



Fiscal Note

Fiscal Services Division



[SF 2470](#) – Prediction Market Taxation (LSB5288SV.1)
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Fiscal Note Version – As amended and passed by the Senate

Description

[Senate File 2470](#) relates to the permitting, regulation, and taxation of event-driven and designated contract markets. The Bill contains two divisions, with Division II of the Bill requiring an event-driven excise tax contingent on the unconstitutionality or unenforceability of Division I of the Bill requiring a designated contract market tax.

Division I — Designated Contract Market Tax

Description

Division I of the Bill requires a person to obtain a permit through the Iowa Department of Revenue (IDR) to conduct trading of event-driven contracts on markets in Iowa with an initial fee of \$20.0 million per permit and an annual renewal fee of \$100,000 per permit. The Bill also does the following:

- Defines an event-driven contract to generally mean a financial derivative traded on a designated contract market that is regulated by the federal [Commodity Futures Trading Commission \(CFTC\)](#) that provides a fixed binary payout based on a specific future event occurring. The Bill limits event-driven contracts to those financial derivatives relating to sporting activities, lotteries, elections, legislative actions, and economic indicators.
- Imposes a new 20.0% tax on the adjusted revenues received each calendar year by a prediction market from any event-driven contracts originating from traders in the State. Tax and permit revenues are to be deposited into the General Fund.
- Requires individual and corporate income taxpayers to recompute gains and/or losses based on event-driven contracts from federal taxable income and specifies that federal laws regarding capital gains or losses based on income from contract markets do not apply in computing State net individual or corporate income taxes. If taxpayers itemize deductions on their federal tax return, the Bill requires the taxpayers to subtract the total loss from each event-driven contract up to 90.0% of the gain added back from event-driven contracts.
- Requires State income tax to be withheld on gains from event-driven contracts in excess of \$600.
- Applies to designated contract markets until a court determines that event-driven contracts are subject to regulation under Iowa Code chapter [99F](#).
- Allows the IDR to prescribe administrative rules to administer sections of the Bill that create new Iowa Code chapter 99H.
- Requires the IDR to prescribe administrative rules to administer subsections of the Bill that enact Iowa Code sections [422.7\(41\)](#) and [422.35\(15\)](#).

The Bill applies retroactively to January 1, 2026, for tax years beginning on or after that date for sections of the Bill computing net individual and corporate income taxes. The Bill applies to the first tax year beginning July 1, 2026, for imposing and collecting the prediction market tax, and applies for each tax year afterward beginning January 1, 2027.

Background

The federal [One Big Beautiful Bill Act \(OBBBA\)](#) of 2025 changed the 100.0% deduction of gambling losses to a 90.0% deduction beginning tax year (TY) 2026. For federal tax purposes, [26 U.S.C. §1256](#) details federal rules surrounding market contracts and how the taxpayer must account for gains and losses due to selling contracts at the end of a tax year.

Division I of the Bill defines a designated contract market as a digital marketplace for trading event-driven contracts that is also regulated by the federal CFTC, which regulates financial contracts and markets, including [event contracts](#) and [contract markets](#).

Assumptions

- Most gains from designated contract market activity are already taxable income, and the withholding requirement on gains exceeding \$600 primarily changes the method and timing of tax administration between fiscal years in an amount that cannot be determined due to a lack of data, although the introduction of withholding requirements is expected to advance revenue to the General Fund in FY 2027.
- Subtracting from income the total loss of event-driven contracts up to 90.0% of the gain added back based on itemized deductions is expected to have an immaterial impact due to the small share of taxpayers who itemize their deductions, according to the IDR.
- Two platforms will enter the Iowa market and pay the initial application fee of \$20.0 million in FY 2027 and the ongoing annual fee of \$100,000.
- The annual tax rate on contract revenue is 20.0%.
- Contract revenue in a fiscal year includes 50.0% from the prior tax year and 50.0% from the current tax year.
- FY 2027 will be the first year in which tax and permit revenue from the Bill is deposited into the General Fund.
- The Bill will not materially reduce overall participation in designated contract markets by Iowa residents.
- Nationally, 2025 total revenue for the two primary designated contract market platforms is \$263.5 million and \$160.0 million, respectively, representing 87.8% of U.S. prediction market revenue. Total U.S. revenue was \$482.3 million in 2025, according to the IDR.
- Iowa accounts for approximately 0.95% of the U.S. population.
- Iowa's share of TY 2025 designated contract market platform revenue is estimated to be \$4.6 million.
- The annual growth in designated contract market revenue nationally and in Iowa is estimated to be 37.9%.

Fiscal Impact

The permit fees and tax revenues in Division I of the Bill are estimated to increase General Fund revenue beginning FY 2027 by the following amounts:

- FY 2027 = \$40.0 million
- FY 2028 = \$2.2 million
- FY 2029 = \$3.0 million
- FY 2030 = \$4.1 million
- FY 2031 = \$5.6 million

The withholding requirements in the Bill are also estimated to increase General Fund revenue in FY 2027 in an amount that cannot be determined due to a lack of data.

Division II — Event-Driven Contract Excise Tax

Description

Division II of the Bill imposes a 20.0% event-driven contract excise tax paid by traders who buy or sell an event-driven contract on a designated contract market. The Bill also does the following:

- Defines an event-driven contract to mean a financial derivative traded on a designated contract market that provides a fixed binary payout based on a specific future event occurring. Division II limits event-driven contracts to those financial derivatives that provide a fixed binary payout relating to sporting activities, lotteries, elections, legislative actions, and economic indicators.
- Requires the designated contract market to collect the excise tax and pay the Treasurer of State as determined by the IDR.
- Requires the director of the IDR to administer the excise tax imposed in Division II as closely as possible to the administration of State sales and use tax laws.
- Allows the director of the IDR to require taxpayers engaged in the business of deriving any sales price or purchase price subject to the excise tax to register with the IDR.
- Requires the IDR to prescribe administrative rules to administer Division II of the Bill.

Division II of the Bill takes effect six months from the date the Attorney General notifies the General Assembly and the Code editor that the designated contract market tax in Division I of the Bill, if enacted, has been declared unconstitutional or is otherwise unenforceable by the State, and all appeals have been exhausted.

Background

State sales and use tax laws detailed in Iowa Code chapter [423](#) affect retail sales and contain filing and appeal provisions that would apply to the excise tax created in Division II of the Bill.

Assumptions

- If Division I cannot be administered, it is assumed the excise tax in Division II will begin July 1, 2027.
- The excise tax is 20.0% of all Iowa transactions in the marketplace.
- FY 2028 will be the first year in which tax and permit revenue from the Bill is deposited into the General Fund.
- The excise tax is collected monthly from designated contract market platforms.
- Excise tax revenue in a fiscal year includes 50.0% from the prior tax year and 50.0% from the current tax year.
- Iowa accounts for approximately 0.95% of the U.S. population.
- Total national trading volume in binary contracts reached \$44.000 billion in 2025, according to the IDR.
- Total Iowa trading volume in binary contracts is \$418.0 million in TY 2025, according to the IDR.
- The annual growth in prediction market revenue nationally and in Iowa is estimated to be 37.9% in TY 2026 and 2.3% beginning in TY 2027 for all tax years moving forward based on Moody's estimated growth in the consumer price index for all urban consumers.

Fiscal Impact

The excise tax revenues in Division II of the Bill are estimated to increase General Fund revenue beginning FY 2028 by the following amounts, if Division I cannot be administered:

- FY 2028 = \$89.8 million

- FY 2029 = \$122.0 million
- FY 2030 = \$124.8 million
- FY 2031 = \$127.7 million
- FY 2032 = \$130.7 million

Because the excise tax imposed in Division II of the Bill is contingently effective on the administration of Division I, the excise tax in Division II will not be implemented if Division I can be implemented by the State.

Sources

Iowa Department of Revenue
Commodity Futures Trading Commission
Legislative Services Agency calculations and analysis
Internal Revenue Service

/s/ Jennifer Acton

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The Fiscal Note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this Fiscal Note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
