KalshiEX LLC
~~Rule 40.2 New Contract Submission: "Will a bill raising the highest income tax rate on individuals in <bracket> above <percent> become law?"~~
Official Product Name: Will income taxes rise?
Ticker: ITAX
Kalshi ~~Rule 100.27~~**Contract Category: Political Decision**
~~July 27,~~ **Income Taxes**
12/11/2021

CONCISE EXPLANATION AND ANALYSIS OF THE PRODUCT AND ITS COMPLIANCE WITH APPLICABLE PROVISIONS OF THE ACT, INCLUDING CORE PRINCIPLES AND THE COMMISSION'S REGULATIONS THEREUNDER

Pursuant to Commission Rule 40.2(a)(3)(v), the following is a concise explanation and analysis of the product and its compliance with the Act, including the relevant Core Principles, and the Commission's regulations thereunder.

I. Introduction

The "Will ~~a bill raising the highest~~ income ~~tax rate on individuals in <bracket> above <percent> become law?"~~taxes rise" Contract is a contract relating to~~-~~ a bill regarding the income tax levied on a certain income bracket. The tax rates levied on each tax bracket can have significant effects on inequality and investment incentives. After careful analysis, Kalshi (hereafter referred to as "Exchange") has determined that the Contract complies with its vetting framework, which has been reviewed by the CFTC and formed part of the Exchange's application for designation as a Contract Market ("DCM") that was approved by the Commission.

Further information about the Contract, including an analysis of its risk mitigation and price basing utility, as well as additional considerations related to the Contract, is included in Confidential Appendices B, C, and D.

Pursuant to Section 5c(c) of the Act and CFTC Regulations 40.2(a), the Exchange hereby certifies that the listing of the Contract complies with the Act, including regulations under the Act.

General Contract Terms and Conditions: The Contract operates similar to other binary contracts that the Exchange lists for trading. The minimum price fluctuation is $0.01 (one cent). Price bands will apply so that Contracts may only be listed at values of at least $0.01 and at most $0.99. Further, the Contract is sized with a one-dollar notional value and has a minimum price fluctuation of $0.01 to enable Members to match the size of the

contracts purchased to their economic risks. The Exchange has further imposed position limits (defined as maximum loss exposure) of $25,000 USD on the Contract. As outlined in Rule 5.12 of the Rulebook, trading shall be available at all times outside of any maintenance windows, which will be announced in advance by the Exchange. Members will be charged fees in accordance with Rule 3.6 of the Rulebook. Fees are charged in such amounts as may be revised from time to time to be reflected on the Exchange's Website. Additionally, as outlined in Rule 7.2 of the Rulebook, if any event or any circumstance which may have a material impact on the reliability or transparency of a Contract's Source Agency or the Underlying related to the Contract arises, Kalshi retains the authority to designate a new Source Agency and Underlying for that Contract and to change any associated Contract specifications after the first day of trading. That new Source Agency and Underlying would be objective and verifiable. Kalshi would announce any such decision on its website. Furthermore, the Contract's payout structure is characterized by the payment of an absolute amount to the holder of one side of the option and no payment to the counterparty. During the time that trading on the Contract is open, Members are able to adjust their positions and trade freely. After trading on the Contract has closed, the Expiration Value and Market Outcome are determined. The market is then settled by the Exchange, and the long position holders and short position holders are paid according to the Market Outcome. In this case, "long position holders" refers to Members who purchased the "Yes" side of the Contract and "short position holders" refers to Members who purchased the "No" side of the Contract. If the Market Outcome is "Yes," meaning that a bill has become law between Issuance and <date> that raises the highest individual income tax rate imposed on individuals in <bracket> ~~above <percent>,~~(please see Appendix A for the complete details), then the long position holders are paid an absolute amount proportional to the size of their position and the short position holders receive no payment. If the Market Outcome is "No," then the short position holders are paid an absolute amount proportional to the size of their position and the long position holders receive no payment. Specification of the circumstances that would trigger a Market Outcome of "Yes" are included below in the section titled "Payout Criterion" in Appendix A.

APPENDIX A – CONTRACT TERMS AND CONDITIONS

TERMS OF CONTRACTS TRADED ON KALSHI

~~Rule 100.27~~

~~**Contract: "Will a bill raising the highest income tax rate on individuals in <bracket> above <percent> become law?"**~~

Official Product Name: Will income taxes rise?
Ticker and Rulebook: ITAX

ITAX

Scope: These rules shall apply to ~~the~~this contract ~~referred to as "Will a bill raising the highest income tax rate on individuals in \<bracket\> become law?".~~.

Underlying: The Underlying for this Contract is all bills ~~published on the Library of Congress's official website for federal legislative information, Congress.gov,~~ that ~~have the status of "~~became law between Issuance and \<date\> according to Congress.gov. Revisions after Expiration will not be accounted for in determining the Expiration Value.
~~". The site contains both the direct text of the law and the status of the law.~~

Instructions: The list of bills that have become law is available here: https://www.congress.gov/search?q=%7B%22source%22%3A%22 legislation%22%2C%22 bill-status%22%3A%22law%22%7D. These instructions are provided for convenience only and may be modified or clarified at any time.

~~Revisions after Expiration will not be accounted for in determining the Expiration Value.~~

Source Agency: The Source Agency is the Library of Congress.

Type: The type of Contract is a Binary Contract.

~~**Issuance:** The Issuance of the initial Contract will be on or after July 27.~~**Issuance:** After the initial Contract, Contract iterations will be listed on an as-needed basis at the discretion of the Exchange and corresponding to the risk management needs of Members.

~~**Income brackets:**~~**\<date\>**: \<date\> refers to a calendar date specified by Kalshi. Kalshi may list ~~**"Will a bill raising**~~ iterations of the ~~**highest income tax rate on individuals in**~~ Contract corresponding to different statistical periods of \<date\>.

\<bracket~~**\> above \<percent\> become law?" contracts**~~**\>:** Kalshi may list iterations of the contract with all income brackets listed on the Library of Congress website at the time of Issuance.

~~**Percent:** Kalshi may list "**Will a bill raising the highest income tax rate on individuals earning in \<bracket\> above \<percent\> become law?**" contracts with \<**percent**\> levels that fall within an inclusive range between a maximum value of 100% and a minimum value of 0% at consecutive increments of .01%. Due to the potential for variability in the Underlying, the Exchange may modify \<**percent**\> levels in response to suggestions by Members.~~

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that contain documentation of a bill that ~~has the effect of raising~~raises the highest personal income tax rate imposed on <bracket~~> to be strictly greater than <percent~~>. Other provisions that may affect the amount of personal income tax paid by a given individual but are not the personal income tax rate--such as rules affecting what income counts as taxable or affecting deductions, credits, and other tax attributes relevant to individuals do not affect the resolution of the Contract. ~~A bill that is invalidated by a final judicial action prior to the Expiration time~~However, added or raised surtaxes on ~~the Expiration Date will not be~~adjusted gross income or taxable income for incomes greater than or equal to the threshold established in <income bracket> is encompassed in the Payout Criterion. ~~Any other judicial action will not affect the value of the bill.~~ Subsequent legislation which ~~has the effect of lowering~~lowers the highest personal income tax rate imposed on <bracket> ~~to be below or equal to <percent>~~does not affect the Payout Criterion. Changes in taxes on specific forms of personal income that are not taxable income or adjusted gross income--such as dividends, long-term capital gains, etc.--are not relevant for the Payout Criterion.

Minimum Tick: The Minimum Tick size for the referred Contract shall be $0.01.

Position Limit: The Position Limit for the $1 referred Contract shall be $25,000 per Member.

Last Trading Date: ~~Unless otherwise noted by the Exchange and indicated on the Exchange website, the Last Trading Date for the Contract will be the same as the Expiration Date and the~~The Last Trading Time ~~for the Contract~~will be the sooner of the first 10:00 AM following the occurrence of an event which is ~~8:00 pm ET on the Last Trading Date. No trading~~encompassed in the ~~Contract shall occur after its Last Trading Date and Time.~~Payout Criterion, or 11:59 PM on <date>.

Settlement Date: The Settlement Date of the Contract shall be no later than the day after the Expiration Date, unless the Market Outcome is under review pursuant to Rule 7.1.

Expiration Date: ~~Unless otherwise noted by the Exchange and indicated on the Exchange website, the Expiration~~ The Expiration Date of the Contract shall be ~~December 31, 2021.~~the sooner of the first 10:00 AM ET following the occurrence of an event that is encompassed in the Payout Criterion, the first 10:00 AM ET following the release of the data for <date>, or one week after <date>.

Expiration time: The Expiration time of the Contract shall be ~~8:00pm~~10:00 AM ET.

Settlement Value: The Settlement Value for this Contract is $1.00.

Expiration Value: The Expiration Value is the value of the Underlying ~~(i.e. all bills listed on Congress.gov with the status of "became law"),~~ as documented by the Source Agency~~, that became law after the time of Issuance and before~~ on the Expiration time on the Expiration Date.

Contingencies: Before Settlement, Kalshi may, at its sole discretion, initiate the Market Outcome Review Process pursuant to Rule 6.3(c) of the Rulebook. Additionally, as outlined in Rule 7.2 of the Rulebook, if any event or any circumstance which may have a material impact on the reliability or transparency of a Contract's Source Agency or the Underlying related to the Contract arises, Kalshi retains the authority to designate a new Source Agency and Underlying for that Contract and to change any associated Contract specifications after the first day of trading.