
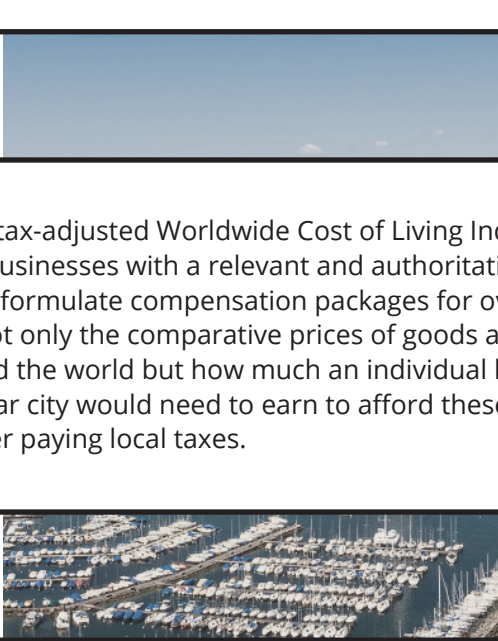
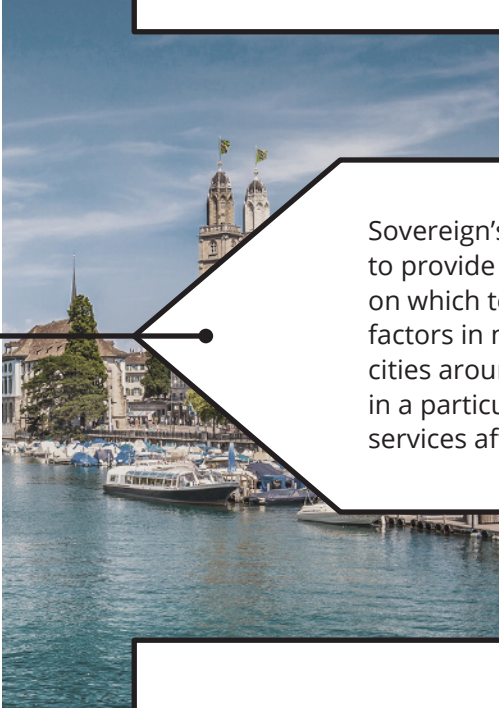




THE REAL COST OF LIVING

SOVEREIGN WORLDWIDE COST OF LIVING INDEX (SWCLI) 2019



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) 2019

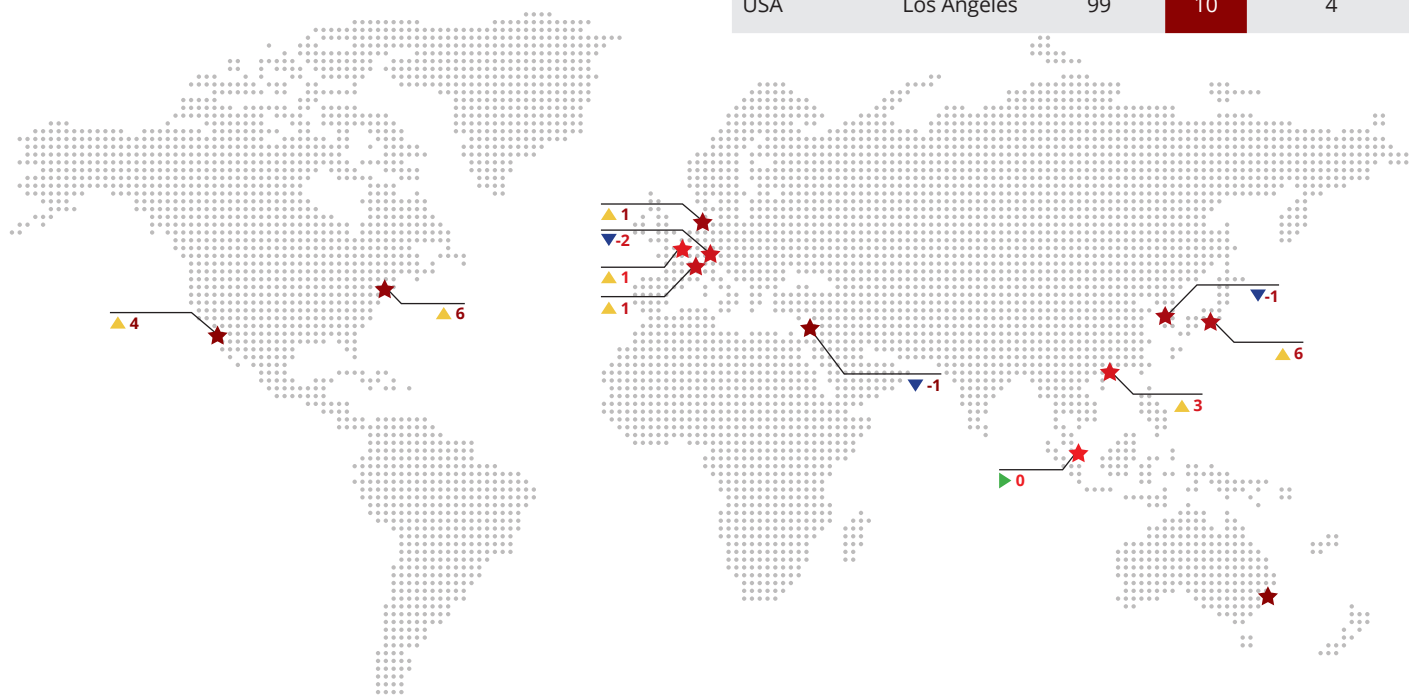
The Economist Intelligence Unit (EIU) publishes a bi-annual survey of the cost of living in the world's major cities, which compares the prices of 160 goods and services in 133 cities around the world.

In March, the EIU reported that, for the first time in the survey's history, three cities shared the title of the world's most expensive city: Singapore, Hong Kong and Paris. The top ten was largely split between Asia and Europe, with Singapore being the only city to maintain its ranking from the previous year. In the rest of Asia, Osaka in Japan and Seoul in South Korea joined Singapore and Hong Kong in the top ten. The Japanese city jumped six places to share fifth place. Tel Aviv (joint tenth), which was ranked 28th just five years ago, was the sole Middle Eastern destination in the top ten

In Europe it was non-euro area cities that largely remained the most expensive – Zurich (fourth place), Geneva (joint fifth) and Copenhagen (joint seventh). The lone eurozone representative was Paris (joint first), which has featured among the top ten most expensive cities since 2003.

EIU Cost of Living Index – Ten most expensive cities in the world March 2019

Country	City	WCOL index (New York = 100)	Rank	Rank Movement
Singapore	Singapore	107	1	0
France	Paris	107	2	1
China	Hong Kong	107	3	3
Switzerland	Zürich	106	4	-2
Switzerland	Geneva	101	5	1
Japan	Osaka	101	6	6
South Korea	Seoul	100	7	-1
Denmark	Copenhagen	100	8	1
USA	New York	100	9	6
Israel	Tel Aviv	99	10	-1
USA	Los Angeles	99	10	4



Some economies with appreciating currencies, like the US, climbed up the ranking significantly. In seventh and joint tenth place respectively, New York and Los Angeles were the only cities in the top ten from North America. New York moved up six places in the ranking, while Los Angeles moved up four. These movements represented a sharp increase in the relative cost of living compared with five years ago, when New York and Los Angeles were tied in 39th position.

The EIU survey is designed to assist businesses to calculate compensation packages for overseas staff postings. Prices gathered are then converted into a central currency (US dollars) 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, a more relevant measure, in our opinion, would be 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 pint of beer costs US\$10 in Los Angeles and the local tax rate is 50% it would clearly be necessary to earn US\$20 to purchase that beer out of employment income. That same beer might cost US\$15 in George Town, the capital of the Cayman Islands, but there is no personal income tax in Cayman. As a result, an employed person living in Cayman would need to earn only US\$15 to purchase that beer. By this criterion, the beer is cheaper in net terms in George Town.

Applying this same logic to the EIU's ten most expensive cities (and adding a few other world cities for good measure) produces some very different results.

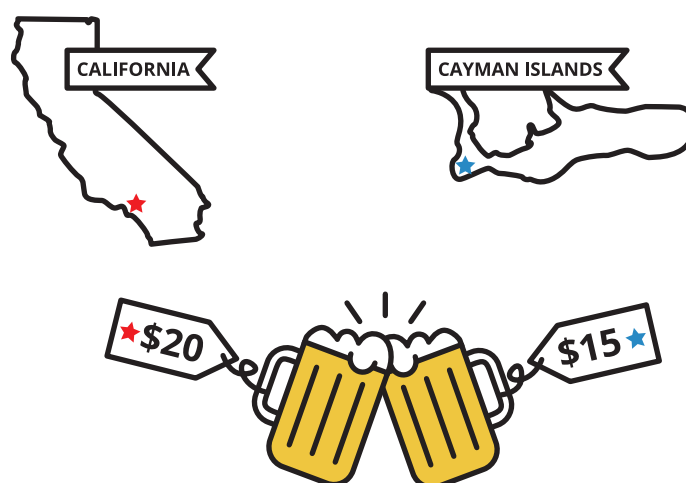


Table 1 – Sovereign Worldwide Cost-of-Living Index (SWCLI) – Top Earners*

Ranking	Country	City	Tax-adjusted cost of living rating
1	France	Paris	5,831.5
2	Japan	Osaka	5,645.9
3	Denmark	Copenhagen	5580
4	Israel	Tel Aviv	4,950
5	USA	New York City	4,630
6	USA	Los Angeles	4,583.7
7	Switzerland	Zürich	4,420.2
8	Australia	Sydney	4,361
9	Switzerland	Geneva	4,211.7
10	South Korea	Seoul	4,180
11	Singapore	Singapore	2,354
12	China	Hong Kong	1,819

As can be seen, the tax-adjusted Sovereign Worldwide Cost of Living Index (SWCLI) presents a dramatically altered 'cost of living' landscape. Only Paris remains in top spot, while Singapore and Hong Kong plummet down the Index. This will not come as a surprise to anyone living and working in these cities. Osaka and Copenhagen shoot up towards the top of the pile, with New York and Los Angeles just behind. Geneva and Zurich shift into the bottom half of the table.

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 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.

* We have calculated the adjusted rankings in the table above 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 the 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 Hong Kong, for example, if the entire remuneration package is paid directly to an employee as salary, then the highest applicable tax rate is 16%. If however the employer were to split the total payment between salary and housing allowance, the effective rate of tax could drop substantially because housing is taxed at a maximum of 10% of the remuneration package rather than at actual cost.

In many countries, generous allowances are also given 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.

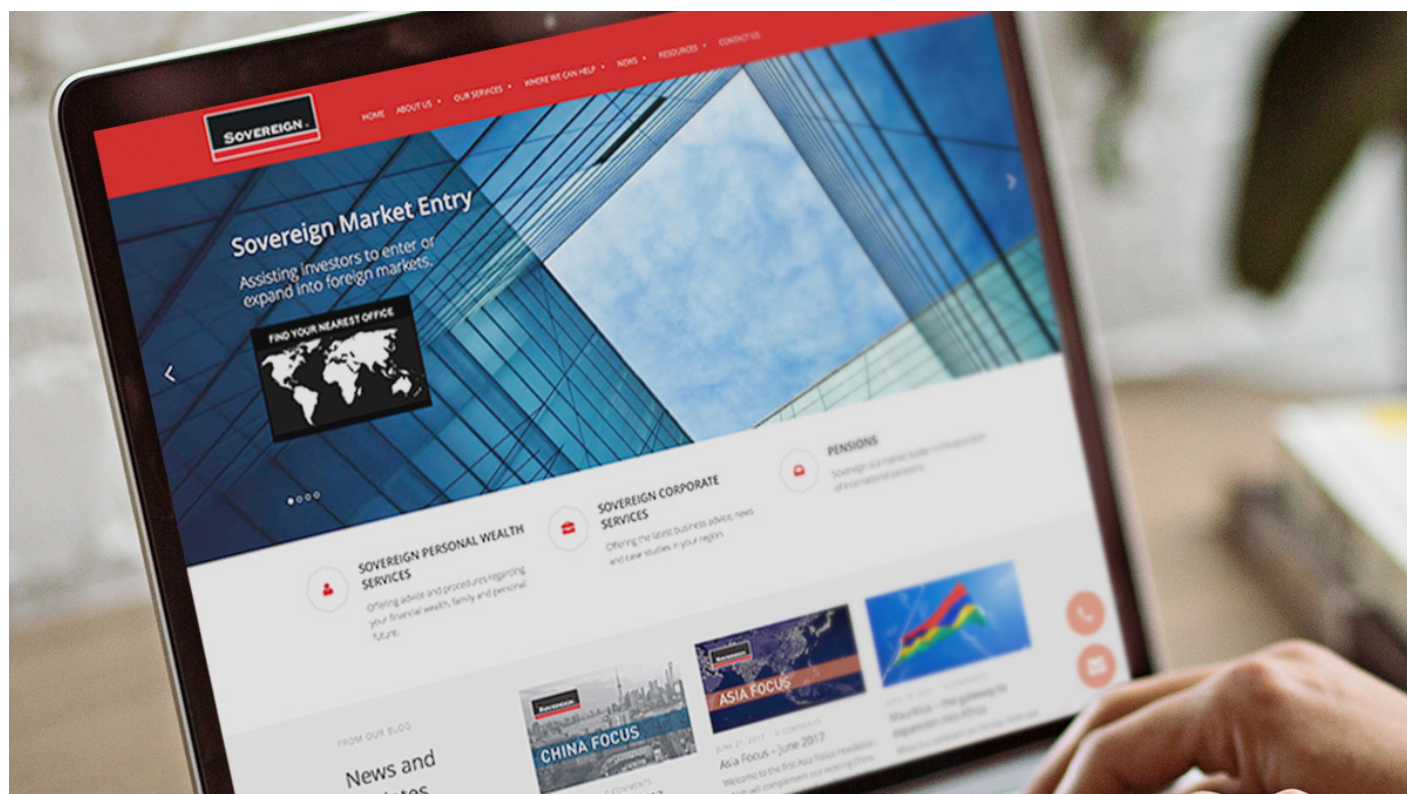
Table 2 – Sovereign Worldwide Cost of Living Index (SWCLI) – Average Earners**

Ranking	Country	City	All-in-tax adjusted cost of living rating (tax + social security contribution)
1	Denmark	Copenhagen	3,610
2	France	Paris	3,124.4
3	USA	New York City	2,600
4	USA	Los Angeles	2,574
5	Japan	Osaka	2,252.3
6	Australia	Sydney	2,171.6
7	Switzerland	Zürich	1,791.4
8	Israel	Tel Aviv	1,752.3
9	Switzerland	Geneva	1,706.9
10	South Korea	Seoul	1,450
11	China	Hong Kong	856
12	Singapore	Singapore	749

As can be seen, Copenhagen again heads the Index, by a considerable margin over Paris, while the US cities of New York and Los Angeles also edge closer to the top. The relative cost of living advantages of Singapore and Hong Kong after tax is taken into consideration are even more pronounced.

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 indices will therefore be of great interest to anybody who is considering relocating to another city or country.

**'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 tax and social security costs on the average wage earned in each city are generally, and in all cases below, considerably under the top rate of tax.



ABOUT SOVEREIGN

Sovereign is 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 (HNWIs) and their families – and have assets under administration in excess of US\$10 billion.

Through its global network of offices and agents, Sovereign offers company and trust formation and management in all major jurisdictions, together with comprehensive advice and support to assist companies of all sizes to establish business operations successfully in foreign markets.

We also provide the administrative support to maximise opportunities and achieve long-term sustainability, 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, executive relocation and specialist tax advice.

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