
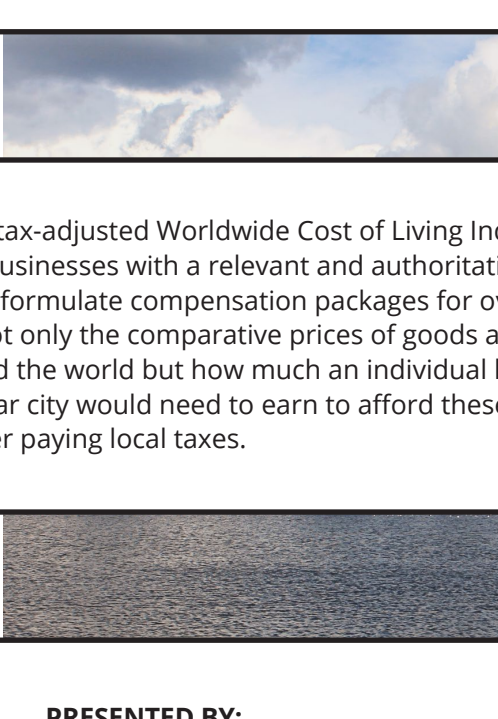





# THE REAL COST OF LIVING

**SOVEREIGN WORLDWIDE COST OF LIVING INDEX (SWCLI) 2018**



Sovereign's tax-adjusted Worldwide Cost of Living Index is intended to provide businesses with a relevant and authoritative benchmark on which to formulate compensation packages for overseas staff. It factors in not only the comparative prices of goods and services in cities around the world but how much an individual living and earning in a particular city would need to earn to afford these goods and services after paying local taxes.

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## The REAL cost of living – Sovereign Worldwide Cost of Living Index (SWCLI) 2018

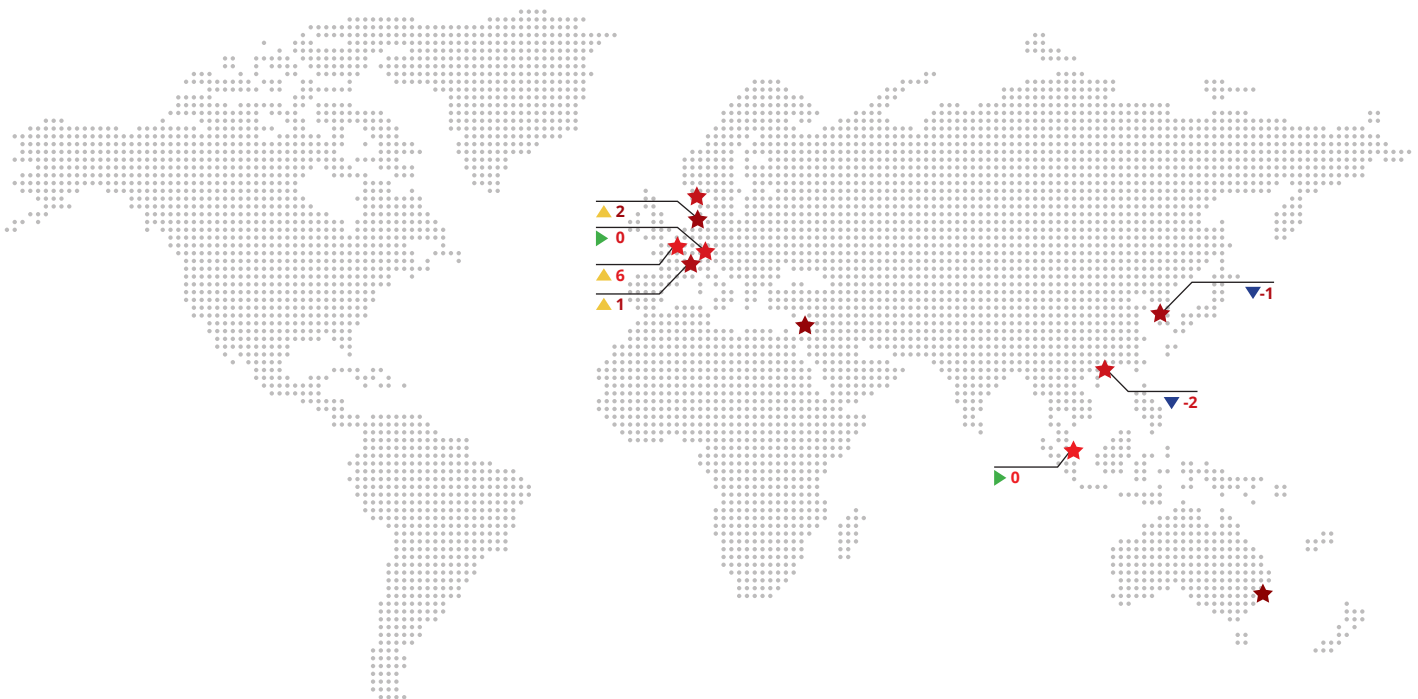
According to the Economist Intelligence Unit’s (EIU) annual Worldwide Cost-of-Living Survey, Singapore remains the world’s most expensive city for a fifth consecutive year, 16% more expensive than the benchmark city of New York. Three other cities from the Asia-Pacific region (Hong Kong, Seoul and Sydney) appear in the top ten, along with five cities from Europe (Paris, Zurich, Oslo, Geneva and Copenhagen). Paris, the only euro-zone city among them, has risen from seventh position last year to second. Two Japanese cities – Tokyo and Osaka – fall out of the top 10, to sit at 11th equal, while with the dollar weakening against other currencies, no US city ranks among the ten most expensive cities. New York and Los Angeles now sit at 13th and 14th place respectively, compared with ninth and 11th last year.

Continued economic uncertainty around Brexit has also weighed on the strength of the British pound, sending London sharply down the rankings to 30th, its lowest placing in two decades.

The EIU’s ten most expensive cities in 2018 are:

Country	City	WCOL index (New York = 100)	Rank	Rank Movement
Singapore	Singapore	116	1	0
France	Paris	112	2	6
Switzerland	Zürich	112	3	0
Hong Kong	Hong Kong	111	4	-2
Norway	Oslo	107	5	*
Switzerland	Geneva	106	6	1
South Korea	Seoul	106	7	-1
Denmark	Copenhagen	105	8	2
Israel	Tel Aviv	103	9	*
Australia	Sydney	102	10	*

\*Not listed in 2017

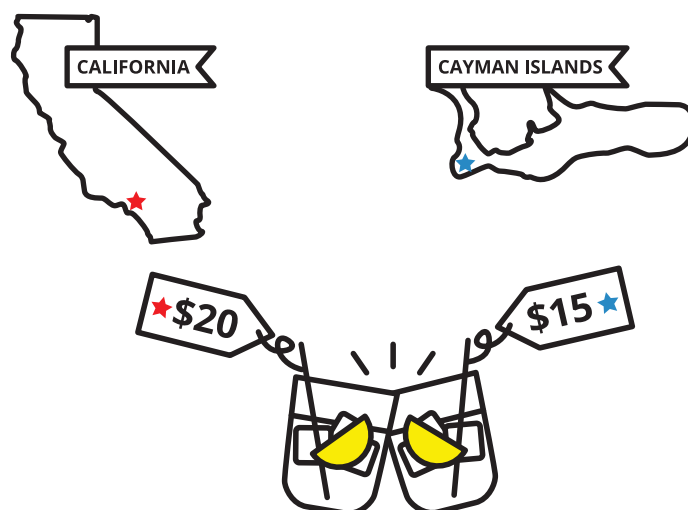


The EIU survey, which is calculated by comparing the costs of 150 products and services purchased locally in 133 cities around the world, is designed to assist businesses to calculate compensation packages for overseas staff postings. Prices gathered are converted into a central currency (USD) using the prevailing exchange rate and weighted in order to achieve comparative indices. However as those actually living in, as opposed to visiting, a particular city will most likely be earning and spending in the local currency, such a conversion may not be of relevance.

Countries that tax income generally use one of two systems: territorial or residence-based. In the territorial system, only local income – income from a source inside the country – is taxed. In the residence-based system, residents of the country are taxed on their worldwide (local and foreign) income, while non-residents are taxed only on their local income. In addition, a very small number of countries, notably the US, also tax their non-resident citizens on worldwide income.

So with the exception of US citizens, Sovereign believes a more relevant measure for individuals actually living, as opposed to visiting, a particular city, is to calculate how much an individual living and earning in a city would need to earn to afford these goods and services after paying local taxes on their earned income.

For example, if a gin and tonic costs US\$10 in Los Angeles but the local tax rate is 50%, it will clearly be necessary to earn US\$20 to purchase that drink out of employment income. That same gin and tonic might cost US\$15 in the Cayman Islands where there is no personal income tax. Accordingly, an employed person living in George Town, the capital of the Cayman Islands, would need to earn only US\$15 to purchase that gin and tonic. By this measure, the gin and tonic is cheaper in the Cayman Islands than in L.A.



Employing the same methodology to the EIU's ten most expensive cities, together with a selection of other relevant world cities, provides very different results. The table below assumes that an individual's income is subject to the top rate of income tax applicable to earned income in that city.

Table 1 – 2018 Sovereign Worldwide Cost-of-Living Index (SWCLI) – Top Earners<sup>1</sup>

2018 Ranking	Country	City	Tax-adjusted cost of living rating	Ranking and rating 2017
1	Denmark	Copenhagen	6,300	1 (6,000)
2	France	Paris	5,600	5 (4,815)
3	Israel	Tel Aviv	5,150	-
4	Australia	Sydney	4,590	-
5	Norway	Oslo	4,120	-
6	South Korea	Seoul	4,028	7 (4,104)
7	Spain	Madrid	3,825	-
8	Switzerland	Geneva	3,233	10 (3,263)
9	Switzerland	Zürich	2,744	12 (2,765)
10	Mexico	Mexico City	2,590	-
11	Singapore	Singapore	2,552	13 (2,640)
12	Chile	Santiago	2,520	-
13	Turkey	Istanbul	2,485	-
14	Hong Kong	Hong Kong	1,887	14 (1,938)
15	Czech Republic	Prague	1,474	-
16	Nigeria	Lagos	960	16 (936)
17	Russia	Moscow	780	17 (780)

According to our tax-adjusted table, Copenhagen is once again the most expensive city in the world. As with the EIU cost-of-living index, Paris shoots up the table from fifth to second while Seoul, Geneva, Zurich and Singapore edge up the rankings. Hong Kong, Lagos and Moscow maintain their positions.

Meanwhile Tel Aviv, Sydney, Oslo, Madrid, Mexico City, Santiago, Istanbul and Prague enter the rankings, while New York, Tokyo, Osaka, Reykjavik, London, Brisbane, Auckland and Mumbai all exit. New York, second in 2017, drops out due primarily to the decrease in taxation, while London, ranked eighth last year, has seen sharp declines in the relative cost of living owing to the Brexit referendum and currency weakness.

<sup>1</sup> The adjusted rankings in the table above are calculated by taking the EIU's score and multiplying it by the top rate of personal tax on earned income for the city in question. We have not taken account of social security contributions because these have only a marginal impact on top earners who pay the top rate of tax.

Sovereign's calculation also takes no account of tax allowances that might reduce the headline tax rates substantially. In many countries, generous allowances are provided to those who are married, have children, look after elderly relatives or save by way of a pension. However such allowances and their impact on the effective tax rate can only be properly assessed where the specific circumstances of the taxpayer are known. These will vary to such an extent that they cannot be accommodated.

This addresses the ‘top earners’ – but what about the rest? We believe the costs of living can be further refined and made more applicable to a ‘typical employee’ by considering the combined tax and social security costs experienced by an average resident of the city in question.

In the table below we have taken the EIU score and multiplied it by the ‘all-in’ personal income rate of tax on the average earned income for the city in question. The figures used for average wage and average combined tax are those published by the Organisation for Economic Co-operation and Development (OECD).

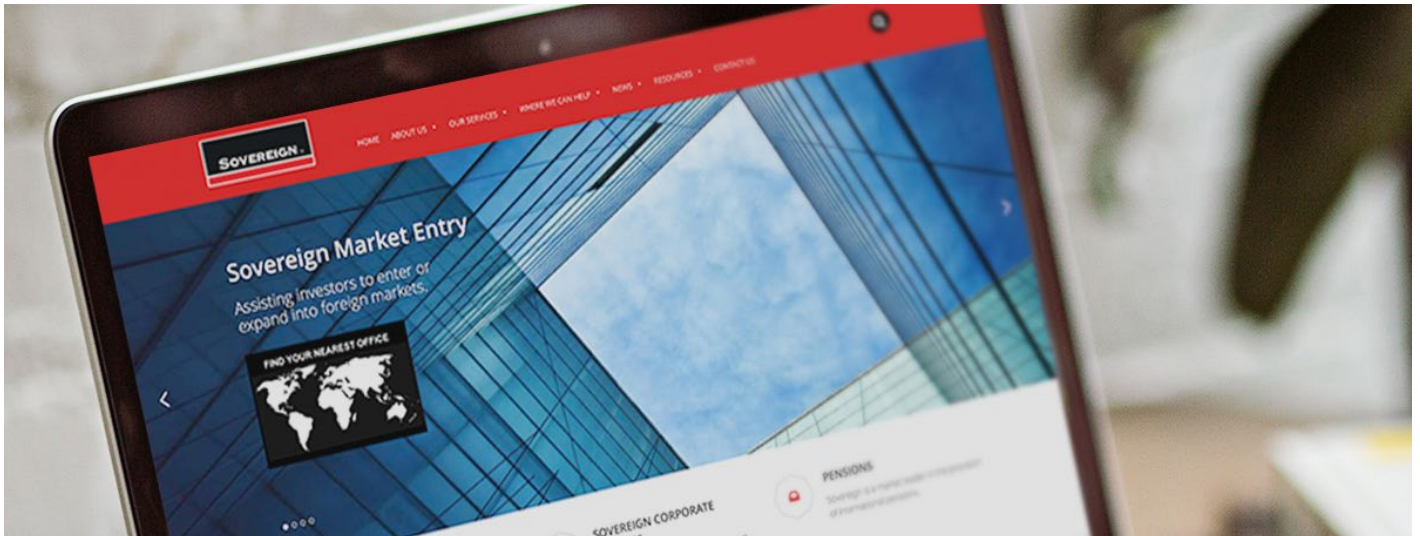
**Table 2 – Sovereign Worldwide Cost-of-Living Index (SWCLI) – Average Earners<sup>2</sup>**

2018 Ranking	Country	City	All-in tax-adjusted cost of living rating (Tax + social security contributions)	Ranking and rating 2017
1	Denmark	Copenhagen	3,620	1 (3,620)
2	Iceland	Reykjavik	3,404	5 (3,114)
3	Switzerland	Geneva	3,328	–
4	Switzerland	Zürich	3,331	–
5	France	Paris	3,114	–
6	United States	New York	2,780	4 (3,311)
7	New Zealand	Auckland	2,760	–
8	Australia	Brisbane	2,730	–
9	Japan	Tokyo	2,442	3 (3,328)
10	Japan	Osaka	2,420	–
11	United Kingdom	London	2,074	12 (1,523)
12	South Korea	Seoul	1,523	13 (1,500)
13	Singapore	Singapore	1,500	15 (798)
14	India	Mumbai	1,350	17 (371)
15	Hong Kong	Hong Kong	798	–
16	Russia	Moscow	780	16 (780)
17	Nigeria	Lagos	371	–

Copenhagen again heads up the index, closely followed by Paris, Oslo and Sydney, and we see some notable new entrants. Istanbul at five, remarkably rated more expensive than Zurich for the average earner, with Madrid at eighth, Prague at 10th and Santiago at 17th. This is the first time that any of these cities have appeared in any of the tables. Reykjavik’s index rating was not shown in this year’s EIU report and for this reason we were not able to calculate its precise position this year.

Despite a number of variables, we believe that the post-tax adjusted figures for ‘top earners’ in Table 1 and ‘average earners’ in Table 2 in each city are a much more meaningful guide to the costs of living in cities around the world. We anticipate that the Sovereign Worldwide Cost-of-Living Indices (SWCLIs) will therefore be of great interest to anybody who is considering relocating to another city or country.

<sup>2</sup>‘All-in tax’ refers to the combined central and sub-central government income tax, together with the employee social security contribution, as a percentage of gross wage earnings. The figures are obtained from the OECD Tax Database, which provides comparative information on a range of tax statistics that are levied in the 35 OECD member countries. The personal income tax and social security contributions on the average wage earned in each city are generally, and in all cases featured, considerably under the top rate of tax.



## ABOUT SOVEREIGN

Sovereign opened its first office in Gibraltar in 1987 and has since grown into one of the largest independent corporate and trust service providers in the world. We currently manage over 20,000 structures for a wide variety of clients – companies, entrepreneurs, private investors or high net worth individuals and their families – and have assets under administration in excess of US\$10 billion.

**Sovereign Corporate Services** provides company formation and management in all major jurisdictions, together with comprehensive advice and support to assist companies of all sizes to establish and sustain operations successfully in foreign markets – from full back-office solutions to assistance with tax and regulatory compliance. This includes accountancy, human resources, pensions, insurance, trademark and intellectual property protection, obtaining local licences and permits and executive relocation.

**Sovereign Family Office Services** provides secure, efficient wealth and succession planning to internationally mobile families and entrepreneurs. We specialise in the design and implementation of structures, using trusts, foundations, companies and funds, to hold and protect assets and investments. Additional services include asset management, accountancy, foreign property ownership, retirement planning, residence and immigration, insurance, yacht and aircraft registration and management.

**Sovereign Retirement Planning** provides retirement solutions that offer choice, transparency and portability across multiple jurisdictions. Our reputation for excellence in pension scheme administration and our record of innovation and technical expertise have propelled Sovereign to become a market leader in the transfer and provision of international pension schemes. When combined with the technical knowledge of our in-house specialists and qualified actuaries, this means that Sovereign can cater for any alterations to a member's situation over time.

Sovereign has built a network of offices or agents in all major international finance centres. This global reach enables us to provide local expertise with an international dimension, whilst allowing our clients to access a global service from a local point of delivery. In all jurisdictions that require us to be licensed, we hold the appropriate authorisations.

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