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Sales Tax Corner

Calling the Odds—State Tax Developments in Prediction Markets

By Ilya A. Lipin, James Bowden, and Jonathan Bailey

Prediction markets are exchange-style platforms where participants buy and sell contracts tied to the outcome of future events such as sports contests, elections, economic indicators, or other measurable contingencies. As trading activity grows and these products increasingly overlap with sports wagering, gaming, and federally regulated event-contract markets, states are beginning to address whether and how the industry should be taxed.

The issue is increasingly fiscal as well as regulatory. The American Gaming Association recently estimated that states have missed out on \$1 billion in tax revenue due to the rise of prediction markets, highlighting why policymakers are focused on whether and how these platforms should be regulated, taxed as standalone products, or incorporated into existing gaming and sports wagering frameworks.¹

States are not taking a uniform approach: Kentucky, Illinois, North Carolina, and Iowa reflect different models for taxing prediction market activity—from standalone transaction taxes to sports wagering-based frameworks and lighter-touch revenue measures. For operators, platforms, technology providers, payment processors, and other market participants, this emerging patchwork creates practical questions involving taxability, sourcing, collection and remittance responsibility, licensing-related obligations, and potential constitutional or federal preemption limits.

This column highlights recent state tax developments and offers practical considerations for companies operating in the prediction market industry.

New Prediction Market Taxes in Kentucky, Illinois, and North Carolina

Kentucky

Kentucky was the first state to tax prediction markets *via* H.B. 757. On and after January 1, 2027, Kentucky will impose an excise tax on prediction market operators at the rate of 14.25 percent of the prediction market operator's transaction

fees.² The tax owed by the prediction market operators is calculated based on the accrual method of accounting.³

The state's General Assembly expressly stated that the law is intended to impose tax on prediction market operators rather than authorize or legalize prediction market activities.⁴ Notably, Kentucky legalized sports betting in 2023, imposing a 14.25-percent tax on the adjusted gross revenue of online/mobile sports betting and a 9.75-percent tax on retail (in-person) sports wagering. Although the new law expressly disclaims any intent to legalize prediction market activity, the selection of a tax rate identical to that imposed on online sports betting suggests that the General Assembly might view prediction markets as economically analogous to digital wagering platforms and therefore deserving of comparable tax treatment.

Similar to sports wagering excise and sales taxes, the return and accompanying tax will be due and payable monthly and remitted to the Department of Revenue on the 20th day of the next succeeding calendar month.⁵

H.B. 757 adopts an expansive definition of the term "prediction market," capturing both traditional event-contract trading platforms and other systems that enable consumers to speculate⁶ on the outcomes of future events. The definition applies regardless of the platform's physical location and expressly contemplates markets that may be operated as Commodity Futures Trading Commission ("CFTC") designated contract markets.⁷

The definition of the term "prediction market operator" is similarly broad. It includes any board of trade or other person, including affiliates, that operates a prediction market. Notably, the definition extends beyond the direct operator of a prediction market to encompass persons that own, operate, or control a digital distribution service, digital platform, online portal, or application store through which a prediction market can be accessed.⁸ As a result, the statute could reach a wide range of participants in the prediction market ecosystem, including some platform operators and intermediaries that facilitate consumer access to prediction markets.

The term "transaction fee" includes both (i) fees charged by a prediction market operator in connection with the sale, purchase, or trade of an event contract and (ii) amounts paid by consumers to purchase event contracts directly from the operator.⁹ As defined, the fee does not provide for any deductions or offsets.

The definition of consumer is based on both residency and physical presence. The statute defines a consumer to include both (i) Kentucky residents who purchase event contracts through a prediction market and (ii) nonresidents who purchase event contracts through a prediction market while physically located in Kentucky. As a result,

the tax's reach might extend beyond Kentucky's borders for residents, in that a resident who purchases an event contract while physically located outside Kentucky could still be treated as a consumer subject to the tax. This broad residency-based approach raises potential jurisdictional and constitutional questions because the statute does not include limiting language for out-of-state transactions involving Kentucky residents. For nonresidents, the tax is limited to transactions entered into while the purchaser is physically present in Kentucky.

The legislation defines an event contract as an agreement, contract, transaction, or swap based on the occurrence, nonoccurrence, or extent of a future event or contingency rather than on changes in the price, rate, value, or level of a commodity.¹⁰ The definition generally targets contracts that allow participants to speculate on the outcome of events, which are the foundation of modern prediction markets.

H.B. 757 excludes specific federally regulated commodities and derivatives transactions from the definition of an event contract. Specifically, the exclusion applies to futures contracts and options on futures contracts traded on or subject to the rules of a designated contract market, as well as some swaps and derivatives based on agricultural commodities, exempt commodities, or excluded commodities as defined under the Commodity Exchange Act.¹¹ These exclusions appear intended to distinguish taxable prediction market contracts from traditional commodities and derivatives products regulated under federal law.

Failure to comply with H.B. 757 can result in civil penalties for late filing, late payment, negligence or disregard of applicable law, and underpayment of tax, with some penalties potentially ranging from 20 to 50 percent of the tax due plus interest on late payments.¹² Further, because the law places collection and remittance responsibility on the prediction market operator, noncompliance could create responsible-person liability under Kentucky's general tax administration rules.¹³

Taken together, Kentucky's approach reflects an expansive, operator-focused transaction tax that broadly reaches platform participants, transaction fees, consumer payments, and residency-based activity.

Illinois

Through S.B. 3019, Illinois amended and broadened its Sports Wagering Act¹⁴ to include prediction market products within the definition of lawful sports wagering.¹⁵ Effective June 16, 2026, Illinois began imposing a transaction tax of 1.75 percent on each exchange wager, increasing to 3.5 percent per wager once a licensee exceeds five million wagers. This wager-volume-based rate increase

is distinct from the approaches taken by other states that have enacted or proposed prediction market taxes. These transaction taxes also apply in addition to existing Illinois taxes on sports wagering.

By applying the rates to licensees within the Sports Wagering Act, Illinois appears to treat covered prediction market products as permissible when offered through a licensed sports wagering operator rather than taxing prediction markets as a separate, standalone industry. This framework is significant because Illinois sports wagering licensees face substantial market-entry costs, including a \$15 million initial licensing fee for the first four-year period and a \$1 million annual renewal fee thereafter. Licensees also must navigate complex sports wagering tax obligations, including Illinois' revenue-based tiered tax, the per-wager excise tax, and applicable municipal taxes.

An exchange wager is defined to include "an agreement, contract, transaction, or swap that is offered, traded, or executed on a prediction market or exchange tied to a sporting contest or sporting event."¹⁶ As defined, an exchange wager does not provide for any deductions or offsets.

An exchange wager, by definition, needs to be tied to a sporting contest, which can include any sports event or game on which Illinois allows sports wagering, while a sports event is defined broadly to include professional, collegiate, motor race, and other skill-based events or competitions authorized by the Illinois Gaming Board.¹⁷ Accordingly, the definitions suggest that Illinois is targeting prediction market contracts only when they are connected to sports wagering activity rather than adopting a broader tax on event contracts tied to elections, economic indicators, or other non-sports outcomes.

As enacted, the new law does not clearly prescribe filing, reporting, or remittance procedures for the transaction tax. It provides only that tax collected must be deposited monthly into the Sports Wagering Fund, certified by the applicable board to the State Comptroller, and then transferred by the State Treasurer to the General Revenue Fund. This structure ties the tax administratively to Illinois' sports wagering revenue framework while ultimately directing the proceeds to the state's General Revenue Fund.¹⁸

North Carolina

Effective January 1, 2027, North Carolina will impose a trading fee tax on each operator of a prediction market at a rate of six percent of the operator's net trading fee revenue apportionable to North Carolina.¹⁹ North Carolina recognizes that a CFTC-registered and licensed prediction market may operate lawfully in the state if it complies with the Commodity Exchange Act and related CFTC

regulations. Unlike some other states, North Carolina does not impose a separate state license, registration, or other regulatory requirement on prediction markets.²⁰

The new rules define the term "prediction market" as any physical or electronic platform through which a consumer can buy, sell, or exchange event contracts. The definition applies regardless of whether the platform is located within or outside North Carolina and includes both CFTC-licensed designated contract markets and other exchanges, platforms, or businesses offering event contracts that are traded by consumers located in North Carolina.²¹

North Carolina defines an event contract as a swap traded on a designated contract market or swap execution facility that is tied to the occurrence, extent of occurrence, or contingency of a sports-related event. The definition excludes contracts tied to changes in the price, rate, value, or level of specific commodities under federal law.²²

North Carolina's tax base is net trading fee revenue, which generally equals prediction market revenue reduced by broker or market-maker compensation, promotional incentives or rebates, derivatives clearing organization platform or clearing fees, and withdrawal fees. Prediction market revenue generally includes amounts actually received from trading or taker fees; liquidity-provider fees for resting orders; and commissions charged to futures commission merchants, introducing brokers, clearing organizations, intermediaries, service providers, and other market infrastructure participants.²³ By focusing on net trading fee revenue rather than the full contract amount, North Carolina's approach appears narrower than transaction taxes imposed on gross fees or consumer payments.

Revenue is apportionable to North Carolina only when the trade involves a North Carolina resident who is both domiciled and physically present in the state when the trade and transaction generate trading fees paid to the prediction market operator.²⁴ Compared with Kentucky's broader residency-based sourcing rule, North Carolina's approach is narrower because it limits taxation to trades placed in the state by North Carolina residents.

The trading fee tax is due with the filing of the return, which is due annually on the last day of the month following the calendar year covered by the return.²⁵

Viewed in totality, in comparison to other states, North Carolina provides a contrasting model: a targeted tax paired with a more reserved state-level regulatory overlay.

Legislative Attempt in Iowa

Iowa attempted to tax prediction markets through Senate File 2470, which passed the Senate but died in the House

at the end of the 2026 legislative session. If enacted, the bill would have imposed a 20-percent designated contract market tax on adjusted revenues received each calendar year from event-driven contracts.²⁶ The tax would have been payable by the designated contract market to the state treasurer in the manner prescribed by the Department of Revenue and deposited into the state's general fund.²⁷

The bill defined a designated contract market to mean a "digital marketplace for trading event-driven contracts" that are regulated by the CFTC.²⁸ Event-driven contracts are limited to financial derivatives that provide a fixed binary payout related to sporting activities, lotteries, elections, legislative actions, and economic indicators.²⁹

The proposed tax base would have been adjusted revenues, calculated for each event-driven contract as the total charges and fees collected from participating traders less payouts made to those traders multiplied by a location percentage.³⁰ The location percentage would have been determined for each event-driven contract by dividing charges and fees collected from traders located in Iowa by total charges and fees collected from all traders in that contract, rounded to the nearest one ten-thousandth of a percent.³¹

The proposal also would have imposed significant licensing requirements. A person seeking to operate an event-driven contract market in Iowa would have needed an Iowa Department of Revenue permit, which would have carried an initial \$10 million fee and a \$100,000 annual renewal fee per permit.³²

The bill also included a fallback provision: If the designated contract market tax were held unconstitutional or otherwise unenforceable, an event-driven contract excise tax of 20 percent would instead apply to traders who buy event-driven contracts on a designated contract market to be collected and remitted by that market.³³ The scope of the tax would not apply to pari-mutuel systems of wagering used in connection with horse or dog races, fantasy sports contests, sports wagering, or other financial derivatives that are not event-driven contracts.³⁴

The bill would have required the excise tax to be administered as nearly as possible with Iowa's existing sales and use tax procedures except for provisions implementing the Streamlined Sales and Use Tax Agreement.³⁵ The Department of Revenue would have been required to provide registration and reporting forms and, for administrative ease, could have required event-driven contract excise tax liability to be identified, reported, and remitted with sales and use tax, provided the Department could separately identify those amounts as event-driven contract excise tax revenues.

State Tax Considerations and Observations for Prediction Market Operators

As states begin taxing prediction market activity, a threshold issue is whether those tax regimes are permissible revenue measures or instead might be preempted when they reach federally regulated event-contract markets. In a recently filed complaint in *Kentucky*, the federal government and the CFTC allege that federal law gives the CFTC exclusive jurisdiction over futures, options, and event contracts (or swaps) traded on federally regulated exchanges.³⁶ It also alleges that Kentucky's H.B. 757, inclusive of its provisions related to taxation of prediction markets, is preempted by the Commodity Exchange Act and as applied could make operation in the state not economically viable. If successful, the challenge could limit Kentucky's ability to regulate prediction market activity through H.B. 757, including through a tax regime that may function as state-level regulation.

Similar platform-led lawsuits also argue that state efforts to regulate prediction markets violate the Supremacy Clause.³⁷ These challenges highlight the key tension for states: While states might seek to raise revenue from prediction markets or align their tax treatment with existing sportsbook and gaming frameworks, that authority might be constrained if the tax reaches federally regulated markets or operates as a regulatory deterrent.

The analysis might turn on how the transaction is characterized and how much state regulation accompanies the tax. If a prediction market transaction is viewed as a state-regulated wager, states might have a stronger basis for applying gaming or transaction taxes. If, however, the transaction is treated as a federally regulated derivative, swap, or event contract traded on a CFTC-regulated market, state tax regimes could face greater federal preemption risk.

The degree of state regulation might also matter. North Carolina's approach offers a useful contrast because it recognizes the Commodity Exchange Act's exclusive federal regulatory authority and allows CFTC-registered prediction markets to operate without a separate state gambling license. Although taxation itself can be a form of regulation, a more deferential framework could be better positioned to withstand constitutional or preemption challenges than regimes that impose broader licensing or operational restrictions in addition to tax.

As more guidance is provided and new laws emerge, prediction market platforms should evaluate whether new state tax regimes could be subject to federal preemption.

Assuming states are not preempted from taxing prediction market activity, operators and advisers should consider several additional state tax implications, including potential overlapping transaction taxes and income tax nexus consequences.

- If a Kentucky resident enters into a prediction market transaction while located in another state that also imposes a tax, could the same transaction be subject to tax in both states, and would any credit or sourcing relief be available? This potential scenario could require operators to evaluate sourcing, residency, credit, and constitutional limitations transaction by transaction.
- If a meaningful volume of Kentucky residents enter into transactions outside Kentucky, could those receipts create income tax nexus and filing obligations for the prediction market operator in states that apply economic nexus standards and market-based sourcing rules?
- Given the statute's broad definition of a prediction market operator, could collection and remittance obligations extend beyond the primary operator to unintended parties, such as digital marketplaces, application stores, or online platforms through which a prediction market may be accessed?
- When a new prediction market tax is created within an existing framework, such as sports wagering laws, operators should determine whether the tax also brings related licensing, reporting, registration, and other gaming tax compliance obligations, as illustrated by Illinois' approach to licensed sports wagering

operators. Conversely, when the prediction market tax is created as a standalone tax, operators should determine if it applies in addition to or in lieu of other taxes.

- The newly enacted and proposed taxes discussed in this column provide limited guidance on administration and compliance. Kentucky and Iowa, however, suggest that states may look to sales and use tax-style procedures—such as registration, platform-level collection, monthly reporting, remittance, and existing procedural rules—to administer prediction market taxes, even when those taxes are not labeled as traditional sales taxes.
- When tax rates are tied to wager volume, as in Illinois, operators should understand how exchange wagers are counted. For example, guidance may be needed on whether each side of a matched sports-event contract is treated as a separate wager or whether the matched contract is counted as a single exchange wager.

As prediction markets and other digital gaming models continue to evolve, companies operating in this space face a growing patchwork of state and local tax, regulatory, and compliance obligations, particularly if states begin applying transaction-based taxes, gaming taxes, or sales and use tax-style collection frameworks to new products and platforms. Because the treatment of these activities can vary significantly depending on how a state characterizes the underlying transaction, businesses should carefully evaluate nexus, taxability, sourcing, registration, collection, remittance, and audit exposure across jurisdictions before entering or expanding into this market.

ENDNOTES

¹ Davis Giangulio, *Gaming Association Says States Have Lost \$1 Billion in Tax Revenue Due to Prediction Markets*, CNBC (May 28, 2026, 12:51 PM EDT), www.cnbc.com/2026/05/28/states-have-lost-1-billion-due-to-prediction-markets-gaming-association.html.

² H.B. 757, Sec. 71(2).

³ *Id.*

⁴ H.B. 757, Sec. 71(7).

⁵ H.B. 757, Secs. 71(3) and (4).

⁶ H.B. 757, Sec. 71(1)(g) (defining the term “speculative position” to mean a financial commitment made by a consumer in a prediction market).

⁷ H.B. 757, Sec. 71(1)(e).

⁸ H.B. 757, Sec. 71(1)(f).

⁹ H.B. 757, Sec. 71(1)(h).

¹⁰ H.B. 757, Sec. 71(1)(c)(1).

¹¹ H.B. 757, Sec. 71(1)(c)(2).

¹² H.B. 757, Sec. 71(5). See KRS 131.180 (1)–(8) noting various ranges of penalties due.

¹³ H.B. 757, Sec. 71(5). See KRS 131.180(12) noting that “[a]ll penalties levied pursuant to this section shall be assessed, collected, and paid in the same manner as taxes. Any corporate officer or other person who becomes liable for payment of any tax assessed by the department shall likewise be liable for all penalties and interest applicable thereto.”

¹⁴ 230 ILCS 45/25-1 et seq.

¹⁵ S.B. 3019, Article 130, p. 1281. www.ilga.gov/documents/legislation/104/SB/10400SB3019enr.htm.

¹⁶ 230 ILCS 45/25-10.

¹⁷ *Id.*

¹⁸ 230 ILCS 45/25-90 (d-20).

¹⁹ S.B. 257, Article 2F, available at www.ncleg.gov/BillLookup/2025/S257. See N.C. Gen. Stat. §105-113.131(b).

²⁰ N.C. Gen. Stat. §105-113.131(a) and (b).

²¹ N.C. Gen. Stat. §105-113.130(8).

²² N.C. Gen. Stat. §105-113.130(4).

²³ N.C. Gen. Stat. §105-113.130(9).

²⁴ N.C. Gen. Stat. §105-113.131(c).

²⁵ N.C. Gen. Stat. §105-113.131(d).

²⁶ S.F. 2470, Sec. 5, available at www.legis.iowa.gov/legislation/BillBook?ga=91&ba=SF2470.

²⁷ S.F. 2470, Sec. 6.

²⁸ S.F. 2470, Sec. 1 (2).

²⁹ S.F. 2470, Sec. 1 (5).

³⁰ S.F. 2470, Sec. 1 (1).

³¹ S.F. 2470, Sec. 1 (7).

³² S.F. 2470, Sec. 4 (3).

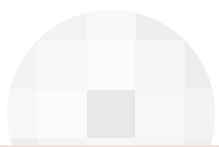
³³ S.F. 2470, Sec. 16, 19. See also, Iowa Legis. Servs. Agency, *Fiscal Note, S.F. 2470, Prediction Market Taxation* (Apr. 7, 2026), www.legis.iowa.gov/docs/publications/FN/1603906.pdf.

³⁴ S.F. 2470, Sec. 15.

³⁵ S.F. 2470, Sec. 18.

³⁶ *Kentucky*, No. 3:26-cv-00049 (E.D. Ky. 2026).

³⁷ *Kalshix LLC v. Raoul*, No. 1:26-cv-07363 (N.D. Ill. 2026), capitolnewsillinois.com/wp-content/uploads/2026/06/Kalshi-complaint.pdf.



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