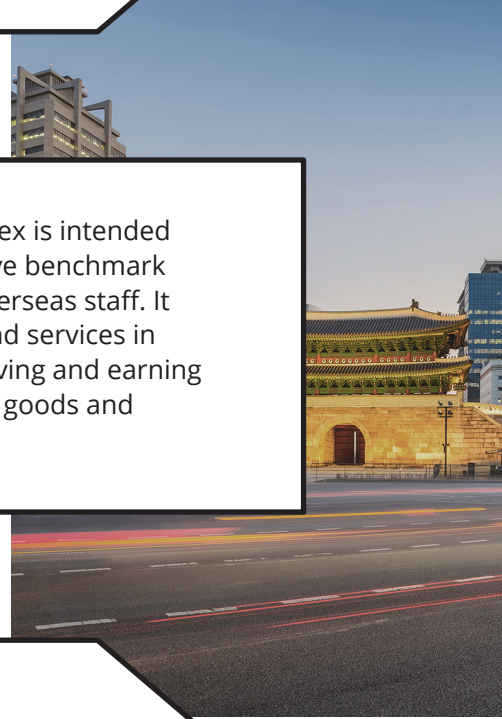
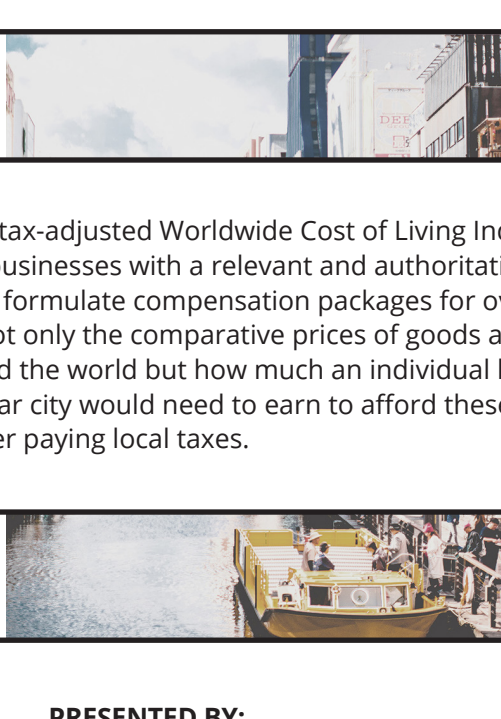





THE REAL COST OF LIVING

SOVEREIGN WORLDWIDE COST OF LIVING INDEX (SWCLI)



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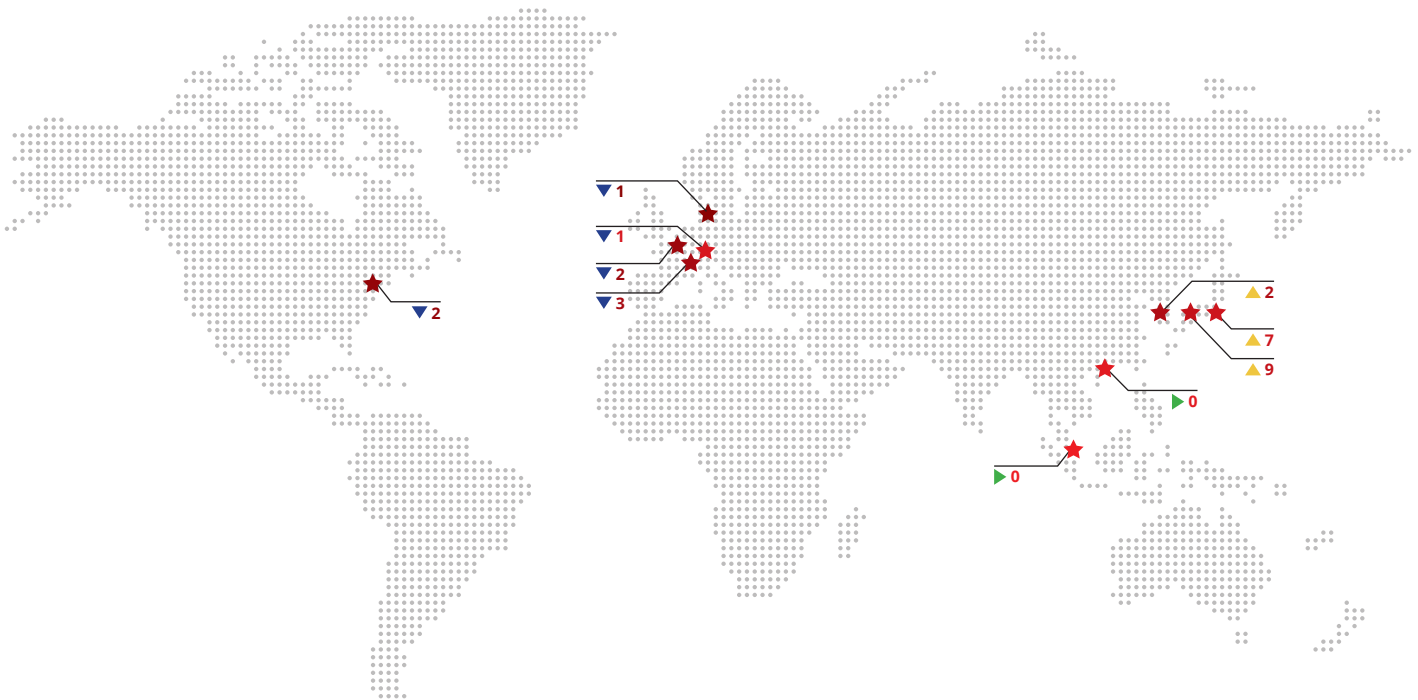
The REAL cost of living – Sovereign Worldwide Cost of Living Index (SWCLI)

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.

The most recent survey, published in March, rated Singapore as the world's most expensive city for a fourth consecutive year. It found that Singapore was 20% more expensive than New York and 5% pricier than Hong Kong, which lies in second place, closely followed by Zurich.

The latest survey also saw a return to the top ten for Tokyo and Osaka owing to a sustained recovery in the strength of the Japanese yen. With Japanese cities returning to the fold, Asia accounted for half of the ten most expensive cities ranked. Western Europe accounts for a further four cities, while New York City was the lone North American representative. The top ten are ranked as follows:

Country	City	WCOL index (New York = 100)	Rank	Rank Movement
Singapore	Singapore	120	1	0
Hong Kong	Hong Kong	114	2	0
Switzerland	Zürich	113	3	-1
Japan	Tokyo	110	4	7
Japan	Osaka	109	5	9
South Korea	Seoul	108	6	2
Switzerland	Geneva	107	7	-3
France	Paris	107	8	-2
US	New York	100	9	-2
Denmark	Copenhagen	100	10	-1

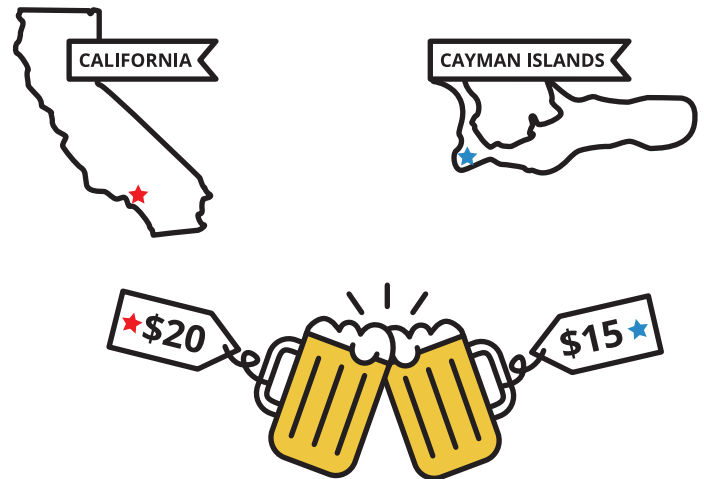


The EIU survey is designed to assist businesses to calculate compensation packages for overseas staff postings. Prices gathered are then converted into a central currency (US dollars) using the prevailing exchange rate and weighted in order to achieve comparative indices. However as those actually living 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 “we have also included some additional cities that we feel will be of particular interest” produces some very different results. The table below assumes that the income used to buy that beer is subject to the top rate of income tax applicable to earned income in that city.

Table 1 – Sovereign Worldwide Cost of Living Index (SWCLI) – Top Earners¹

Ranking	Country	City	Tax-adjusted cost of living rating
1	Denmark	Copenhagen	6,000
2	United States	New York	5,000
3	Japan	Tokyo	4,950
4	Japan	Osaka	4,905
5	France	Paris	4,815
6	Iceland	Reykjavik	4,232
7	South Korea	Seoul	4,104
8	United Kingdom	London	4,005
9	Australia	Brisbane	3,805
10	Switzerland	Geneva	3,263
11	New Zealand	Auckland	3,063
12	Switzerland	Zürich	2,765
13	Singapore	Singapore	2,640
14	Hong Kong	Hong Kong	1,938
15	India	Mumbai	1,350
16	Nigeria	Lagos	936
17	Russia	Moscow	780

As can be seen, the tax-adjusted Sovereign Worldwide Cost of Living Index (SWCLI) presents a dramatically altered ‘cost of living’ landscape. With tax at the higher rate taken into consideration, Copenhagen shoots to the top of the pile, with New York and Paris also climbing rapidly to join Tokyo and Osaka in the top five. Reykjavik, Seoul, London, Brisbane and Geneva make up the top ten. At the same time the rankings of Singapore, Hong Kong and Zurich all plummet down the Index. This will not come as a surprise to anyone living and working in these cities.

¹ 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 17%. 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.

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).



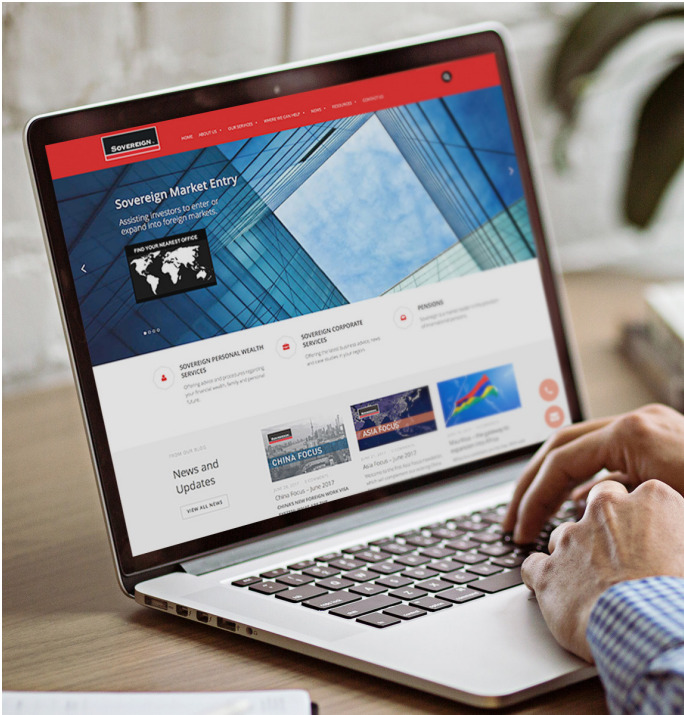
Table 2 – Sovereign Worldwide Cost of Living Index (SWCLI) – Average Earners²

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

As can be seen, Copenhagen again heads the Index, closely followed by Reykjavik, Geneva, Zurich and Paris. The top ten takes in New York, Auckland, Brisbane, Tokyo and Osaka, while Singapore and particularly Hong Kong enjoy a considerable advantage.

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.

² '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 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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