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The State of Information Reporting for Event-Based Contracts

Part II of KPMG LLP's Series on Taxation of Sports Event Contracts

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Executive Summary

Sports, elections, politics, culture, commodities, economics, companies—these are but a few of the various categories of event contracts offered by prediction markets such as Kalshi, Polymarket, and Crypto.com. Taking the over on prediction market expansion during 2026 would seemingly guarantee a payout—notional monthly trading exceeded $25.7 billion in March 2026, up from less than $100 million in early 2024,[1] and investment firm analysts estimate prediction market trading volume of $1 trillion a year by 2030.[2]

The rapid growth of these markets has triggered significant legal and regulatory scrutiny, as well as the practical question of how these contracts should be treated for U.S. tax purposes. Once the question of U.S. tax treatment is raised, that necessarily highlights the question of information reporting and withholding given its importance to effective tax administration. While the Internal Revenue Service ("IRS") has not yet weighed in on the information reporting considerations, these should be top of mind for the various platforms given the unique nature of these contracts. Platforms already making these payments must choose a reasonable tax characterization and implement information reporting and withholding controls that are defensible under current law. They do not have the luxury of waiting for guidance.

If an individual places a retail or online sports bet and wins more than $2,000 and the win is greater than 300 times the wagering transaction, the casino or online sportsbook operator is required to issue a Form W-2G.[3] If a gambler's daily fantasy sports wins are greater than $2,000, they will be reported on Form 1099-MISC as other income.[4] Proceeds from certain broker transactions are reportable on Form 1099-B.[5] Aside from some questions on the implications of the One Big Beautiful Bill Act's ("OBBBA's") adjustment of the Section 6041(a)[6] threshold from $600 to $2,000, these are established principles. However, many have correctly pointed out that prediction market contracts do not fall neatly into any of these categories.

This article reviews the potential information reporting and withholding considerations associated with these contracts. Unless otherwise indicated, the discussion below (i) focuses solely on sports event contracts that are offered by Commodity Futures Trading Commission ("CFTC") regulated contract markets and not those offered by unregulated exchanges, and (ii) focuses solely on payments made to U.S. persons. Lastly, it should be noted that we are not offering an opinion on the legal classification of prediction markets contracts as financial derivatives or wagering transactions, nor are we advocating for or against any viewpoints held by respective industry stakeholders.

Prediction Markets 101

Do you want to predict which football team will win Super Bowl LXI? Or do you want to hedge against gas prices exceeding $10 a gallon in Los Angeles by September 1, 2026? If politics is your passion you can enter into a derivative contract to determine the results of both the Democratic and Republican presidential nominations for the November 2028 election. All of these contracts, and more, are available on prediction markets.

Unlike traditional financial derivatives which reference the value of an underlying asset, these event contracts are based on the occurrence of a measurable event in the future. Many are structured as “binary” contracts, whereby the contract settles at $1 if the specified event occurs, and $0 if it does not. Traders buy and sell these contracts at prices between $0 and $1, often paying a small fixed per-contract fee.

Prediction markets have experienced significant growth in part given the minimal barriers to entry. Both retail and institutional investors can participate, and you can easily enter into a contract or position on a phone, mobile device, or laptop. The minimum contract value is $1, with typical buy and sell/settle fees averaging $0.03-0.04 per transaction.

From a U.S. federal income tax perspective, some CFTC regulated platforms have argued that event contracts are “swap” or “futures” type derivatives governed by the Commodities Exchange Act (“CEA”), as opposed to traditional gambling wagers, but the IRS has not yet provided definitive classification guidance. That uncertainty flows directly into the question of what, if anything, must be reported on Forms 1099 or other information returns, and practices currently vary among platforms (e.g., not all CFTC regulated venues appear to report on Form 1099-B).

Information Reporting Considerations

Information reporting is dependent upon the tax characterization of investor income from event related contracts. Depending on whether the income is classified as a capital gain, ordinary income, or wagering income, a different set of rules applies to determine whether Form 1099-B, Form 1099-MISC, Form W-2G, or even no reporting at all is required for payments made to U.S. persons. Similarly, the income classification will also dictate such issues as net or gross reporting and whether the initial position can be used to offset the winning proceeds.

Form W-2G Reporting

Form W-2G "Certain Gambling Winnings" is used to report gambling winnings paid to U.S. persons. Specific reporting requirements will depend upon the type of gambling, the amount of gambling winnings, and in many cases, the ratio of the winnings to the wager.[7] Proceeds from wagers on sporting events are subject to Form W-2G reporting when the winnings are at least $2,000 and the payout is more than 300 times the wager.[8]

What is the difference between placing a wager on the U.S. Open Tennis Championships or The Masters Tournament at an online casino versus on a prediction market? The Commonwealth of Massachusetts ("Massachusetts") argues there is no difference.[9] Massachusetts states "Despite Kalshi calling its product "event contracts," consumers are placing wagers on the outcome of sporting events." Massachusetts further points to Kalshi's own Instagram posts to further bolster its position, including Kalshi's own Instagram posting advertising itself as "The First Nationwide Legal Sports Betting Platform."[10] Kalshi, and other operators, distinguish their platforms from traditional gaming given they are structured more similarly to a futures market where a transaction can only exist if there is another person willing to accept the wager. The market, as opposed to the "House," sets the odds, with the market's return exclusively based on the fees associated with the contract.

One of the most persuasive arguments is that these instruments are structured and regulated as derivatives under CFTC oversight, in contrast to traditional house-backed wagering overseen by state gaming regulators.

The CEA provides a broad-based definition of "commodity" to include, among other things, "all services, rights, and interests (except motion picture box office receipts, or any index, measure, value or data related to such receipts) in which contracts for future delivery are presently or in the future dealt in."[11] Under this framework, standardized, fungible event contracts traded on CFTC regulated platforms generally are treated by the CFTC as commodity derivatives or other CEA-regulated instruments (e.g., options or swap-like binary contracts), even though there remains some debate over whether the underlying events themselves are "commodities" in a technical sense. In addition, CFTC registered exchanges are not permitted to list contracts that are classified as prohibited "gaming" contracts under the CEA and related CFTC guidance, which is one reason the legal characterization of sports and other event based contracts has become so consequential.

Congress has expressly provided the CFTC with oversight of U.S. futures and derivatives markets, including contracts on CFTC-registered Designated Contract Markets ("DCMs"), which now include several prediction markets offering event-based contracts. As evidenced by its public commentary and submission of an amicus brief in the Ninth Circuit,[12] as well as multiple lawsuits filed against states efforts to ban, restrict, or regulate the offering of sports event contracts by registered DCMs,[13] the CFTC has not been hesitant in asserting this jurisdiction. Notable quotes from CFTC Chairman Michael Selig in a February 2026 opinion piece published in the Wall Street Journal included:

"Well-known CFTC-registered exchanges used by tens of millions of Americans—including Kalshi, Polymarket, Coinbase and Crypto.com—face an onslaught of state-driven litigation across the country, with nearly 50 active cases presenting a range of legal challenges. The most common allegation is that these contracts are a form of gambling and therefore subject to state laws. The CFTC will no longer sit idly by while overzealous state governments undermine the agency's exclusive jurisdiction over these markets by seeking to establish statewide prohibitions on these exciting products."

"Event contracts serve legitimate economic functions. They allow businesses and individuals to hedge event-driven risks, enable investors to manage portfolio exposure, and provide the public with information about the outcome of future events. Farmers can manage risk related to temperature changes that may affect crops, and small-business owners can hedge against tax increases or energy-price spikes, to name two examples."

"Under the plain language of the Commodity Exchange Act, event contracts are "swaps." They are derivative instruments that allow two parties to speculate on future market conditions without owning the underlying asset. In the wake of the 2008 financial crisis, Congress expressly granted the CFTC comprehensive authority over any such contract based on a commodity. The statutory definition of "commodity" is extraordinarily broad and includes practically all goods, articles, services, rights and interests except for onions (due to a history of market manipulation) and movie box-office receipts (because of Hollywood lobbying)."[14]

Gaming, on the other hand, is primarily regulated at the state level with some additional oversight provided by federal legislation such as the Indian Gaming Regulatory Act of 1988. Significantly, sports wagering is subject to a 0.25% federal excise tax to which derivative contracts are not subject.

While there are currently various court cases that could impact on the classification of these contracts, under existing guidance, it is unlikely these transactions would be subject to Form W-2G reporting if they are ultimately respected as CFTC-regulated derivative contracts rather than wagers. By contrast, if courts or regulators were to conclude that these contracts are gambling transactions for tax purposes, Form W-2G reporting could be implicated for contracts that meet the applicable thresholds. However, given the CFTC's claim of oversight and its treatment of these instruments as derivatives traded on CFTC-regulated markets, the next step is to consider the applicability of Form 1099-B reporting.

Form 1099-B Reporting

Form 1099-B reporting is required where a broker has sold stocks, commodities, regulated futures contracts, foreign currency contracts, forward contracts, debt instruments, options, securities futures contracts, etc., for cash.[15] The initial question to consider is whether a prediction market would be classified as a broker. A broker is any person that, in the ordinary course of a trade or business, stands ready to effect sales to be made by others.[16] CFTC-regulated DCMs and similar exchanges effectively facilitate trades between participants and often hold or control customer collateral. Under a straightforward reading, these platforms are brokers for purposes of Section 6045, given their role in settlement of event contracts.[17]

Whether Form 1099-B reporting is appropriate will hinge upon whether sports event contracts are treated as "securities" or "commodities" for reporting purposes. Form 1099-B reporting captures multiple types of contracts are reportable on Form 1099-B; however, to the extent these contracts are classified as Section 1256 contracts, they are eligible for aggregate reporting as opposed to transaction specific reporting. Aggregate reporting would provide a significant benefit to both prediction markets and the IRS, given the volume of transactions being executed through prediction markets. Prediction market operators have informally estimated that transaction-by-transaction reporting would increase their filing requirements by billions of forms. This estimate is supported by the trading detail. For example, TRM Labs recently reported that wallets with over 10,000 fills account for 35.2% of trades and $774 million in volume.[18]

There are five types of Section 1256 contracts, which very generally can be described to include the following:[19]

Regulated futures contracts

A contract with respect to which the amount required to be deposited and the amount which may be withdrawn depends on a system of marking to market and which is traded on or subject to the rules of a qualified board or exchange ("QBE").

Foreign currency contracts

A contract where two parties agree to exchange or settle based on a foreign currency. To count for these rules, the contract must (i) involve a currency that also has futures traded on an exchange, (ii) be traded in the regular bank to bank (interbank) market, and (iii) be done at market rates, based on prices quoted in that interbank market.

Non-equity options

A listed option (on a QBE) whose underlying property is not an individual stock or a narrow-based stock index.

Dealer equity options

Any listed option which is a single equity option bought or sold by a registered options dealer in the normal course of their business and is listed on the QBE on which such options dealer is registered.

Dealer securities futures contracts

A securities futures contract bought or sold by a dealer in the normal course of their business and is traded on a QBE.

With the exception of foreign currency contracts, a common requirement across the various categories of Section 1256 contracts is that the contract must be traded on a QBE. A QBE includes "a domestic board of trade designated as a contract market by the Commodity Futures Trading Commission."[20]

Of the five categories above, the two potential routes to classifying sports event contracts under Section 1256 are as regulated futures contracts or as non-equity options.

As mentioned above, to qualify as a regulated futures contract under Section 1256, the contract must also be margined under a mark to market system, meaning margin is adjusted at least daily based on market movements, and the contract must be traded on or subject to the rules of a QBE.[21]

A number of prediction markets including Kalshi, Polymarket U.S., Crypto.com, and Aristotle Exchange, among others, are CFTC regulated (e.g., a CFTC-registered DCM) such that they would meet the QBE requirement. However, meeting this requirement alone is insufficient.

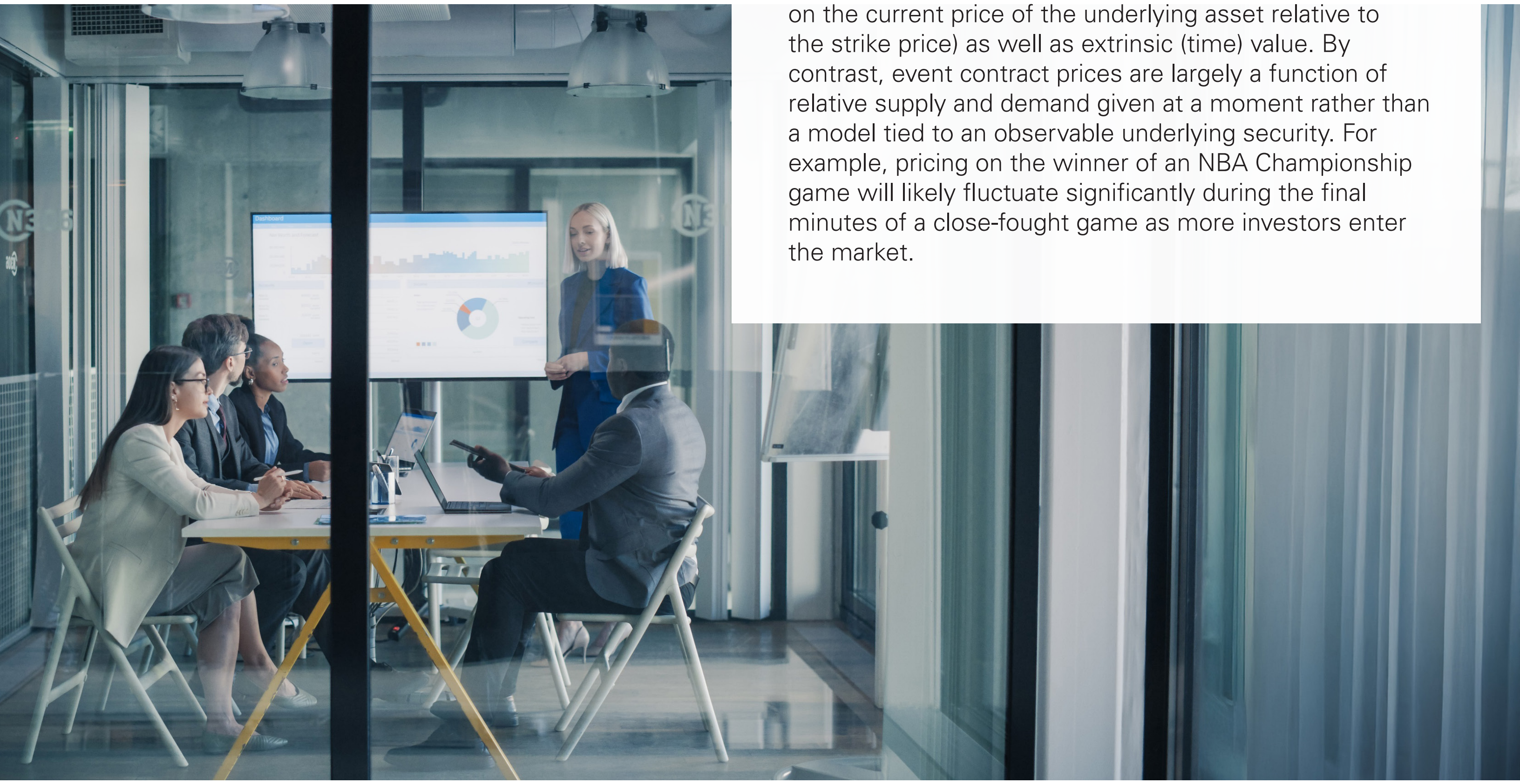
Binary event contracts on these platforms typically involve only an upfront payment and do not use daily margining or variation margin. Because they lack this mark-to-market margining feature, they likely do not meet the statutory definition of a regulated futures contract, even when traded on a QBE.

A potentially more applicable categorization would be as a non-equity option. In order to be classified as a non-equity option the contract must be (i) an option; (ii) not be an option to buy or sell stock or have a value determined by reference to stock or a narrow-based security; and (iii) "listed," meaning traded on, or subject to the rules of, a QBE.[22] In the case of contracts that are traded on a CFTC regulated prediction market that is a QBE, the "listed" requirement is met. Similarly, for sports contracts, the second requirement is met as they do not reference stock or a security index. That leaves the question as to whether these contracts could be considered "options."

The Code itself does not define the term "option," such that the parameters of what may constitute an option has generally been left to the courts. Early cases describe an option as a right to buy or sell property at a fixed price. However, cash-settled options, even when no property is deliverable, are classified as options. In other contexts, the courts have defined an option contract as requiring the following two elements: "(1) a continuing offer to do an act, or to forbear from doing an act, which does not ripen into a contract until accepted; and (2) an agreement to leave the offer open for a specified or reasonable period of time."[23] Most recently, the Tax Court specifically considered whether so-called basket option contracts could be treated as options and whether such contracts (i) provided for consideration; (ii) were priced in the same manner as traditional options; (iii) had excessively long terms; (iv) allowed for changes to the reference assets; (v) allowed the grantor to terminate the purported option; (vi) provided for adjustments for dividends on the referenced stock; (vii) created risk to the option grantor; and (viii) created true optionality.[24] The Tax Court ultimately held the contracts were not options, but with the possible exception of factor (ii) and (viii) (discussed below), it appears that sports event contracts might satisfy the other requirements set forth by the Tax Court.

However, there are two additional concerns on this front. First event-based contracts will pay out to the extent that the underlying event occurs without any action required by the investor. For example, if an investor enters into a contract specifying that the Cincinnati Bengals will win Super Bowl LXI, the investor will automatically receive a payout if the Cincinnati Bengals win the Super Bowl. There is no "exercise" of an option as the investor will receive their payout to the extent the condition specified in the contract is met. A counter argument may be that cash settled options often pay out prior to lapse without a formal exercise of the option.

A second concern with the Section 1256 approach relates to pricing. Traditional exchange traded options typically are quoted with reference to both an intrinsic value (based on the current price of the underlying asset relative to the strike price) as well as extrinsic (time) value. By contrast, event contract prices are largely a function of relative supply and demand given at a moment rather than a model tied to an observable underlying security. For example, pricing on the winner of an NBA Championship game will likely fluctuate significantly during the final minutes of a close-fought game as more investors enter the market.



Unlike a standard call or put option on a stock or commodity, which has theoretically unlimited or at least linear upside, many sports event contracts have a "binary" payoff: the holder either loses their investment or receives a fixed amount if the specified outcome occurs. That said, courts have indicated that neither a particular pricing methodology nor a specific payoff shape (e.g., barrier or all-or-nothing structures) is dispositive of whether an instrument is an "option" for tax purposes. In other words, options do not need to be priced in any particular manner, and the fact that a contract has a capped or binary payoff does not, by itself, preclude option treatment if the other core option features are present.

Courts and commentators have generally focused on whether an instrument has the core structural features of an option (e.g., a unilateral right but not the obligation to enter into an underlying transaction in exchange for a nonrefundable premium and with the holder's downside capped at that amount), rather than on any particular pricing model or payoff shape.[25] On that framework, the fact that an instrument has a capped or binary payoff does not, by itself, preclude option treatment if those core option characteristics are otherwise present.

Now, all this said, the CFTC has concurred where event contracts are referred to as binary options.[26] Specifically, the Chicago Mercantile Exchange Inc. ("CME") requested a no action letter with respect to its intent to list for trading certain "binary options" that "provide for a payment that is dependent on the occurrence, nonoccurrence, or the extent of the occurrence of an event or contingency associated with a potential financial, economic, or commercial consequence" and for which the CFTC did issue a no action letter.[27] Given the CFTC's avowed "sole regulatory jurisdiction over prediction markets" it as if some weight on the tax front should be given to the CFTC's recognition of event contracts as options. In a similar vein, the Treasury Department and the IRS have acknowledged that derivatives can reference non financial events or indices. In the preamble to proposed regulations under Treas. Reg. §1.446 3, the IRS observed that "markets have developed for contracts based on non financial indices," including "weather derivatives" where payments are based on heating degree days and cooling degree days, and stated that "swaps on non financial indices should be treated as notional principal contracts." The proposal would expand the definition of a "specified index" to include non financial indices comprised of objectively determinable information outside the control of the parties and not unique to a party's circumstances, provided the index cannot reasonably be expected to front load or back load payments.[28]

Section 1256 treatment would be considered to benefit both the investors as well as the markets. If sports event contracts were treated as Section 1256 non-equity options, they would be subject to mark-to-market treatment at year-end for the holder, and aggregate Form 1099-B reporting by the broker (total annual gain/loss reported, rather than transaction-by-transaction reporting).

The market would report the total net gain or loss for the year in Box 11. While technical information reporting requirements should not be dictated by the complexity of application, Section 1256 treatment would address industry concerns over the exponential volume of reporting that would be required on a transactional basis, while also providing the IRS with the information necessary for effective tax administration. Similarly, this categorization provides a benefit to investors as reporting is completed on a net basis. There are, however, a couple challenges with treating certain sports event contracts as Section 1256 contracts. The mark-to-market requirement is the first challenge. Essentially, contracts are adjusted to market value as of December 31, with reporting based on the net gain or loss. While institutional investors are familiar with this process, the layman investor purchases a sports event contract on the Super Bowl on December 1 for $1,000 will potentially struggle to understand why they receive a Form 1099-B for a gain of $750 when that same contract is trading at $1,750 on December 31. When the opposing team wins the Super Bowl prior to this investor even receiving their Form 1099-B the following year, that confusion is further exacerbated until such time as the investor receives a Form 1099-B in the following year reporting a $1,750 loss. Prediction markets would need to publish guidance to investors each year to ensure they understand the implications of their various event contracts, particularly if certain contracts settle in a subsequent year from when they were purchased.

The next challenge is that Section 1256 treatment is dependent upon the "listed" requirement being met. While a number of the larger markets are CFTC regulated and traded on a QBE, there are many that are not. Given this, the same sports event contract on a listed market could potentially qualify for Section 1256 treatment, while an economically similar contract on a non-listed market would not. This sort of split treatment is not entirely new. Various types of Section 1256 contracts already depend on execution on a QBE, but in the event contract context, it would mean that the information reporting and character and timing of income could vary based on which platform is used. That dynamic creates significant practical challenges both for prediction market operators as well as investors attempting to understand their tax implications.

Treasury regulations under Section 6045[29] limit the types of contracts reportable as Section 1256 contracts to specific categories, namely currency contracts, commodities contracts, and regulated futures contracts. Even if analogized to non-equity options, prediction market contracts do not have a traditional "underlying security" as required in these Treasury regulations for options.[30] As a result, they do not fit the explicit categories of Section 1256 contracts that brokers must report for Form 1099-B purposes. Some have suggested that the contracts themselves could be treated as "commodities" for these purposes, but absent clearer guidance on that point, there is a reasonable argument that they fall outside the current, enumerated Section 1256 reporting categories.

While Section 1256 is attractive conceptually from both a policy and operational perspective, existing Treasury regulations do not clearly pull sports event contracts into Form 1099-B reporting as Section 1256 contracts.

Non-Section 1256 Derivatives

Alternatively, one view might be that sport event contracts could be treated as non-Section 1256 derivatives instruments, analogous to cash-settled options or other over-the-counter derivatives that are not “Section 1256 contracts” and are not excluded from broker reporting under Treas. Reg. §1.6045-1(m). In that case, sports event contracts could still give rise to broker-type transactions for Form 1099-B purposes and, absent clarifying guidance or specific relief from IRS or Treasury, may be subject to transaction-by-transaction reporting. A key question in this analysis is whether event contracts fall within any of the categories of options or other derivatives that are currently treated as reportable “covered securities” or other reportable property for Section 6045 purposes, notwithstanding the absence of a traditional underlying security or commodity.

As above, while a sports event contract does not explicitly fall into the definition of an option, arguments can be made as such. Interestingly, qualifying as a non-Section 1256 derivative would allow sports event contracts on a non-listed markets to be reported on Forms 1099-B as well. It would similarly address the challenges posed by the mark-to-market feature of Section 1256 contracts. However, the new challenge would be that Form 1099-B reporting for non-Section 1256 contracts is on a transaction-by-transaction basis which would again create significant differences between reporting on a listed versus non-listed exchange. Based on a broad overview, it seems reasonable that sports event contracts could be treated as Form 1099-B reportable, albeit with some significant differences depending upon whether the contract is opened on a listed or non-listed market. That said, these contracts do not cleanly fall within the definition of an option. Given this, it is important to understand whether any other types of information reporting, or even no information reporting at all would be more applicable.

Under Section 6045(g), the “covered security” rules for cost basis reporting on Form 1099-B apply to stocks, certain debt instruments, and options on those securities. Non equity options are treated as covered securities only if their underlying asset is itself a covered security. Because sports event contracts do not reference an underlying asset that qualifies as a covered security, they generally are not covered securities for purposes of Section 6045(g). As a result, the rules for reporting basis information on Form 1099-B may not apply to prediction market contracts. In practice, it appears that sports event contracts have not been widely reported on Form 1099-B, consistent with prevailing industry practice, and this approach has not, to date, been challenged by the IRS. Some exchanges offering event style products reportedly issue Forms 1099 B and treat their products as Section 1256 contracts, underscoring that current reporting practices are not uniform across platforms.

Form 1099-MISC Reporting

Form 1099-MISC reporting is required for payments of fixed, determinable, annual, or periodical ("FDAP") income. FDAP income has been defined broadly to essentially include all types of payments other than those in exchange for real or personal property. Unlike FDAP concepts in the cross-border context, which explicitly exclude most gains, Section 6041(a) refers to "other fixed or determinable gains, profits, and income," so gains are not categorically excluded from its scope. In practice, however, Box 3, "other income," reporting is aimed at items such as prizes, awards, fees, and similar ordinary income amounts, rather than gains realized on the disposition of investment contracts. Under the extinguishment doctrine, gain recognized when a contract terminates is generally ordinary income unless the contract references a capital asset (in which case Section 1234A can produce capital gain), and some might therefore view settlement of event contracts as giving rise to ordinary income unless they qualify as Section 1256 contracts. As such, if sports event contracts were to be classified as producing ordinary income of this sort versus proceeds from the sale or exchange of an investment product, they could fall within the Form 1099-MISC, Box 3, regime and be subject to the $2,000 threshold, as provided for by the OBBBA. Form 1099-MISC is not transaction specific and would include reporting for all payments made during the calendar year. That said, Section 6041 has historically been applied to prize, award, and fee type ordinary income rather than to gains on financial contracts, and imposing Form 1099 MISC reporting on event contract settlements would represent a significant extension of that regime into an area more naturally addressed under the broker reporting rules of Section 6045.

Given that many of these investment contracts are traded on listed markets, the CFTC has treated them as derivatives within its jurisdiction. It is unlikely that gains would be classified as the same type of ordinary income associated with, for example, fantasy sports winnings. Instead, assuming these instruments are respected as financial derivatives rather than wagers, the more natural starting point is to analyze them under the tax rules applicable to derivative contracts (e.g., potential capital-gain treatment, Section 1256 in some cases, or ordinary treatment under the dealer/trader or hedging rules), rather than under the wagering income framework.

Form 1099-MISC reporting would not be without its challenges either, with the key question being whether reporting should occur on a gross or net basis. The instructions for Form 1099-MISC state that amounts reported in Box 3, "Other Income," must be the gross amount of the payment. Neither the form instructions nor the Treasury regulations provide a mechanism for the payer to net losses against the winnings. However, Form W-2G reporting does provide precedent for offsetting gains by the initial amount of the contract. While proponents of net reporting would argue that it provides a more economically realistic picture of the investor's actual profit, gross reporting would provide full visibility to the IRS and appropriately place the responsibility on the investor to correctly report any deductible losses on their tax return.

Section 6041 and the Form 1099-MISC regime focus on fixed or determinable income. Under Treas. Reg. §1.6041 1(c), income can be "fixed or determinable" even if the actual amount depends on future contingencies, so long as there is a basis of calculation for determining the amount paid; the mere fact that a payment is contingent does not automatically take it outside Section 6041. At the same time, the IRS has, in specific contexts, declined to treat items as "fixed or determinable" where the amount cannot reasonably be computed until after highly uncertain events resolve, the IRS has long held that contingent payments of this nature do not constitute "fixed or determinable" income for Section 6041 purposes.

Consistent with the CFTC's treatment of these as instruments as derivatives traded on CFTC-regulated markets, it is more natural to view settlement amounts on event contracts as gains or losses from investment or trading transactions, rather than as services fees, prizes, or awards of the type specifically reported in Box 3 of Form 1099-MISC. On that basis, there is a strong argument that Form 1099-MISC reporting should not apply to settlement gains on CFTC-regulated sports event contracts, regardless of whether gains are measured on a gross basis or net basis.

No Reporting At All

All this said, it does seem more likely that proceeds from the settlement of a sports event contract would be considered proceeds from the sale of an investment product. Capital gains from the sale of personal property (which includes most financial contracts) are generally not considered FDAP income.[31] Given Form 1099-MISC reporting is solely with respect to FDAP income, absent Form 1099-B reporting, there may be a reasonable argument that there would be no Form 1099 reporting at all for the settlement of a sports event contract.

Even where no Form 1099 is required for sports event contract proceeds, prediction markets still have significant tax compliance obligations. Platforms should collect a Form W-9 from all U.S. customers to obtain a taxpayer identification number (TIN) and establish U.S. status. If the platform pays U.S. source interest (e.g., margin interest) or other reportable income to U.S. persons (e.g., rebates or other incentives not considered a reduction in contract purchase price), those payments may be subject to Form 1099-INT or MISC reporting, and backup withholding under Section 3406 at 24 percent if the TIN is missing, invalid or the IRS issues a "B" Notice.

For non-U.S. customers, platforms must collect appropriate Form W-8 series (Form W-8BEN, BEN-E, ECI, IMY), to document non-U.S. status and any treaty claims. U.S. source FDAP income (e.g., margin interest on customer balances) generally is subject to 30 percent withholding (unless reduced by treaty) and must be reported on Form 1042-S and in the aggregate on Form 1042.

If the income from sports event contracts themselves should not be treated as FDAP and should not be U.S. source FDAP income to non-U.S. holders, such income generally would not be subject to chapter 3 or 4 (Foreign Account Tax Compliance Act ("FATCA")) withholding and reporting, under current law.[32] This is because gains from the disposition or settlement of derivative and other investment contracts are treated typically as gains from the sale or exchange of property, not as FDAP.[33]

Chapter 4 ("FATCA") still requires identification of non-U.S. financial institutions (foreign financial institutions ("FFIs")) and non-financial non-U.S. entities (non-financial foreign entities ("NFFEs")), as well as potential 30 percent withholding on certain U.S. source interest and dividends to non-compliant parties, although sports event contract payouts are not interest or dividends.

Even if no Form 1099 is required for the derivatives, TIN/TIN-matching, Forms W-8/W-9, backup withholding and Form 1042 and 1042-S compliance remain critical.

Final Thoughts on Federal Reporting

Former IRS Commissioner Charles Rettig stated that "increased information reporting targets underreported income, which is the largest category of the tax gap."[34] Studies have shown that "when the IRS has access to third-party reporting, compliance rates top 95 percent. Without third-party information reporting, compliance rates are below 50 percent. Reliable information is critical to an effective and fair tax system."[35]

While the Code has not necessarily kept apace of technology, the importance of information reporting to effective tax administration should justifiably help shape any analysis of the information reporting requirements for sports event contracts. As stated at the beginning of this article, the regulatory guidance is not yet in place for these new investment products and as such, prediction market operators are going to have to review their products against available guidance and make decisions. Available regulatory guidance, effective operationalization of compliance processes, the impact on customers—all of these are core factors for market operators in deciding their approach for information reporting absent definitive guidance from the IRS.

From a regulatory perspective, compliance is enhanced when guidance is consistent. Framed differently, investors will be in a better position to comply to the extent that a contract taken out on one prediction market is reported consistently with the same contract taken out on a different prediction market.

There are strong arguments to support Form 1099-B reporting, including CFTC oversight and support for considering these to be option contracts. Regulatory guidance to the contrary would have to effectively explain preemption of Congress' grant of authority to the CFTC to provide oversight of futures and derivatives markets. Similarly, other reporting strategies such as Form W-2G or Form 1099-MISC, or even no reporting at all potentially risk the IRS not receiving the information necessary to effectively administer taxation of these unique products. Ultimately, the final decision on information reporting requirements will likely be driven by the characterization of sports event contracts. Until then, prediction market operators must carefully review their processes and ensure that any determinations around tax reporting are clearly documented in order to establish reasonable cause should the IRS take a different approach at some point in the future.

It is Not Just IRS Reporting

More than forty states plus the District of Columbia ("DC") require some level of information reporting. The specific reporting requirements will be contingent upon what approach the exchange chooses at the federal level. If the exchange does file Forms 1099-MISC, 1099-B, or W-2G, many states and DC will expect parallel reporting either directly or via the Combined Federal/State Filing Program ("CFSFP"). For example, twenty-one states plus DC require Form 1099-MISC reporting, whereas only fourteen states plus DC require Form 1099-B reporting. Forty-three states plus DC require some type of Form W-2G reporting. If the exchange does not file any Form 1099 at the federal level for sports event contract settlements, state obligations are often reduced but not eliminated, especially where the state has separate gambling or wagering reporting rules or requires reporting of other income paid to residents.

There are also some critical distinctions between these filings. Several states allow reliance on the CFSFP for certain forms, while other states will require direct reporting. For example, fourteen states allow Forms 1099-MISC to be filed through the CFSFP, assuming no state withholding; however, only nine states allow Forms 1099-B to be filed through the CFSFP. As if these distinctions were not challenging enough, states will move in and out of the CFSFP on an annual basis. Therefore, it is critical that prediction markets pay attention to not just the federal information reporting requirements, but also the state information reporting requirements.

Conclusion

The rapid expansion of prediction markets has generated much legal and regulatory attention. In the absence of explicit IRS guidance, prediction market operators must evaluate their products under existing rules, adopt a supportable information reporting position, and thoroughly document their analysis, conclusions, and controls within their tax governance framework. Such documentation will be critical to demonstrate reasonable cause if the IRS or state tax authority ultimately takes a different view.

The final decision on information reporting requirements will be driven by the characterization of event contracts. However, in the interim, investors and traders in these contracts will be looking to the exchanges for appropriate information reporting or trading activity details to help them comply with their tax filing requirements. Regardless of the path that an exchange decides to pursue, the thought process and rationale should be clearly documented as part of the exchange's policies and procedures to mitigate any potential challenges from the IRS.

In addition, there are several broader state and local tax impacts which must be taken into consideration. We believe this merits its own detailed discussion and are already drafting Part 3 accordingly. Stay tuned for Part 3!

How KPMG can help

The current regulatory and legal environment surrounding prediction markets is highly complex and evolving in real time. This uncertainty, coupled with a lack of direct tax guidance, leaves stakeholders without clarity on several key tax considerations. The KPMG team draws upon its significant depth of tax experience in both the regulated gambling industry as well as information reporting and withholding to assist clients in navigating these challenges.

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[2] Giangiulio, D. (2026, April 14). Prediction markets will grow to $1 trillion by 2030, Bernstein estimates. CNBC.com.

[3] Treas. Reg. §1.6041-10.

[4] Id.

[5] Treas. Reg. §1.6045-1.

[6] All "Section" references herein, unless otherwise indicated, are to the Internal Revenue Code of 1986, as amended ("Code").

[7] See Instructions for Forms W-2G and 5754 (Rev. January 2026).

[8] Treas. Reg. §1.6041-10.

[9] Commonwealth of Massachusetts v. KalshiEX LLC, 1:25-cv-12595 (D. Mass. 2025).

[10] @kalshi_official Instagram account.

[11] 7 USC §1 et seq.

[12] North American Derivatives Exchange Inc. d/b/a Crypto.com | Derivatives North America v. State of Nevada et al., No. 25-7187 (9th Cir. Nov. 14, 2025). See Amicus/Friend of the Court Briefs, U.S. Sec. & Exch. Comm'n, https://www.sec.gov/enforcement-litigation/amicus-friend-court-briefs.

[13] CFTC Sues New Mexico as the State Becomes the Latest Attempting to Infringe on Federal Jurisdiction https://www.cftc.gov/PressRoom/PressReleases/9251-26

[14] Michael Selig, States Encroach on Prediction Markets, Wall St. J. (Feb. 16, 2026), https://www.wsj.com/opinion/states-encroach-on-prediction-markets-6eb43af9.

[15] Treas. Reg. §1.6045-1.

[16] Treas. Reg. §1.6045-1(a)(1).

[17] The broker analysis may be less clear for certain peer to peer or decentralized prediction markets (for example, platforms structured more like bulletin boards or protocol interfaces, such as Polymarket). To the extent an operator does not stand ready in the ordinary course of its business to effect sales for customers, or does not intermediate settlement or hold customer collateral in a manner analogous to a traditional exchange, the factual basis for treating that operator as a "broker" under Section 6045 is more limited and would require a separate analysis.

[18] TRM Labs, March 27, 2026. How Prediction Markets Scaled to USD 21B in Monthly Volume in 2026, TRMLabs.com.

[19] Code Sec. 1256(b)(1).

[20] Code Sec. 1256(g)(7)(B).

[21] Code Sec. 1256(g)(1).

[22] Code Sec.1256(g)(3), (g)(5), (g)(6).

[23] Federal Home Loan Mortgage Corporation v. Commissioner, 125 T.C. 248, 259 (2005) ("Freddie Mac") (citing Saviano v. Commissioner, 87 T.C. 955, at 970 (1983), aff'd, 765 F.2d 643 (7th Cir. 1985) ("Saviano")). See also Old Harbor Native Corp. v. Commissioner, 104 T.C. 191, 201 (1995).

[24] See Id.

[25] See, e.g., Freddie Mac and Saviano, supra; Kevin J. Liss, "The Option Conundrum in Tax Law: After All These Years, What Exactly Is an Option?," 59 Tax Law. 427 (2006).

[26] CFTC LETTER NO. 25-23 NO-ACTION JULY 22, 2025. The CFTC has indicated that event contracts are generally structured as swaps. See Understanding Prediction Markets and Event Contracts | CFTC.

[27] See Id.

[28] See REG 103256 19 (proposed amendments to Treas. Reg. §1.446 3(c)(2)(ii)).

[29] Treas. Reg. §1.6045-1.

[30] See Treas. Reg. §1.6045-1(m).

[31] IRC §1441 and Treas. Reg. §1.1441-2.

[32] See Publication 515, https://www.irs.gov/publications/p515

[33] See Treas. Reg. §1.1441 2(b)(1) (distinguishing gains from sales of property from FDAP income) and Rev. Rul. 72 265, 1972 1 C.B. 409 (treating certain options as property for source and withholding purposes).

[34] Charles Rettig, Letter to Senator Elizabeth Warren, Department of the Treasury, August 27, 2021, https://www.warren.senate.gov/imo/media/doc/Warren%20et%20al%20response%20to%20Warren%20082721.pdf.

[35] Lawrence Gibbs et al., "Five former IRS commissioners: Biden's proposal would create a fairer tax system," Washington Post, May 4, 2021, https://www.washingtonpost.com/opinions/five-former-irs-commissioners-bidens-proposal-would-create-a-fairer-tax-system/2021/05/04/c4ee8346-acfc-11eb-ab4c-986555a1c511_story.html.

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