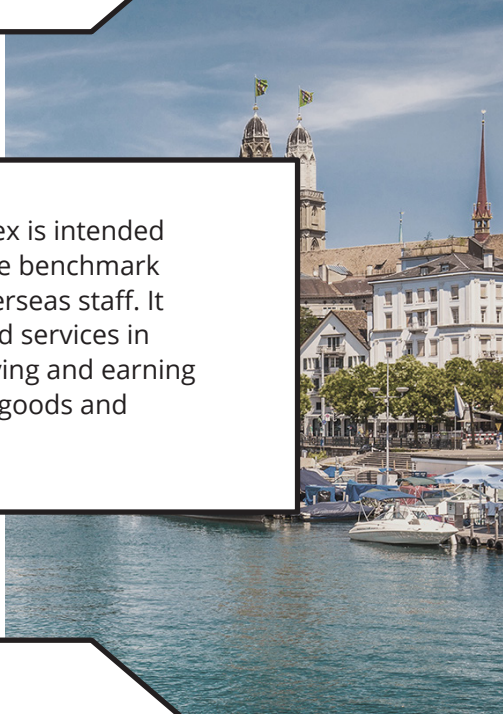
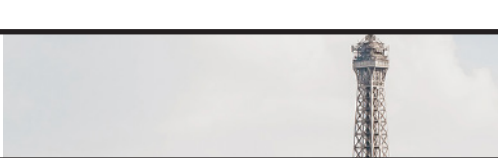
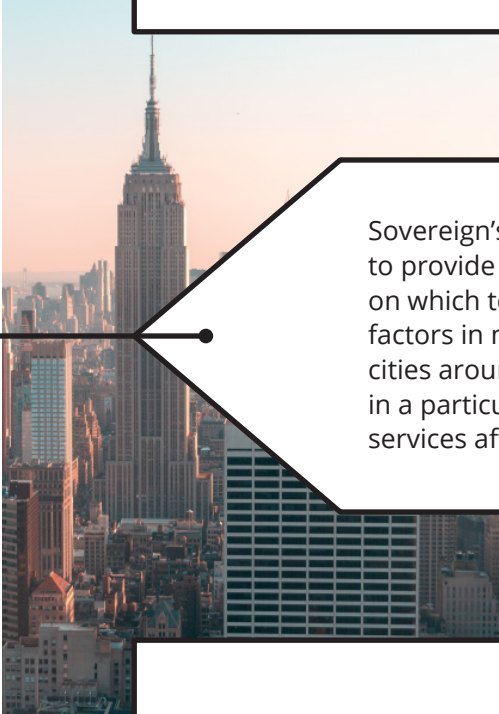




THE REAL COST OF LIVING

THE SOVEREIGN WORLDWIDE COST OF LIVING INDEX (SWCLI) 2020



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 – The Sovereign Worldwide Cost of Living Index (SWCLI) 2020

Each year the Economist Intelligence Unit (EIU) compares the cost of living across more than 130 cities. As with last year's Worldwide Cost of Living Survey, and for only the second time in 30 years, three cities share the top spot as the world's most expensive city to live in. Hong Kong and Singapore continue to occupy two of those places, being joined by the Japanese city, Osaka, which climbs three places to the top of the rankings. It displaces Paris, which drops down to fifth spot, equal with Zurich.

The bi-annual survey, which evaluates the cost of over 160 goods and services in 133 cities around the world, was carried out before the covid-19 outbreak. The EIU said a stronger yen had pushed Japanese cities up the league, while the (then) healthy jobs market, robust consumer demand and a strong dollar in the US meant that 15 of the 16 US cities in the survey climbed, with New York reaching fourth position and Los Angeles rising to eighth.

In contrast, subdued growth led most European cities, including all those in the euro zone, to become comparatively cheaper. The survey notes a clear trend across the 37 European cities surveyed with all but four – Moscow, St Petersburg, Kiev and Istanbul – falling in the 2020 rankings.

The Israeli city of Tel Aviv was the only Middle Eastern city in the top 10, jumping three places this year to the number seven spot. The Swiss city of Geneva slides down from fifth place to 10th, while Copenhagen – joint seventh in 2019 – drops out of the top ten entirely.

Table 1 – Most expensive cities in the world index (as reported by EIU in 2020)

Rank	Country	City	WCOL index (New York = 100)
1	Singapore	Singapore	102
2	China	Hong Kong	102
3	Japan	Osaka	102
4	USA	New York	100
5	France	Paris	99
6	Switzerland	Zürich	99
7	Israel	Tel Aviv	97
8	USA	Los Angeles	96
9	Japan	Tokyo	96
10	Switzerland	Geneva	95



The EIU survey 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 G&T 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 G&T. By this measure, the G&T is cheaper in the Cayman Islands than in LA.

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.

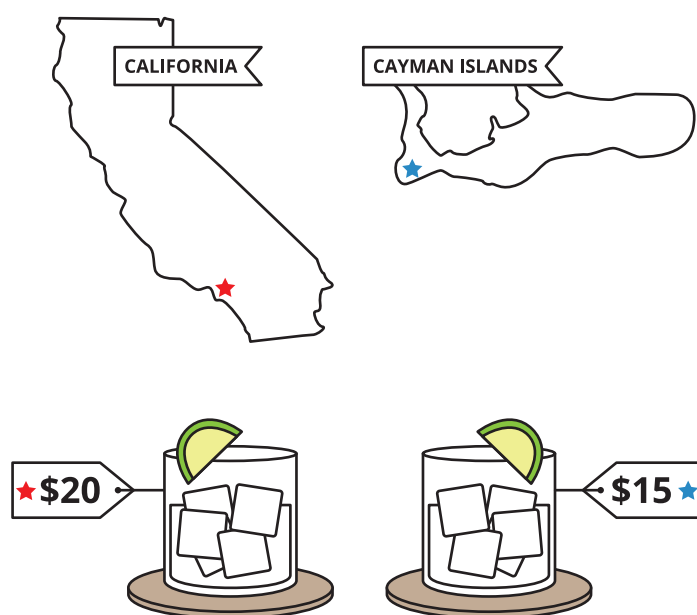


Table 2 – Sovereign Worldwide Cost of Living Index (SWCLI) – Top Earners¹

Ranking	Country	City	Tax-adjusted cost of living rating
1	Japan	Osaka	5,706.90
2	Japan	Tokyo	5,371.20
3	France	Paris	4,851
4	Israel	Tel Aviv	4,850
5	USA	New York	4,580
6	USA	Los Angeles	4,248
7	Switzerland	Geneva	2,755
8	Switzerland	Zürich	2,425.50
9	Singapore	Singapore	2,244
10	China	Hong Kong	1,530

According to our tax-adjusted table, Osaka and Tokyo are now way out in front as the most expensive cities in the world, while Paris and Tel Aviv shoot up the table from fifth to third and seventh to fourth respectively, followed closely by New York and LA. Some way below, Geneva and Zurich coalesce at seven and eight, while Singapore and Hong Kong sink to the bottom of the pile.

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.

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 15%. 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.

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

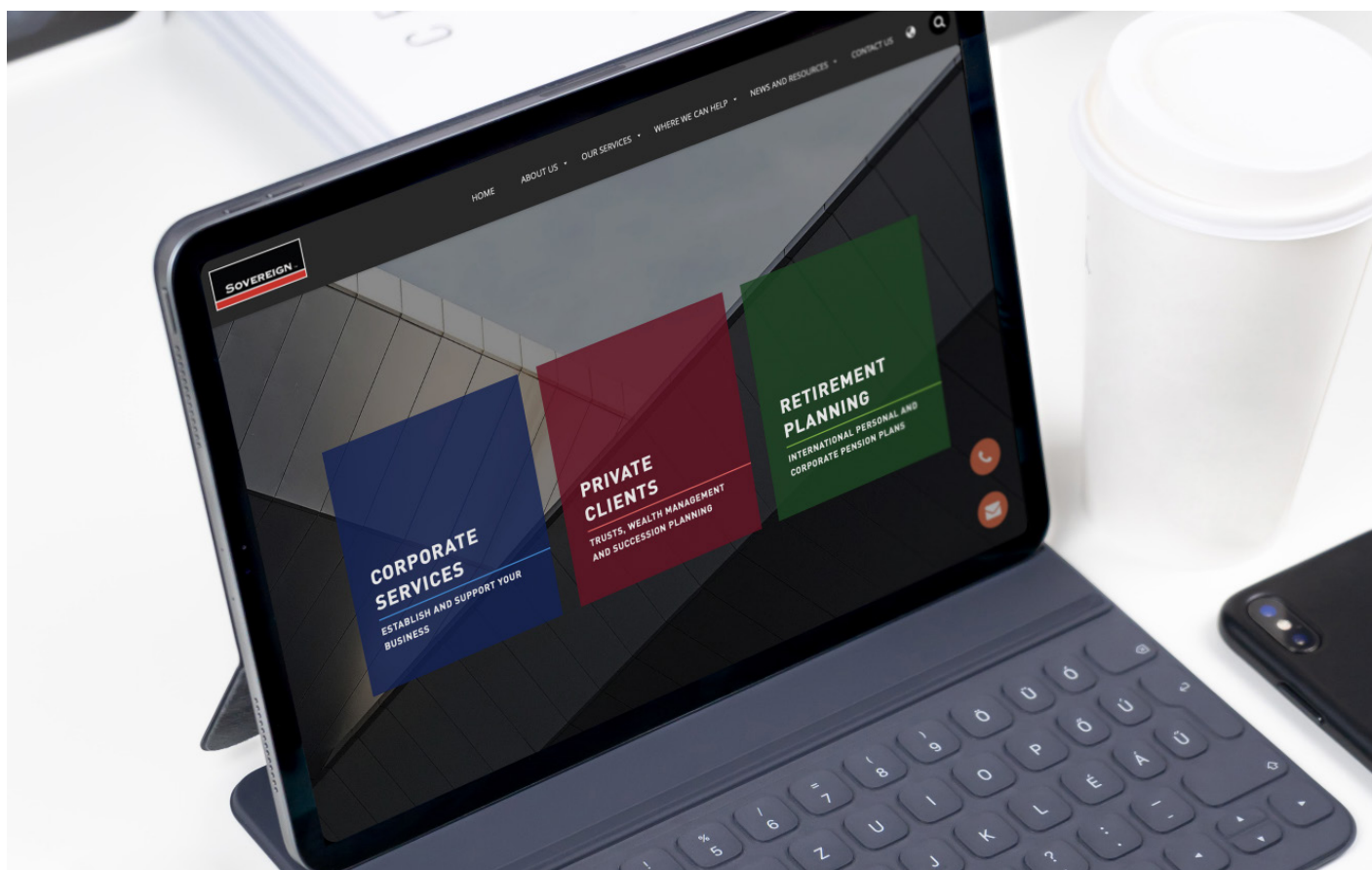
Ranking	Country	City	All-in-tax adjusted cost of living rating (tax + social security contribution)
1	USA	New York	2,908
2	France	Paris	2,841.30
3	USA	Los Angeles	2,702.40
4	Switzerland	Geneva	2,650.50
5	Switzerland	Zürich	2,494.80
6	Japan	Osaka	2,274.60
7	Japan	Tokyo	2,140
8	Israel	Tel Aviv	1,722.60
9	Singapore	Singapore	1,346.40
10	China	Hong Kong	918

For average earners, the landscape shifts dramatically again with the US and European cities all rising to the top. New York heads up the index, closely followed by Paris, LA and two Swiss cities. Osaka and Tokyo drop out of the top five, while Singapore and Hong Kong once again pop up the table.

Despite a number of variables, we believe that the post-tax adjusted figures for ‘top earners’ in Table 2 and ‘average earners’ in Table 3 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.

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. For Singapore and Hong Kong, which are not OECD member countries, we have calculated the rate of ‘all-in tax’ as 60% of the top rate of personal income tax. Moreover, where state or regional taxes are involved, as in the USA and Switzerland, these rates were calculated as 60% of the top rate of such taxes due to the unavailability of official statistics or government sources.



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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