138.506 Prediction market tax -- Definitions for section. (Effective January 1, 2027)

(1) As used in this section:

(a) "Consumer" means a:

1. Kentucky resident who purchases an event contract through a prediction market; or

2. Person who is not a Kentucky resident who purchases an event contract through a prediction market while in Kentucky;

(b) "Department" means the Department of Revenue;

(c) "Event contract":

1. Means an agreement, contract, transaction, or swap in an excluded commodity based on the occurrence, extent of an occurrence, or contingency other than a change in the price, rate, value, or levels of a commodity described in 7 U.S.C. sec. 1a(19)(i), as amended; and

2. Does not include:

a. Any contract of sale of a commodity for future delivery, or any option on such a contract, executed on or subject to the rules of a designated contract market; or

b. Any swap or derivative based on:

i. An agricultural commodity;

ii. An exempt commodity; or

iii. Any excluded commodity not subject to subparagraph 1. of this paragraph, as the terms are defined in the Commodity Exchange Act;

(d) "Person" has the same meaning as in KRS 139.010;

(e) "Prediction market":

1. Means:

a. Any physical or electronic platform through which a consumer may buy, sell, or exchange event contracts, whether the market is located in or out of the state; or

b. Any platform or system that provides consumers with the ability to open speculative positions on the outcomes of future events; and

2. May be a board of trade designated as a contract market by the Commodity Futures Trading Commission;

(f) "Prediction market operator":

1. Means a board of trade or other person, including any affiliate of the person, that operates a prediction market; and

2. Includes but is not limited to a person that satisfies the requirements of this subsection through the ownership, operation, or control of a digital distribution service, digital distribution platform, online portal, or application store where a prediction market may be accessed;

(g) "Speculative position" means a financial commitment made by a consumer in a prediction market; and

(h) "Transaction fee" means:

1. The fee charged by the prediction market operator to complete a sale, purchase, or trade of an event contract to a consumer; and

2. The amount paid by a consumer to purchase an event contract from a prediction market operator.

(2) On and after January 1, 2027, an excise tax is hereby imposed on a prediction market operator at the rate of fourteen and one-quarter percent (14.25%) of the prediction market operator's transaction fees. The accrual method of accounting shall be used for purposes of calculating the amount of tax owed by the prediction market operator under this subsection.

(3) The tax imposed by subsection (2) of this section is due and payable monthly and shall be remitted to the department on or before the twentieth day of the next succeeding calendar month.

(4) The prediction market operator's payment shall be accompanied by a return prescribed by the department indicating the amount of tax due for the previous calendar month as well as any other information the department shall require through an administrative regulation promulgated in accordance with KRS Chapter 13A.

(5) Any prediction market operator who violates any provision of this section shall be subject to the uniform civil penalties imposed under KRS 131.180.

(6) In every case, any tax not paid on or before the due date shall bear interest at the tax interest rate as defined in KRS 131.010 from the due date until the date of payment.

Effective: January 1, 2027

History: Created 2026 Ky. Acts ch. 161, sec. 71, effective January 1, 2027; and amended 2026 Ky. Acts ch. 198, sec. 59, effective January 1, 2027.

Legislative Research Commission Note (1/1/2027). This statute was created by 2026 RS HB 757 (2026 Ky. Acts ch. 161, sec. 71), which was subsequently amended by 2026 RS HB 869 (2026 Ky. Acts ch. 198, sec. 59), and the amendment has been incorporated in codification.