

# **TAX CERTIFICATION AND COMPLIANCE DOCUMENT**

**Effective Date: January 15, 2024**

**Document Number: TAX-2024-019**

WHEREAS, Nexus Industrial Intelligence, Inc., a Delaware corporation with its principal place of business at 2500 Innovation Drive, Suite 400, Wilmington, Delaware 19801 ("Company"), provides artificial intelligence and machine learning software solutions through its NexusCore™ Industrial AI Platform; and

WHEREAS, the Company seeks to document its tax classifications, revenue recognition methodologies, compliance status, and research and development activities for various tax purposes;

NOW, THEREFORE, the Company hereby certifies and declares as follows:

## **1.0 TAX CERTIFICATION AND REPRESENTATIONS**

### **1.1 Entity Classification**

The Company is classified as a C-Corporation for federal tax purposes and maintains equivalent corporate tax status in all state jurisdictions where it conducts business. The Company has not made any entity classification elections under Treasury Regulations Section 301.7701-3. All subsidiary entities are wholly-owned and treated as disregarded entities for tax purposes, maintaining administrative simplicity across jurisdictions.

### **1.2 Tax Registration Status**

The Company maintains active tax registrations in forty-seven (47) U.S. states and twelve (12) international jurisdictions where its NexusCore™ platform is deployed. All required business licenses and tax permits remain in good standing as of the Effective Date. The Company conducts quarterly compliance reviews to ensure timely renewal of all registrations and permits, maintaining a comprehensive database of filing deadlines and requirements for each jurisdiction.

### **1.3 Software Revenue Classification**

(a) The Company's primary revenue streams from the NexusCore™ platform are classified as follows: (i) Software-as-a-Service (SaaS) subscription fees (ii) Implementation and integration services (iii) Technical support and maintenance (iv) Professional consulting services

(b) For federal tax purposes, SaaS subscription revenues are treated as service income rather than software license royalties pursuant to Treasury Regulations Section 1.861-18. This classification applies uniformly across all jurisdictions unless local tax law explicitly requires different treatment.

(c) Revenue recognition policies comply with ASC 606 standards, with performance obligations clearly identified in all customer contracts. Implementation services are recognized over the deployment period, while subscription revenues are recognized ratably over the service term.

#### **1.4 International Tax Treatment**

The Company's cross-border AI services are characterized as business profits under Article 7 of applicable tax treaties, except where specific technical services provisions apply. No permanent establishments are created through cloud-based service delivery. The Company maintains transfer pricing documentation in accordance with OECD guidelines and Section 482 regulations, with annual updates to intercompany service agreements.

#### **1.5 R&D Tax Credit Status**

The Company qualifies as an eligible entity for federal and state research tax credits, with qualified research expenses properly documented in accordance with IRC Section 41. The Company maintains contemporaneous documentation of: (a) Technological uncertainty elimination efforts (b) Systematic research processes (c) Software development life cycle stages (d) Employee time tracking for qualified activities (e) Contractor agreements specifying research parameters

#### **1.6 State Tax Apportionment**

The Company utilizes market-based sourcing rules for service revenue apportionment across states. Cloud computing receipts are assigned to customer locations based on: (a) User access points for SaaS services (b) Delivery location for implementation services (c) Customer's primary business location for enterprise contracts (d) Actual usage data where available and required by state law

#### **1.7 Sales Tax Treatment**

The Company collects and remits sales tax on SaaS offerings in jurisdictions where required. Exemption certificates are maintained for all qualifying customers, with annual validation procedures in place. The Company utilizes automated tax calculation software integrated with its billing system to ensure accurate tax determination and collection across all jurisdictions.

## **2.0 REVENUE RECOGNITION AND SOURCING**

### **2.1 SaaS Revenue Recognition**

(a) Subscription revenue is recognized ratably over the contract term beginning on the commencement date of each subscription, subject to the following conditions: (i) The signed contract represents a valid and binding agreement (ii) The service has been made available to the customer (iii) The fee is fixed or determinable (iv) Collection of the fee is reasonably assured

(b) Implementation fees are recognized over the expected life of the customer relationship, determined as follows: (i) Initial term shall be calculated based on historical customer retention data (ii) Adjustments to the recognition period shall be made annually based on updated retention metrics (iii) Implementation revenue shall be amortized on a straight-line basis (iv) Early termination shall not accelerate remaining implementation revenue recognition

(c) Professional services are recognized as services are performed, with the following specifications: (i) Time-and-materials engagements are recognized based on actual hours worked (ii) Fixed-price engagements are recognized using percentage-of-completion method (iii) Milestone-based services are recognized upon acceptance of deliverables (iv) Training services are recognized upon completion of each session

### **2.2 Multi-state Revenue Allocation**

(a) SaaS subscription revenue is sourced based on user location using the following hierarchy: (i) Location of user access as determined by IP address, verified through: - System logs maintaining historical access records - Periodic IP verification protocols - Geographic access restrictions where required (ii) Customer's billing address if user location cannot be determined (iii) Customer's principal place of business as a last resort

(b) Service revenue is sourced to the location where services are performed or delivered, considering: (i) Physical location of service personnel (ii) Location of customer personnel receiving services (iii) Virtual service delivery locations (iv) Mixed delivery models requiring proportional allocation

### **2.3 International Revenue Sourcing**

(a) Cross-border revenue is sourced according to: (i) Applicable tax treaty provisions, including: - Permanent establishment considerations - Digital service tax obligations - Withholding tax requirements (ii) Local country sourcing rules, incorporating: - Digital economy provisions - Place of supply rules - Value-added tax implications (iii) Location of service consumption, determined by: - User access patterns - Data storage locations - Service delivery infrastructure

(b) Transfer pricing methodologies comply with OECD guidelines and local country requirements, including: (i) Contemporaneous documentation requirements (ii) Arm's length principle application (iii) Functional and risk analysis (iv) Comparable company benchmarking

## **2.4 Revenue Classification Standards**

The Company applies consistent revenue classification standards across all jurisdictions based on: (a) The nature of services provided: (i) Core SaaS subscription services (ii) Implementation and configuration services (iii) Professional services and consulting (iv) Training and education services (v) Support and maintenance services

(b) Method of delivery: (i) Cloud-based access (ii) On-premises components (iii) Hybrid deployment models (iv) Mobile platform access

(c) Customer location and usage patterns: (i) Geographic distribution of users (ii) Access frequency and intensity (iii) Data storage requirements (iv) Bandwidth consumption

(d) Contractual terms and conditions: (i) Service level agreements (ii) Usage limitations and restrictions (iii) Customization requirements (iv) Term and renewal provisions

## **2.5 Revenue Recognition Adjustments**

(a) The Company shall make appropriate adjustments to revenue recognition for: (i) Service credits and refunds (ii) Volume discounts and rebates (iii) Early termination penalties (iv) Contract modifications (v) Usage-based variations

(b) All adjustments shall be: (i) Documented contemporaneously (ii) Supported by appropriate evidence (iii) Reviewed quarterly for accuracy (iv) Reflected in financial statements per applicable accounting standards

## **3.0 TAX COMPLIANCE DECLARATIONS**

### **3.1 State Tax Compliance**

The Company hereby certifies that: (a) All required state income tax returns have been filed in accordance with applicable deadlines and extensions, including quarterly estimated payments where required (b) Sales tax collection and remittance obligations are current across all jurisdictions where the Company maintains nexus or economic presence (c) All state unemployment and disability insurance payments are current and properly calculated based on current workforce classifications (d) No material state tax audits are pending that could reasonably result in significant adverse determinations (e) The Company maintains comprehensive records of all state tax filings, payments, and correspondence for the statutorily required retention periods (f) Any prior state tax disputes have been fully resolved with no outstanding liabilities or appeals

### **3.2 Federal Tax Compliance**

(a) All federal income tax returns have been timely filed, including all required schedules and attachments (b) Employment tax deposits are current and made in accordance with required frequency schedules (c) Information reporting requirements have been satisfied for all reportable transactions (d) No federal tax liens exist against Company assets or properties (e) The Company maintains appropriate documentation supporting all claimed deductions, credits, and special tax positions (f) All required estimated tax payments have been made in accordance with IRC Section 6655 (g) The Company has implemented internal controls to ensure ongoing federal tax compliance (h) Any IRS correspondence or notices have been promptly addressed and resolved

### **3.3 Sales Tax Collection**

The Company maintains systems and procedures to: (a) Determine taxability of products and services across all applicable jurisdictions (b) Calculate appropriate tax rates by jurisdiction, including local surtaxes and special district taxes (c) Collect and remit sales taxes in accordance with state and local requirements (d) Maintain required exemption certificates and resale documentation (e) Monitor and implement tax rate changes and jurisdictional requirement updates (f) Conduct periodic reviews of sales tax compliance procedures (g) Document nexus determinations and collection obligations (h) Track marketplace facilitator obligations where applicable (i) Maintain audit trails of all sales tax calculations and remittances (j) Monitor threshold requirements for economic nexus in all jurisdictions

### **3.4 Information Reporting**

The Company complies with all information reporting requirements including: (a) Forms 1099 for independent contractors, including proper classification documentation (b) Forms W-2 for employees, with accurate compensation and withholding reporting (c) Foreign information reporting forms, including FBAR and Forms 5471, 8938, and 8865 as applicable (d) State information returns and annual reports (e) Forms 1042-S for payments to foreign persons (f) Forms 8300 for cash payments exceeding \$10,000 (g) Forms 1095-C for Affordable Care Act compliance (h) Forms 926 for foreign corporation transactions (i) Backup withholding documentation and compliance (j) Electronic filing requirements where mandatory

### **3.5 Documentation and Record Retention**

The Company maintains: (a) A comprehensive system for tax document retention and retrieval (b) Secure storage of all tax-related records for required statutory periods (c) Digital backup systems for all tax documentation (d) Access controls for tax-related information (e) Regular updates to tax compliance procedures and documentation (f) Training programs for personnel involved in tax compliance (g) Audit trails for all tax-related transactions and filings (h) Documentation of tax positions and supporting analyses

## **4.0 RESEARCH & DEVELOPMENT CLAIMS**

### **4.1 Qualified Research Activities**

The following activities qualify as research expenses under applicable federal and state tax regulations: (a) Algorithm development and optimization, including: (i) Novel computational methods for data processing (ii) Performance enhancement of existing algorithms (iii) Development of proprietary mathematical models (iv) Optimization of processing efficiency and resource utilization (v) Implementation of innovative algorithmic approaches

(b) Machine learning model training, encompassing: (i) Neural network architecture design and validation (ii) Training dataset preparation and augmentation (iii) Model parameter optimization and hyperparameter tuning (iv) Cross-validation methodologies (v) Transfer learning implementations

(c) Computer vision system development, including: (i) Image processing algorithm development (ii) Object detection and recognition systems (iii) Real-time video analysis frameworks (iv) 3D reconstruction methodologies (v) Visual feature extraction techniques

(d) Edge computing architecture design, comprising: (i) Distributed processing frameworks (ii) Network optimization protocols (iii) Resource allocation systems (iv) Latency reduction methodologies (v) Security implementation frameworks

(e) Integration protocol development, including: (i) API design and implementation (ii) Data exchange protocols (iii) System interoperability frameworks (iv) Legacy system integration methods (v) Cross-platform compatibility solutions

### **4.2 Development Cost Allocation**

R&D costs shall be allocated according to the following criteria and methodologies:

(a) Direct labor costs, including: (i) Researcher and developer salaries (ii) Contract research personnel expenses (iii) Technical supervisor compensation (iv) Quality assurance staff costs (v) Project management overhead

(b) Computing resource usage, encompassing: (i) Cloud computing infrastructure costs (ii) Hardware depreciation (iii) Software license expenses (iv) Data storage and processing fees (v) Network infrastructure costs

(c) Third-party research services, including: (i) External laboratory testing (ii) Specialized consulting services (iii) Academic research partnerships (iv) Technical validation services (v) Patent search and filing expenses

(d) Prototype development expenses, comprising: (i) Materials and supplies (ii) Testing equipment (iii) Fabrication costs (iv) Validation procedures (v) Implementation expenses

### **4.3 Credit Calculation Methodology**

R&D credits shall be calculated using the following methods and considerations:

- (a) Regular credit method under IRC Section 41(a): (i) Base period calculations (ii) Qualified research expenses determination (iii) Fixed-base percentage computation (iv) Alternative incremental credit evaluation (v) Excess credit calculations
- (b) Alternative Simplified Credit method where advantageous: (i) Three-year qualified research expense average (ii) Current year qualified research expenses (iii) Credit rate application (iv) Consistency requirements (v) Election procedures
- (c) State-specific credit calculations as applicable: (i) Jurisdiction-specific requirements (ii) State credit rates and limitations (iii) Combined reporting considerations (iv) Carryforward provisions (v) Documentation requirements

### **4.4 Documentation Requirements**

The Company shall maintain the following R&D documentation in accordance with applicable regulations:

- (a) Project plans and technical specifications: (i) Detailed project objectives (ii) Technical approach documentation (iii) Research methodology descriptions (iv) Expected outcomes and success criteria (v) Risk assessment and mitigation strategies
- (b) Time tracking records: (i) Individual researcher time allocation (ii) Project-specific time entries (iii) Activity descriptions and categories (iv) Supervisor approvals (v) Periodic review documentation
- (c) Research activity logs: (i) Daily research activities (ii) Experimental procedures (iii) Technical challenges encountered (iv) Solution approaches implemented (v) Progress milestones achieved
- (d) Testing results and validation data: (i) Experimental results (ii) Performance metrics (iii) Validation procedures (iv) Quality assurance reports (v) Technical review documentation

All documentation shall be maintained for a minimum of seven (7) years from the date of filing any tax return claiming R&D credits, or such longer period as may be required by applicable law or regulation.