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FIRM NEWS

# Carl Kennedy and Loren Lembo Weigh in on Tax Treatment of Prediction Market Trades

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Partner and Financial Markets and Regulation Co-Chair Carl Kennedy and Transactional Tax Planning Partner Loren Lembo spoke with *Bloomberg* and other media outlets about the uncertain tax treatment facing Americans who trade on prediction markets to "bet" on the World Cup, an open question that could give those traders a lighter tax burden than peers using traditional sportsbooks. While the overall framework governing taxation of gambling is well established, the rise of prediction market trading has injected fresh uncertainty into how such trades are taxed. The crux of the issue is whether payouts from these transactions are considered gambling income, like amounts received through sportsbooks and betting apps, or proceeds from derivatives and other financial instruments.

If prediction market contracts are considered financial instruments that qualify for special tax treatment under section 1256 of the tax code, gain from those contracts generally is treated as 60 percent long-term capital gain and 40 percent short-term capital gain, regardless of the holding period. Loren addressed the appeal and the limits of that approach. "Everyone would like them to be able to qualify" for that treatment, Loren said, while cautioning that it is not entirely clear sports events contracts would qualify for the provision, which has very specific parameters.

Carl defended the alternative, investment-aligned approaches, explaining that while the economic exposure provided by online sports gambling apps and prediction markets may be similar, the two products are structurally different. "When you go to a casino, it's just you and the casino. You go to an online gambling site, that's it. There's no third party. There's no clearinghouse. There's no regulator sitting on top imposing rules on every aspect of that relationship."

With the Internal Revenue Service (IRS) so far silent on the issue, the question remains unresolved as trading in prediction markets continues to grow exponentially.

"World Cup Bets on Prediction Markets May Get Tax Edge Over Gambling," *Bloomberg*, July 12, 2026

"World Cup bets on prediction markets may get tax edge over gambling," *Fortune*, July 12, 2026

"World Cup Bets on Prediction Markets May Get Tax Edge Over Gambling," Yahoo!Finance, July 12, 2026

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