improvements, including baseline performance metrics and enhancement measurements; (ii) Model accuracy metrics, with detailed statistical analysis and validation methodologies; (iii) Processing efficiency gains, quantified through benchmark testing and performance analysis; (iv) Technical performance benchmarks, including comparative analysis with existing solutions; (v) Innovation assessment criteria and evaluation frameworks.

3.4 Compliance Requirements

(a) Record Retention: (i) Maintenance of documentation for a minimum of four years from filing date; (ii) Electronic storage requirements and backup procedures; (iii) Access control and security measures for sensitive research documentation.

(b) Certification Requirements: (i) Technical expert verification of research activities; (ii) Management attestation of qualified research expenses; (iii) Independent review procedures and documentation.

3.5 Supporting Documentation

(a) Required Supplementary Materials: (i) Patent applications and intellectual property filings related to research activities; (ii) Technical publications and research papers; (iii) Industry standards and regulatory compliance documentation; (iv) Professional credentials of key research personnel; (v) Equipment and facility usage logs for research activities; (vi) Documentation of collaborative research arrangements and agreements; (vii) Grant applications and funding documentation related to research projects.

3.6 Periodic Review and Updates

(a) Documentation Review Requirements: (i) Quarterly assessment of documentation completeness; (ii) Annual validation of research qualification criteria; (iii) Updates to documentation procedures based on regulatory changes; (iv) Internal audit procedures and compliance verification processes.

4.0 STATE TAX NEXUS CONSIDERATIONS

4.1 Economic Nexus Thresholds

(a) Revenue Tracking (i) State-by-state revenue monitoring, including the establishment and maintenance of comprehensive tracking systems for gross receipts, taxable sales, and service revenue across all jurisdictions; (ii) Transaction volume documentation, requiring detailed records of all sales transactions, service provisions, and digital product deliveries on a per-state basis; (iii) Customer location records, including primary billing address, service delivery location, and usage metrics for multi-state customers.

(b) Threshold Compliance (i) Annual review of state-specific economic nexus thresholds, including both revenue and transaction count requirements; (ii) Implementation of automated monitoring systems to alert when approaching threshold limits; (iii) Documentation of threshold calculation methodologies and inclusion/exclusion criteria; (iv) Quarterly assessment of nexus status changes and corresponding compliance obligations.

4.2 Virtual Presence Documentation

(a) Server Infrastructure (i) Detailed inventory of physical and virtual server locations; (ii) Documentation of cloud service provider arrangements and corresponding jurisdictional implications; (iii) Regular updates of infrastructure deployment maps and associated tax obligations.

(b) Data Center Operations (i) Maintenance of comprehensive records regarding data center locations and operational activities; (ii) Documentation of colocation facilities and their tax implications; (iii) Assessment of data processing activities and their nexus-creating impact.

(c) Remote Employee Activities (i) Tracking of employee work locations and remote operations; (ii) Documentation of state-specific employment activities and their nexus implications; (iii) Regular review of temporary and permanent remote work arrangements; (iv) Assessment of traveling employee activities and their impact on nexus determination.

(d) Digital Service Delivery (i) Maintenance of service delivery logs and customer usage patterns; (ii) Documentation of digital product access points and delivery methods; (iii) Records of automated service provisions and their jurisdictional implications.

4.3 State-Specific Requirements

(a) Sales Tax Collection (i) Implementation of state-specific tax calculation systems; (ii) Maintenance of tax rate tables and jurisdictional boundaries; (iii) Documentation of taxability determinations for each product and service offering; (iv) Regular validation of tax collection procedures and accuracy.

(b) Use Tax Compliance (i) Tracking of use tax obligations on purchased services and digital products; (ii) Documentation of self-assessed use tax payments; (iii) Maintenance of use tax accrual records and supporting documentation; (iv) Regular review of use tax compliance procedures and updates.

(c) Exemption Certificate Management (i) Implementation of centralized exemption certificate management system; (ii) Regular validation of certificate accuracy and expiration dates; (iii) Maintenance of state-specific exemption requirements and documentation; (iv) Periodic review of exemption eligibility and renewal requirements.

4.4 Compliance Documentation Requirements

(a) Record Retention (i) Maintenance of all nexus-related documentation for the prescribed statutory period; (ii) Implementation of secure digital storage systems for tax records; (iii) Regular backup and verification of tax-related documentation.

(b) Audit Trail Maintenance (i) Creation and maintenance of detailed audit trails for all nexus determinations; (ii) Documentation of changes in nexus status and corresponding actions taken; (iii) Regular review and updates of audit trail procedures.

4.5 Periodic Review and Updates

(a) Annual Nexus Review (i) Comprehensive assessment of nexus status in all jurisdictions; (ii) Documentation of changes in business activities affecting nexus; (iii) Updates to compliance procedures based on review findings.

(b) Legislative Monitoring (i) Regular review of state tax law changes affecting nexus determinations; (ii) Documentation of legislative updates and their impact on compliance obligations; (iii) Implementation of necessary procedural changes based on legislative developments.

4.6 Remediation Procedures

(a) Non-Compliance Resolution (i) Establishment of procedures for addressing identified compliance gaps; (ii) Documentation of remediation efforts and timeline; (iii) Regular review of remediation effectiveness and necessary adjustments.

(b) Voluntary Disclosure Agreements (i) Assessment of eligibility for state voluntary disclosure programs; (ii) Documentation of voluntary disclosure negotiations and agreements; (iii) Maintenance of compliance requirements under voluntary disclosure terms.

DEFINITIONS

"AI Consulting Services" means professional services related to artificial intelligence implementation, optimization, and customization.

"NexusCore™" means the Company's proprietary artificial intelligence software platform.

"Qualified Research Expenses" shall have the meaning set forth in Section 41 of the Internal Revenue Code.

"SaaS" means Software-as-a-Service delivery model.

EXHIBITS

Exhibit A: State Tax Nexus Thresholds Exhibit B: R&D Documentation Templates Exhibit C: Revenue Classification Guidelines

SIGNATURE

IN WITNESS WHEREOF, this Tax Documentation Requirements document has been executed by the duly authorized representative of the Company as of the Effective Date.

NEXUS INDUSTRIAL INTELLIGENCE, INC.

By: _____ Name: David Kumar Title: Chief Financial Officer Date: January 15, 2024