Costing Analysis on the Introduction of a Financial Transaction Tax

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Overview

This document publicly releases a costing analysis prepared on a confidential basis by the Parliamentary Budget Office (PBO) upon request from People Before Profit Deputy Paul Murphy. The request involves estimating the annual yield, from 2026 to 2030, of a tax on the value of financial transactions on stocks, bonds, investment funds, money market funds, security financing and derivatives. The costing also accounts for the abolition of Stamp Duty on purchases of shares or marketable securities in Irish registered companies.

1. Summary of Request

To estimate the yield from a tax on the value of financial transactions on stocks, bonds, investment funds, money market funds, security financing and derivatives.

The yield from the tax is estimated based on the following schedule:

- a tax of 0.1% on the value of stocks, bonds, investment funds, money market funds and security financing transactions;
- a tax of 0.01% on the value of derivatives traded.

The costing also accounts for the abolition of Stamp Duty on purchases of shares or marketable securities in Irish registered companies.

2. Overview of Data and Methodology

- Transactions by individuals and firms who are tax resident in Ireland are liable to pay the tax on any taxable financial transactions conducted globally.
- To cost this new tax, multiple data sources are used.
- **Listed Stocks**: the value of listed stock transactions globally across calendar years are sourced from the World Bank[1]. The latest figure available is for 2022. We calculate the value of all stocks traded globally and estimate the share attributable to Irish taxpayers by scaling by Ireland's share of global Gross Domestic Product (GDP).
- **Bonds**: we consider transactions in sovereign bonds and corporate bonds[2]. In both cases, we estimate the value of transactions in the primary market (new bond issuances) and the secondary market (outstanding bonds).
    - For sovereign bonds – bonds issued by countries – we take data on the composition of transactions in the *secondary market* from [the International Capital Market's Association 2024 Secondary Bond Market Report](). The report gives the value and composition of bond transactions in the EU secondary market[3]. We attribute the portion of these transaction to Irish taxpayers based upon Ireland's share of EU-level GDP[4].

[1] See: https://datacatalog.worldbank.org/public-licenses#cc-by. Shares in unlisted companies are not considered in the analysis.
[2] Municipal bonds are not considered in the analysis.
[3] 73% of value weighted transactions were denominated in Euro, indicating EU-level bonds, with US Treasury bonds comprising 22% of value-weighted transactions.
[4] GDP data is sourced from the World Bank: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD. In all cases, Ireland's share of EU and global level GDP is referenced from 2022.

- *For the primary market*- we assume the composition of new bond issuances purchased by Irish taxpayers are comparable to transactions in the secondary market. As such, we analyse issuances of Euro-denominated bonds and bonds issued by the United States Treasury. The European Central Bank provide data on the gross debt issued by EU countries in 2024. Data on all debt issuances by the United States Treasury in 2024 are sourced from the US Treasury's Monthly March 2025 Statement of Public Debt using data as per 31st March 2025. We assume Irish taxpayers buy these US and EU issued bonds based on Ireland's share of global GDP.
- For corporate bonds, we estimate the value of transactions based upon the stock of debt securities in the EU attributable to non-financial corporations[5]. These data were sourced from the Bank of International Settlements and are based upon 2023 figures for the Euro area. For both primary and secondary bonds issued by companies, we assume the value of corporate bonds transacted are in proportion to the overall stock of debt. 51% of Euro-area debt is government debt, while 8% is non-financial corporate debt. Therefore, we assume that corporate bonds are transacted in value terms at 15.7% (1.08/1.51) of the value of sovereign bonds.

- **Investment funds**: Transaction volumes in Irish resident investment funds are sourced from the Central Bank of Ireland, with the latest data for 2024[6].
- **Money market funds**: Transaction volumes in Irish resident money market funds are sourced from the Central Bank of Ireland[7]. Transaction volumes are implied from changes in outstanding liabilities on a monthly basis throughout 2024.
- **Security Financing**: The value of collateral used in trades in repurchasing agreements, buy/sell-backs, margin lending and security/commodity lending/borrowing is used to estimate the value of assets transacted on security financing markets. Weekly data on the cash value of repo contracts and collateral underlying these transactions are collated by the ICMA[8]. For 2024, end of month weekly statistics on these transactions are used to imply annual transactions. Ireland's share of global GDP is then used to ascribe the value of these transactions attributable to Irish resident taxpayers. The EU market is considered as it is likely the most used market by Irish resident financial institutions.

[5] We excluded debt securities issued by financial sector corporations as these will include securities such as mortgages and loans which are not part of this tax base.
[6] See Investment Fund data at https://www.centralbank.ie/statistics/data-and-analysis/other-financial-sector-statistics/investment-funds
[7] See Money Market Fund data at https://www.centralbank.ie/statistics/data-and-analysis/other-financial-sector-statistics/investment-funds
[8] See: https://www.icmagroup.org/market-practice-and-regulatory-policy/repo-and-collateral-markets/market-data/sftr-public-data-archive/

- **Derivatives**: exchange-traded derivatives and derivatives traded in over-the-counter markets are considered. For both markets the analysis is limited to interest rate and foreign exchange markets.
    - For exchange traded derivatives, the analysis is limited to future and options contracts in foreign exchange and interest rate markets. Data are sourced from the Bank of International Settlements. The daily annual turnover figure[9] for 2024 is annualised across all markets for derivatives (futures and options) traded in foreign exchange and interest rate markets. The value of transactions appropriated to Irish taxpayers is then estimated based upon Ireland's share of global GDP.
    - For over-the-counter derivatives, the daily average turnover from April 2022 is sourced from the Bank of International Settlement's Triennial Central Bank Survey 2022. The daily annual turnover figure for April 2022 is annualised across all derivative transactions (futures and options) traded in foreign exchange and interest rate markets. The value of transactions appropriated to Irish taxpayers is then estimated based upon Ireland's share of global GDP[10].
- **Behavioural response:** we benchmark our behavioural assumptions to a report examining the introduction of a financial transaction tax authored by the Economic and Social Research Institute and the Central Bank of Ireland[11]. Specifically, we assume a decrease in the value of stocks, bond and transactions in other financial markets of 10 per cent and a reduction in the value of traded derivatives of 70 per cent. The larger assumption on derivatives is based on the sensitivity of high-frequency trades and low-margin trades to the introduction of this tax.
- The tax is modelled as a **one-sided tax** – meaning that either the buyer or seller would pay the tax. The global data used to calculate the value of transaction are compiled on a one-sided basis to avoid double counting transaction values. Two-sided transactions subject to the tax would arise in instances where Irish taxpayers were both counterparties in an exchange. This is difficult to predict and has been abstracted from in the analysis.
- **Uprating:** in calculating the growth in transactions to the year 2026 and up to 2030, the value of transactions in financial assets are grown in line with forecast GDP growth[12]. This is in line with the base assumption of appropriating the value of transactions to Irish taxpayers on a GDP-share basis.

[9] This gives an estimate of the notional value (face value at purchase) of derivative contracts traded in an average day in 2024.
[10] Weighting the notional value of transactions by GDP gives significantly larger estimates of derivative trading volumes than reported in the 2019 BIS Triennial Derivatives Survey results for Ireland, see for instance: Central Bank of Ireland 2019 BIS Triennial Derivatives Survey. This arises as the results in the 2019 BIS survey on transaction volume are on a "sales desk" basis – see page 5 of Triennial Central Bank Survey of Foreign Exchange and OTC Derivative Markets: Reporting guidelines for turnover in April 2019 – meaning that derivative contracts transacted by Irish financial institutions in large derivative markets- such as in the United Kingdom - are not accounted for.
[11] Central Bank and the Economic and Social Research Institute, (2012). The EU Financial Transactions Tax Proposal: A Preliminary Evaluation
[12] Forecasts of nominal GDP growth and HICP inflation are taken from: Department of Finance (2024) "Medium-Term Fiscal and Structural Plan"

The value of transactions in derivative markets are grown in line with forecast price inflation growth, as increased price uncertainty or volatility is likely to increase the notional value of contracts traded.

- The costing also accounts for an abolition of Stamp Duty- at a rate of 1% when purchasing shares or marketable securities in an Irish registered company[13]. The latest revenues of this tax head were sourced from the Revenue Commissioners for 2024[14]. These yields vary by year, but are assumed to grow by forecast GDP growth to the year 2030 for this analysis.

3. Estimates

The yield estimates from introducing the tax are set out in Table 1. Our central estimate incorporates a behavioural response, which reduces the value of transactions in all taxable instruments 10%. A larger reduction, of 70%, is applied to the trading of derivatives. The revenue loss from abolishing Stamp Duty on purchases of shares or marketable securities in Irish registered companies are also factored into the estimates.

Our central estimate indicates a yield of €3,127.9 million in 2026, rising to €3,741.6.3 million by 2030.

Table 1: Yield estimates from introducing a Financial Transaction Tax, full-year estimates

Year	Static Estimate (No behavioural response)	Central Estimate (With behavioural response)
2026	€5,882.8 million	€3,127.9 million
2027	€6,029.7 million	€3,271.3 million
2028	€6,309.7 million	€3,420.1 million
2029	€6,536.6 million	€3,576.7 million
2030	€6,773.8 million	€3,741.6 million

Source: PBO's own modelling based on transaction data from the World Bank, the Revenue Commissioners, the Bank for International Settlements, the US Treasury, the European Central Bank and the International Capital Markets Association.
Notes: The static estimate incorporates no behavioural response, whereas the central estimate allows for a 10% reduction in the value of bonds, shares, investment funds, money market funds and repurchase agreements transacted by Irish taxpayers, with a 70% reduction in the value of derivative contracts traded. The estimates account for revenue losses from abolishing Stamp Duty on purchases of shares or marketable securities in Irish registered companies.

[13] See page 4 of the Stamp Duties Consolidation Act 1999
[14] See: https://www.revenue.ie/en/corporate/information-about-revenue/statistics/capital-taxes/stamp-duty/receipts.aspx

4. Areas of Uncertainty

Some points of uncertainty and important caveats are listed below.

Data uncertainty

- There is **high** data uncertainty in the analysis. Data on the value of transactions by Irish taxpayers has been estimated based on data from global/EU-level transaction value data, scaled by Ireland's GDP share globally/at the EU-level. Irish taxpayers may trade at a level above or below this level, which would affect the cost estimate. In addition, derivative data is limited to foreign exchange and interest rate markets, which underrepresents the size of these markets.

Modelling uncertainty

- There is **high** modelling uncertainty in the analysis. Much of this uncertainty is linked to modelling transactions to Irish taxpayers using global transaction data and Ireland's share of global GDP. Irish taxpayers may trade above or below this share across different asset classes. This uncertainty is largest for the derivative market, which also contributes significantly to the yield of the modelled tax.

Behavioural uncertainty

- There is **high** behavioural uncertainty in the analysis. With the behavioural assumptions employed, there is a large difference vis-à-vis the static estimate. The scale of avoidance, restructuring of trades, relocation of firms will determine the scale of the behavioural response. Given the analysis has modelled this policy being implemented unilaterally in Ireland, the scale of liquidity reduction in derivative markets may be even larger than the 70 per cent considered.