

Research on Income Tax Treatment Based on the Gambling Agreement

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Abstract—Since the rise of the gambling agreement in foreign countries, China has been gradually using it in recent years. For enterprises it is a common way of investment and financing. However, the transaction in the gambling agreement is different from the general equity transaction. It has its particularity. At present, China has not issued specific tax policies related to the gambling agreement. This paper draws lessons from the experience of betting in the United States and Australia and combines the "betting" between China Mengniu and Morgan Stanley to explore what China should learn from the taxation of betting agreements.

Keywords—*valuation adjustment mechanism (VAM); performance compensation; tax treatment*

I. INTRODUCTION

Enterprise gambling is a financing method introduced from the abroad. The investment and financing parties have a series of agreements through the gambling agreement because of the uncertainty of future earnings or asset value, so as to protect the interests of both parties. It has not been long since it entered foreign countries, and Chinese understanding of it is gradually increasing.

However, in many cases of gambling agreements, this article can find a more serious problem, that is, the problem of tax treatment, because the implementation of the gambling agreement will cause large cash flow or equity changes, China's tax law is currently not relevant. The policy to solve is a big gap in taxation. At the same time, fulfilling the expenses and the nature of the income generated by the gambling agreement is complex and special, and no other relevant rules can be applied. This will cause uncertainty in the treatment of the gambling agreement and the income tax treatment. In contrast, foreign research on the gambling agreement is rich, especially in the United States, and the income tax treatment of the gambling agreement has been continuously deepened. By analyzing the four tax treatment methods in the United States and the two tax treatment methods in Australia, it is also a goal of this article to find out what can be learned and what should be improved. Studying the current situation of the application of the gambling agreement in China, analyzing the nature of performance compensation, and making reasonable suggestions for its policy design, will help eliminate the legal risks of the uncertainty of the investment or financing of the

investment and financing, and promoting tax fairness. It is more conducive to the long-term development of enterprises and capital markets.

II. OVERVIEW OF THE GAMBLING AGREEMENT

A. The Connotation of the Gambling Agreement

The gambling agreement was translated from the English terminology "Valuation Adjustment Mechanism" (VAM), because it is very popular with the shared culture. Usually it refers to a type of agreement arrangement between the two parties based on future uncertainties (usually the realization of net profit) and corresponding adjustment of the transaction price; in the final analysis, it is a form of expression of the option. Through the design of the item, the gambling agreement can effectively protect the interests of investors. The gambling agreement, that is, the purchaser (including the investor) and the assignor (including the financing party), when advising the merger (or financing) agreement, make an agreement on the future uncertainty. If the agreed conditions arise, the investor can use a right; if the agreed terms do not arise, the financier uses a right. [1] In foreign investment in domestic enterprises, the gambling agreement has begun to be adopted.

The root cause of the "gambling agreement" is the uncertainty of the future profitability of the underlying assets by the parties involved in restructuring the merger and acquisition, and the purpose is to achieve the fairness and reasonableness of the transaction as much as possible. From an accounting point of view, the "gambling agreement" can be regarded as a financial instrument; from a legal point of view, the "gambling agreement" can be regarded as a civil legal act with effective conditions. In corporate restructuring and venture capital, the "gambling agreement" is often counted as a risk management tool, and the agreement of related items is not only a protection for the buyer's interests, but also a certain incentive for the assignor.

B. Classification of Gambling Agreements by Means of Compensation

The cash compensation type is the most common form of the gambling agreement, which means that when the performance fails to achieve the performance target set by the gambling agreement, the financing party or the controller

must make a certain amount of cash compensation to the investor, and the other terms remain unchanged; On the contrary, when the performance exceeds the specified performance target, the investment will compensate the financing party. For example, Company A promises that Company B's average net profit for Company A will be no less than 50 million in the next two years. If company A does not fulfill its commitment two years later, it needs to compensate the fixed profit of the Company B or Company B and the predicted profit margin of proportion.

The equity compensation type is mainly agreed by the agreement. When the enterprise fails to achieve the target of gambling, the financing party shareholders give gifts or cheaply transfer part of the enterprise equity to the investor, and the investor can also increase the capital of the financing party at a low price; on the contrary, when the enterprise performance exceeds when the level is agreed, reverse processing is required. However, it is worth noting that in the process of making this compensation, the control of one company may be changed. For example, when Ding Ding agreed that if the company's profit exceeds 500 million, Ding will donate its 60 million company's shares to shareholders of company; if the company's profit is less than 300 million, the company's shareholders will donate 60 million company stocks.

This article can give an example to let everyone know first. When Company A invests 40 million in Company B, it agrees that Company B needs to obtain the approval of China Securities Regulatory Commission before July 31, 2016. If it does not meet the agreement between the two, the company has the right to ask Company B to repurchase its shares issued to Company A at a price of 45 million.

Therefore, the equity repurchase type means that when the financing party fails to achieve the gambling target (especially when the listing target is not achieved), the financing party will repurchase the investor's shares at the investor's investment amount plus the fixed return price. Investors can withdraw from the investment.

Similarly, this article will first introduce an equity or cash incentive clause with an example: When Company A invests in Company B, the parties agree that the after-tax profit after the next year will reach 40 million, and the average growth rate of net profit in the next three years. When it is not less than 40%, Company A will give B company management the cash reward of 350,000 per person or give it a B share. Obviously, when the financial performance of the financing party reaches the agreed standard, the investor will transfer part of the equity to the management of the company without compensation, or transfer it at a low price, or the investor chooses to give the equivalent cash.

In addition to the above common terms, there are other special terms. For example, an investor may acquire a specific right when the financier company is unable to achieve the agreed performance target for the gambling agreement. For example, priority can be given to equity distribution rights or relative voting rights.

III. THE IMPACT OF THE GAMBLING AGREEMENT ON INCOME TAX

A. Impact on the Timing of Tax Liability

For corporate income tax, the registration date on the day when the confirmation of the change of the equity is confirmed is generally recognized as the time when the tax liability occurs. In contrast, the tax liability of the individual income tax is more flexible, such as the effective date of the agreement, the payment of the price or the Allowing the party to perform the equity interest, etc., can be used as the time when the tax liability occurs, and the tax payment is issued before the registration of the equity change.

Equity transfer was found to be relatively late, and the transaction price was relatively small in the total transaction price, and the number of people involved was relatively small, and the personal income tax paid was never taken seriously. At the same time, the freedom of agreement in equity transfer is relatively high, and it is too uncertain. It is too difficult for tax authorities to obtain accurate and detailed information on equity transfer. The awareness of tax returns for residents in China has not yet fully formed, which also forms the incompleteness of the tax.

The gambling agreement is the adjustment of the original contract price. This is also the essence of the gambling agreement. When the compensation occurs, the investment offsets the long-term equity investment cost, and the payer can offset the previous year's income and can refund the tax. The compensation is disposed at the investor. When investing, it is recognized that the enterprise income tax is paid for investment income, and the time when the tax liability is delayed compared with other methods is the most favorable for the taxpayer of the investor side.

B. Impact on the Tax Base

There are two main ways for investors to obtain the target enterprise assets or equity. The first is the simplest way to buy directly in cash, and the other is to issue shares of the company to specific targets and obtain corporate assets or equity. For the former, the investor only needs to use the actual amount of funds as the base of tax and the enterprise income tax can be calculated when the equity is obtained. For the latter, the subscriber pays the corporate income tax directly based on the actual transaction amount as the tax base, which is based on the issuer's issue as the issue of shares.

However, if there is a stipulation on the gambling agreement, the taxpayer has already paid the income tax according to the transaction price agreed upon in the equity transfer agreement, and the two parties subsequently adjusted the price of the equity transaction. Does it need to refund or replenish the tax?

According to the Article 9 of the "Administrative Measures on Individual Income Taxes for Equity Transfer (Trial)" (Notice No. 67 of the State Administration of Taxation, 2014), "Subsequent income obtained by taxpayers in accordance with the contract after meeting the agreed

conditions shall be deemed as income equity transfer". [2] This article can determine that if the transaction price of the equity is raised after the gambling agreement, the proceeds from the assignor should be included in the equity transfer income, and the income tax is paid; but there is no clear regulation on the tax law. This has also brought a lot of controversy to the public. Therefore, it is worth noting that when the two parties agree on the equity transaction gambling agreement, the assignor should fully consider the cost and risk of taxation, and should consider it more cautiously and comprehensively in capital transactions.

IV. A TYPICAL TAX TREATMENT METHOD FOR FOREIGN GAMBLING AGREEMENTS

A. Foreign Research Status

According to the tax law of the gambling agreement, only the model experience of the United States and Australia is the most valuable reference. The US tax law mainly considers two issues in the tax treatment of gambling agreements: one is whether the financing party in the transaction involving the gambling agreement should confirm the realized amount when the transaction occurs; the second is the profit and loss related to the trading behavior of the gambling agreement. Confirm when. Therefore, the United States mainly adopts the following four modes: installment sales, unfinished transactions, closing transactions, and taxpayers' own reasonable methods. Australia mainly adopts the following two modes: standard and reverse. In Australia, the tax treatment of the gambling agreement is the same as that of the UK, but compared with the United States, there is a significant difference in the tax treatment in the United States.

Companies can have a lot of autonomy in the US tax treatment methods, of course, based on the very advanced asset valuation technology in the United States. It can estimate the future compensation amount when the agreement is signed, and the accuracy of the future accounts is relatively high, so that the previous asset tax base can be deducted in many ways.

B. US Tax Treatment

The installment sales method means that the seller will divide the price obtained each time into three parts, firstly the tax base of some assets; secondly, the additional cost and investment income in production; and finally the profit obtained by the enterprise. Under the installment sales method, the phased recovery is the seller's tax base.

The closing transaction method means that the taxpayer can treat the contingent consideration in the gambling agreement as the same transaction, and may wish to discount the price and include it in the transaction price of the asset disposal in the current year, while processing the assets of the current year. The tax base will be fully recovered. If the later situation is the same as expected, there is no need to change the asset processing gains and losses. Conversely, the financing party will adjust the profit and loss according to the newly generated situation.

When a transaction is related to a gambling agreement, it is different from the closing transaction method. The two are different conclusions. The unfinished law is an unfinished transaction. Only after recovering all the tax bases, the relevant profit and loss is confirmed. With the recovery of the price, it is equal to the seller's recovery of the tax base of the assets it sells. At this time, the profit and loss arising from the disposal of the assets can be confirmed.

The next thing to do is to compare three tax treatment methods with one case:

Case 1: Company A owns 100% equity of Company B, and its tax base for long-term equity investment of Company B is \$90,000. In January 2015, Company A and Company C signed a total equity transfer contract with Company B containing the gambling agreement. The contract stipulates that Company C will pay Company A \$100,000 at present; in January 2016, according to Company B's 2015 performance, Party B will pay A Company a price equivalent to one-fourth of Company B's 2015 operating cash flow. The estimated value of this price is \$50,000 (Company B's 2015 operating cash flow is estimated at \$200,000), but based on Company B's operating conditions, this contingent consideration may be \$10,000 higher or lower than the estimated amount. The tax treatment under the three different methods is shown in "Table I":

TABLE I. COMPARISON OF THREE TAX TREATMENT METHODS IN THE UNITED STATES

		Installment sales method	End of trading method	Unfinished transaction
Contract realization amount		150,000	150,000	To be determined
Asset tax base		90,000	90,000	90,000
Confirmation of income		60,000 or 70,000 or 50,000	60,000	Determined in January 2016
Benefits confirmed in January 2015		$100,000 \times (60,000 \div 150,000) = 40,000$	60,000	10,000
Gains or losses recognized in January 2016	If C pays \$50,000	$50,000 \times (60,000 \div 150,000) = 20,000$	$50,000 - 50,000 = 0$	50,000
	If C pays \$60,000	$70,000 - 40,000 = 30,000$	$60,000 - 50,000 = 10,000$	60,000
	If C pays \$40,000	$50,000 - 40,000 = 10,000$	$40,000 - 50,000 = -10,000$	40,000

^a. Unit: Dollar

^b. Source of data: References [13]

In addition to the staged sales law, the unfinished transaction law, and the closing transaction law, the United States also has a tax payment method, which is the taxpayer's own tax treatment method, which is a way for the tax authorities to confirm. The applicable condition of this method is that if the taxpayer thinks that the installment sales method is not suitable, he can apply to the taxation authority on his own and submit a tax treatment method that is considered reasonable. After passing the examination and approval by the taxation department, the tax treatment can be carried out according to the application plan.

C. Australian Tax Treatment

After analyzing the tax treatment methods in the United States, let us analyze Australia's tax treatment. It is similar to the United Kingdom and Ireland, but it is significantly different from the United States. Because the uncertainty of future events leads to the uncertainty of the present value of the investment and financing objectives, it is difficult to estimate the future compensation rights in the profitability payment arrangement under this method, so after 2013 The Australian tax authorities have adopted a new tax treatment. That is to say, Australia will distinguish between compensation objects in the gambling agreement as standard and reverse.

The standard gambling agreement arrangement refers to the part of the buyer paying the seller to the seller at the time of signing the agreement. If the conditions of the terms of the compensation agreement for the gambling agreement are met, the buyer will repay the previous compensation to the seller. This is a kind of compensation. One way is compensation agreement. At this time, the seller's assets disposal income is the cash amount received in the current period, and the buyer also uses this as the tax base.

The reverse gambling agreement arrangement refers to the part of the buyer paying the seller to the seller at the time of signing the agreement. If the conditions of the terms of the gambling agreement are met, the seller will reimburse the buyer for the previous compensation. Different from the standard gambling agreement arrangement, the seller only uses the cash price received in the current period as the income from disposing of the assets. If the seller's performance does not meet the standard stipulated in the agreement, the seller will return the part of the price to the buyer. The seller's income from disposing of the assets will be reduced. Conversely, the loss of the disposed assets can also be increased.

V. PRACTICE ANALYSIS OF CHINA'S BET AGREEMENT IN ENTERPRISES

A. Research State in China

With the steady development of China's market economy, enterprises are becoming more diversified. Especially with the gradual improvement of China's capital market in recent years, the use of private equity financing to raise funds for enterprises is becoming more common in China. As follows, first, the cost of equity financing of listed companies in

China is low, the price-earnings ratio of stocks is higher, the dividend payout ratio is low and the phenomenon of non-distribution is more common. Second, the underdeveloped bond market in China makes corporate bond financing difficult. Third, there are a certain number of companies that have been restructured for state-owned enterprises. It can be said that there is no internal accumulation, so it is impossible to use internal financing. Fourth, some enterprises have unsatisfactory business performance, and under the pressure of funds urgently needed for the rapid development and growth of enterprises. Objectively, external financing has become its dependence and preferred financing method, and private equity financing is another major external financing method other than bank loans and public listings (including post-listing refinancing), in many cases. Next, for companies that are unable to meet bank loan conditions and listing requirements, private equity financing Even become the only choice. However, compared with foreign countries, China has not yet promulgated taxation policies related to gambling agreements, so most domestic enterprises still carry out tax treatment in accordance with general equity investment transactions.

B. Classic Case: Mengniu and Morgan Stanley

In recent years, there have been many cases of gambling in my domestic market, the most classic of which is the bet between Mengniu Dairy and Morgan Stanley. Although Mengniu signed the "Gambling Agreement" case in 2007, it has been 11 years since then, but it still has important analytical significance for us.

In January 1999, Niu Gensheng founded "Mengniu Dairy Co., Ltd." with a registered capital of 1 million yuan. Later it renamed as "Inner Mongolia Mengniu Dairy Co., Ltd." (Here in after referred to as "Mengniu Dairy"). At the end of 2001, when Morgan Stanley and other institutions contacted it, Mengniu Dairy Co., Ltd. was established for less than three years and is a typical entrepreneurial enterprise. Mengniu Dairy is headquartered in Inner Mongolia's dairy company, which is mainly engaged in the production of milk, yogurt, ice cream and other dairy products. Mengniu Dairy was established in 1999. It has successfully surpassed many dairy industry competitors in just six years and is firmly seated in the second throne of China's dairy industry. It only has Yili shares.

In 2001, Mengniu faced the problem of financing difficulties. At that time, Mengniu had a small capital and showed a good growth trend, but the shortage of funds may make Mengniu miss the opportunity. At that time, Mengniu tried to raise funds from domestic institutions, but it did not end in the end, so the introduction of foreign wind investment would be the only choice for Mengniu. It happened that Morgan Stanley found Mengniu and proposed to help Mengniu to overcome this difficulty. This is undoubtedly a life-saving straw for Mengniu.

In October 2003, Morgan Stanley decided to increase its holdings on Mengniu shares, and once again injected funds into Mengniu shares, but they had to sign a gambling agreement with Mengniu Dairy, which stipulated the year of

Mengniu Dairy in the next three years. If the profitable compound growth cannot reach 50%, Mengniu Dairy must compensate 78.3 million shares to the foreign investment department. This means that Mengniu Dairy's after-tax profit in 2006 should reach more than 550 million yuan, the profit rate after tax should be maintained at 4.5%, and the annual sales should be more than 12 billion yuan; if the group does not meet the target requirements, then Mengniu Dairy The compensation of 78.3 million shares is just enough to fully compensate the amount of foreign capital increase.

In June 2004, Mengniu's performance growth reached its target. In the case of Mengniu, Mengniu Dairy achieved the performance of gambling in the first year after signing the agreement. The option value of the "convertible document" of Morgan Stanley and other institutions was realized. When the stock exchange reached the stock price of Mengniu Dairy More than 6 Hong Kong dollars; the share awards given to the management of Mengniu Dairy are also fulfilled. The investor also terminated the gambling agreement in advance. Institutional investors such as Morgan Stanley invested in Mengniu Dairy's performance to gamble, making all parties a winner. However, there are still many companies involved in gambling that have not achieved gambling for various reasons. For example, Evergrande, Yong le, Tai zi Milk and other well-known enterprises have fallen into a gambling situation. If there is a problem in the business operation, both the investment and financing parties should take the opportunity to withdraw from the gambling. At this time, the investment and financing parties can withdraw from the "gambling agreement" by introducing other funds in the second round of financing of the enterprise.

In summary, when the investment and financing parties fulfill the gambling agreement, whether the investor receives the equity or cash payment needs to pay taxes, and when the tax payment and the pre-tax deduction of the tax treatment will be more complicated, this article will try to analyze this. The problem of tax is faced by both situations. In the theoretical and practical circles, some people think that the investor has obtained the benefits, and should confirm the income according to the date determined by the contract. However, the income of the nature is up to the public. If it determines that the proceeds of the transfer of property, the investor is obviously unable to purchase the equity. If it is established, it can only be considered as donation income or other income, but if it is determined to be donated income, it will violate the economic essence, and the "other income" listed in the Enterprise Income Tax Implementation Regulations does not enumerate this income. As for the loss of such transfer by investors, it cannot be deducted before tax, and naturally it cannot be supplement the cost of long-term equity investment.

When the conditions for the gambling agreement are met, the investor needs to transfer the investment or pay the cash, resulting in additional expenses for the investor company. In fact, such losses are clearly part of the equity agreement and are a further confirmation of the corresponding rights and obligations of the equity agreement. If there is no such agreement, the investor does not recognize the transaction price of the equity transfer contract and the investment

agreement, and will not sign the previous contract. The gambling agreement provides an adjustment mechanism for the contract price that the two parties considered unfair, and forms part of the bargaining mechanism of the entire contract. From this point of view, I believe that the loss caused by the gambling agreement should adjust the price of the equity transaction, and the cost included in the long-term equity investment should not be deducted in the current period. In fact, the pre-tax deduction of such loss is also difficult to obtain tax. It authorized by the agency.

When the agreed performance indicators are not met, the investor is the invested enterprise transferring the predetermined amount of equity to the investor or paying the equivalent cash. Whether the equity or equivalent cash obtained by the investor is recognized as the current income, the key lies in the benefit is identified as part of the equity transfer or investment agreement or as a separate income. Formally, the gambling agreement as an agreement, the recovery of its interests is uncertain, therefore, in the equity transfer contract or investment agreement, the contract does not include the gambling agreement. Of course, it is also impossible to include the benefits that may be obtained, and the tax base of the corresponding equity acquisition costs has been determined. The time for fulfilling the agreement and the time for signing the main contract are also longer, ranging from three to five years. It is also unrealistic to adjust the price of the main contract.

In fact, the proceeds from the gambling agreement are not passive, and it is part of the previous equity transfer and investment agreement. The gambling agreement is a subsidiary agreement, which is generated by the previous equity transfer contract and investment agreement, and the income it generates is the accompanying income of the previous contract. For example, the nature of the "valuation adjustment mechanism" indicates that both the investor and the financier believe that the price determined by the equity contract is determined by the information asymmetry between the two parties, and the two parties are inconsistent with the true value of the enterprise, that is, the future profitability of the enterprise. It is not the transaction price that the two parties are really willing to pay. Therefore, the estimated price of the other party is adjusted by the gambling agreement to achieve the value recognized by both parties, that is, the fair value. On the surface, there is no payment consideration for the gambling agreement, which is actually part of the consideration of the equity transfer contract. Therefore, the interest received in the gambling agreement should adjust the transaction price of the main contract and offset the cost of the long-term equity investment, and should not be confirmed. For the current income, when an investor disposes of an investment, it is recognized that the investment income is taxed, and the tax revenue of the state is not reduced. It only delays the tax payment time. According to the provisions of the Corporate Income Tax Law, dividends, dividends and other equity investment income are distributed according to the profit of the investee. The date of the decision confirms the realization of the income. In the gambling agreement, the financing party is not able to make a profit distribution decision to fulfill the

payment obligation, so the investor's income should not be recognized as dividend income.

VI. INTERNATIONAL EXPERIENCE IN TAX TREATMENT OF GAMBLING AGREEMENTS

A. *Differences in Tax Treatment Between the US and Australia*

The capital market in the United States has developed earlier. The capital operation mode can be regarded as very mature. It is the largest financial market with the largest transaction volume, and its fair value valuation technology is also high. Therefore, the United States can freely choose three methods for the tax treatment of the gambling agreement. When the company chooses to complete the transaction method or the installment sales method, the company can make a reasonable valuation of the fair value of the gambling agreement, and calculate the amount of the contract transaction. In the subsequent measurement, the relevant profit and loss can also be clearly confirmed, and the relevant taxation basis can be adjusted. Australia and the United States do not have the same tax treatment method. The main difference is that they are divided according to different compensation objects. There are no multiple options for tax treatment in the United States.

B. *The Difference Between China and Other Countries*

In the gambling agreement with advanced experience outside China, China's actual operation of gambling is relatively weak. In recent years, the investment, mergers and acquisitions of Chinese capital market enterprises have only increased, and equity transfer transactions are often accompanied by the emergence of gambling. However, there is no clear definition of how the nature of the profit compensation for the gambling agreement is defined in the tax law and how it should be handled.

In China, there are usually two situations. First, if a company under the same control merges a transaction, the compensation received by the investor is included in the capital reserve, and the taxable income is calculated when the equity is re-transferred. Second, it is not the same. The compensation received under control shall be included in the current profit and loss, and the taxable income shall be calculated. For the financing party, when the investment money is obtained, the current taxable income should be calculated according to the transaction price. If there is any compensation expense related to the gambling clause, there is no clear regulation on the tax treatment.

In the United States, in the case of using the closing transaction method and the installment sales method, the investor confirms the investment cost on the merger transaction date of the enterprise, and the investment cost includes the expected fair value of the gambling agreement. The financier confirms the realized amount on the merger transaction date of the enterprise, and the investment cost also includes the expected fair value of the gambling agreement.

In the case of using the unfinished transaction method, the compensation received by the investor may adjust the cost of the equity, and the financier shall confirm the gain or loss according to the actual compensation incurred during the period after the tax base is fully recovered. However, the application of the unfinished transaction law in the United States is not very extensive, because the tax bureau believes that this method will delay the tax time, so it will focus on supervising and checking the gambling agreement using the unfinished transaction method for tax treatment.

From the above point of view, the United States will be more fair and reasonable in relation to the tax treatment of the gambling agreement, but this is based on the maturity of the US capital market and the high level of fair valuation technology. In contrast, China's current capital market is not very mature, and fair value valuation technology needs to be improved. If China draw on the treatment methods of US staged sales, China need to consider the development of China's market more in the formulation of tax policy.

C. *China Should Learn from the Experience*

There are differences in the forms of gambling agreements between China and the United States. In terms of empirical learning, this article mainly refers to the accounting treatment of the US gambling agreement and the tax treatment of the unfinished transaction law and the installment sales law. Therefore, China should combine the current economic system, the compliance of Chinese law and the accounting treatment to analyze the places where the gambling agreement can be used in the tax treatment of Chinese enterprises, and explore in practice. According to the relevant experience of other countries, in Chinese country's compensation for the gambling agreement, China should pay attention to the following points:

First, the legal nature of the subsequent compensation for the gambling agreement should be clarified; although the compensation is the expenditure or income that may occur in the subsequent accounting period, the essence is the joint agreement of the investment and financing party to balance the investment risk, and the overall transaction is inseparable. According to the principle of tax neutrality, if the income and expenses of performance compensation are treated as a whole, and according to the accounting principle of substance over form, this part of income and expenditure should be seen. Making a fair adjustment to the initial transaction costs does not violate the essence of the equity transaction.

Second, it improves the relevant laws and regulations on the tax treatment of compensation funds; China has no clear regulations on the handling of gambling agreements, and the tax treatment of follow-up compensation funds should also follow the statutory principles of taxation to improve laws and regulations. This includes the large amount of capital flows involved in the gambling agreement, and the implementation of the gambling agreement in China.

Third, on the basis of legislation that clarifies the nature of the compensation tax law followed by the gambling agreement, and then clarifies the tax treatment of the

gambling agreement under the Chinese tax law system. When investing and financing parties sign a gambling agreement, they should conduct a reasonable assessment of the value, which is also conducive to improving information transparency. There is also a reasonable basis for the parties to agree on the form and content of the compensation clause. The subsequent confirmation of the measurement also has an accurate value estimate, which can greatly reduce the tax risk of the enterprise.

VII. CONCLUSION

In general, China should establish supporting tax laws and regulations as soon as possible. In the tax treatment, China should formulate special treatment methods for the specificity of the gambling agreement, clarify the nature of performance compensation and standardization and subsequent measurement, so that enterprises can there are laws to be found and regulations to be followed when conducting accounting and tax treatment. While greatly reducing the financial risks of enterprises, it also makes China's trading market more fair and equitable, and effectively promotes the development of the capital market. At the same time, the tax bureau should also do a good job in filing and supervising the information on the gambling agreement. The contract of the gambling agreement, the performance of the investment target, and the compensation income of the bank are all recorded in the tax authorities, especially when investing in some audits is difficult. Industry, this is to better grasp the signing and performance of the gambling agreement. In addition to financial supervision of the gambling agreement, the gambling agreement usually involves a change in registered capital or a private placement of shares by a listed company. Therefore, cooperation between the tax authorities and the business administration authorities and the CSRC should be strengthened. Strengthen the supervision and management of the gambling agreement on the capital increase contract, investment contract and asset purchase contract of the gambling clause.

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