



**BULLION COINS. ANALYSIS ON LEGAL AND ECONOMIC
CHARACTERISTICS
/WITH AN ACCENT ON THE BULGARIAN BULLION COINS/**

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Key words: Bullion coins, investment gold, avers, revers, gurt.

Summary: Bullion coins are means of investment for material possession of assets in gold form. This type of products is an investment form mainly directed towards the inhabitants. One of the basic priorities of these investments is that they are exempted of Value added tax (VAT) in the European Union frames.

The article examines the types of bullion coins, their legal and economic characteristics in the European social aspect as well as in the national one. The author analyses the weak aspects of the legal European and national framework. It is considered in details the issuing and chopping of all Bulgarian gold coins. It is also compared the defined criteria of bullion coins to the Bulgarian ones.

INTRODUCTION

The coins are a monetary unit, pointed on the avers (the face), reverse (the back) or the gurt (the edge) of the coin, and they have got the role of legal means of payment in distinct state (community)¹. The basic characteristics and specifications like a face value, the issue year, the content, the sizes, the gauge, the shape and the design of the coin are strictly regulated and announced in public by the Central bank of the state – issuer in advance.

It is custom that the investment gold coins are only a form of carried over the real value of the gold and they doesn't possess numismatic and /or other value of collector's. The investments may be defined like economic resources orientated to the increasing (saving) of actual capital in the community². Their market price is near to the current price of the gold at the stock exchange and it depends on the market value. The final sale price of the investment gold coins may be set up by including additional percentage for the following items: issuing, transport, conservancy, packing, setting and certification. In spite of these expenses the price is much closed to the exchange one and depends on it. .

¹ See art. 11 in the Regulations (EU) № 974/98 of the Union from the 3^d of May 1998, about setting of euro coins, ON L 139, 11.05.1998, p.1

² See Nocheva, Maria. Economics part II Macroeconomics, 3d reprint., Sofia, Todor Kableshkov University of Transport, 2009, p. 55, ISBN 978 – 954 – 12 - 0154 - 1

One of the basic characteristic of the bullion coins is that they are exempted from Value added tax in the European Union frames.

EXPOSE

The bullion coins may be delimited and classified in two basic types as follows:

1. Classical bullion coins are historical coins that have been legal tender in the state issuer and they have been minted in large print. Nowadays there are enough copies of them and are publicly available. These coins are not in interest of numismatists and collectors. The interest comes only from the gold content in the coin, which is equalized to pure 24k gold. Typical representatives of the classical gold coins should be pointed “20 franks – the French Napoleon”, the British Sovereign, “20 German Marks”, the Latin group coins – Austria, Austria – Hungary, Serbia, Greece, Italy, Russia etc.
2. Present bullion coins are specialized gold coins, that are issued in large print and their main investment is in physical possession of gold. These coins are characterized with concrete circulation, high gold content of over 900 thousandths, standardized monetary weight in ounce, equalized to pure 24 carats gold. The Austrian “Wiener philharmonic”, the American “Golden eagle”, “the Chinese panda”, the Canadian “Maple leaf”, the South African “Kruger” are known as a present bullion coins.

In European Community aspect

The European legal definition about the investment gold coins is regulated in article 344, section 1, item 2 at Directive 2006 /112/EU of The Council from the 28th November 2006, regarding the mutual system of the VAT. According to legal definition laid down in article 344, bullion coins should be determined by the following criteria::

1. Gold coins of a purity equal to or higher than 900 thousandths;
2. Gold coins are minted after 1800, and they are or have been legal tender in the state - issuer;
3. Selling price should not exceed the open market value of the gold contained in the coins by more than 80 %.
4. Since early 1999, each Member- State of the European Union informs The Committee by the 1st of July of each year about the coins that suit to the criteria set out in article 344, section 1, item 2 of The Directive 2006 /112/EU of The Council from the 28th of November 2006 (regarding the mutual system of the Value added tax), that is traded in the separate Member- State. Every year by the 1st of December The Committee publishes a full list of these coins of “C” series in the Official Journal of the European Union. The coins that are included in this list are considered suitable to the criteria during the whole year for which the list is published. But this criterion is not binding³.

The list of gold coins that suit to the criteria (set out in article 344, section 1, item 2 of Directive 2006 /112/EU of The Council for 2008) is published in an official newspaper of the European Union from the 28th of November 2007 „C” series⁴, and contains information for gold coins from 136 states – issuers, as well as EC non-member states and states that already do not exist /such as Czechoslovakia, Yugoslavia/. The list is compound in alphabetical order

³ The published list of gold coins, that suit to the criteria, set out in article 344, section 1, item 2 of The Directive 2006 /112/EU of The Council (A special scheme for investment gold) stated, that if a coin is not listed, its emissions continue to be exempt from tax, in case that the coin suits to the exemption criteria specified in The Directive about VAT.

⁴ See OJ C 286, 28.11.2007, p. 47 – 61

in two information columns: state – issuer and coins /data for the face value and the kind of currency/.

The Republic of Bulgaria has included only two face values of the Bulgarian bullion coins in this list – 20 levs and 100 levs. Since 1880, when the Bulgarian lev has been made as National monetary unit by the “Law about the right to mint coins in the Principality”, till the end of 2007 there has been issued 13 gold coins with nominal 20 levs and 100 levs /8 gold coins of 20 levs and 5 gold coins of 100 levs/. The kind and the characteristics of these coins are given in details in Table №1.

Table №1

№	Year	Nominal, lev	Name, Series	Gold sample	Weight, gram	Diameter, mm	Circulation, numbers
1	1894	20	A coin in circulation	900/1000	6,45	35,00	100 000
2	1894	100	A coin in circulation	900/1000	32,26	21,00	2 500
3	1912	20	A coin in circulation	900/1000	6,45	21,00	75 000
4	1912	100	A coin in circulation	900/1000	32,26	35,00	5 000
5	1965	20	1100 years Slavonic's literacy	900/1000	16,89	27,00	3 000
6	1965	20	George Dimitrov	900/1000	16,89	27,00	5 000
7	1984	100	UN Decade of women	900/1000	8,44	24,00	15 000
8	1999	100	120 years of Council of Ministers: EUR	900/1000	16,00	30,00	5 000
9	1999	20	The Mother of God and Child	999/1000	1,55	13,92	10 000
10	2003	20	The Virgin Mary	999/1000	1,55	13,92	20 000
11	2006	20	Bulgarian iconography. St John the Baptist	999/1000	1,55	13,92	12 000
12	2007	100	Bulgarian iconography. St. George the Victor	999/1000	8,64	24,00	1 500
13	2007	20	Bulgarian iconography. St. George the Victor	999/1000	1,55	13,92	8 000

The list for 2009 with gold coins that suit to the criteria (set out in article 344, section 1, item 2 of Directive 2006 /112/EU of The Council for 2008 is published in the Official newspaper of the European union from the 29th of November 2008 Set „C”⁵), and contains information for the gold coins from 135 states – issuers, EU member states, EC non-member states and states that already do not exist at the moment of the list issuing. The list for 2009 is compound in two columns: state – issuer and coins /data for the face value and the kind of currency/.

The Republic of Bulgaria has included only two face values of Bulgarian gold coins – 10 levs, 20 levs и 100 levs in this list. Since the establishment of the Third Bulgarian state till the end of November 2008, there have been issued 15 golden coins with face value of 10 levs, 20 levs and 100 levs /, 3 gold coins in 10 levs, 8 gold coins in 20 levs and 4 gold coins in 100 levs/. The kind and the characteristics of these coins are given in details in Table №2.

Table №2

№	Year	Nominal, lev	Name, Series	Gold samle	Weight, gram	Diameter, mm	Circulation, numbers
1	1894	10	A coin in circulation	900/1000	3,23	19,00	75 000
2	1965	10	1100 years Slavonic's literacy	900/1000	8,44	22,00	7 000
3	1965	10	George Dimitrov	900/1000	8,44	22,00	10 000

⁵ See OJ C 306, 29.11.2008, p. 06 – 19

The lists for 2010 and 2011 are published on the 28th of November 2009⁶ and on 27th of November 2010⁷, and contain data for 136 states /in the list for 2010/ and 139 states /in the list for 2011/. The lists, as well as in the previous years, contain only information for the states – issuers, the face value of the coins and the currency in which they have been issued. These characteristics are utterly insufficient for specification and differentiation of bullion coins from the other gold coins issued from the states – issuers.

Germany has not provided a list of coins issued by the state to be included in “The list of the gold coins, that suit to the criteria set out in article 344, section 1, item 2 of The Directive 2006 /112/EU of The Council /A special scheme for the investment gold/”, valid for 2008 и 2009. Germany has announced two nominal in the published lists that are valid for 2010 and 2011: 1 DM и 100 EUR. It is interesting to note, that one of the most popular classical bullion coins - 20 German Marks /20 Reich Mark, 900/1000 trail 7,965 gram weight, 22,5 mm diameter and 1,5 mm gauge of the gurt/ has not been included in “The list of bullion coins, that suit to the criteria set out in article 344, section 1, item 2 of The Directive 2006 /112/EU of The Council /A special scheme for the investment gold/”.

Since the 1st of January 2002, when EUR becomes legal tender in the Euro zone, till the 31st of December 2010 the member states have minted total of 458 models gold coins. France has issued 235 models of gold coins, which is 51.31% of all bullion coins issued in EUR. Each member state determines the kind and the characteristic of the issued bullion coins. For example, the characteristic “gold content” of the various issuers is different. In addition to standards adopted by 900/1000 and 999/1000 there are coins issued with gold content of 916/1000 /Malta/, 916,6/1000 /Portugal/, 917/1000 /Finland, Vatican/, 920/1000 /France/ and 986/1000 Austria. Diversity in issuance of gold coins in different nominal is also great, and the member states have minted coins of the following face values: 0,25 EUR, ¼ EUR, 1,5 EUR, 2,5 EUR, 5 EUR, 8 EUR, 10 EUR, 12,5 EUR, 20 EUR, 50 EUR, 100 EUR, 200 EUR, 250 EUR, 400 EUR, 500 EUR, 1 000 EUR, 2 000 EUR, 5 000 EUR and 100 000 EUR. The prepared project about “Regulations of the European parliament and the Union about the issuance of the Euro coins”⁸ has introduced three definitions of EUR coins: exchanging, commemorative and collectors’. The collectors’ coins has contained bullion coins, and their characteristic is that they are legal tender in the state – issuer of the coin. The exchange coins and collectors’ ones must have different face value in order to easier recognition. The images of collectors’ coins should not assimilate the exchange Euro coins, and they must differ the exchange ones at least in two characteristics as follows: color, diameter and weight, and they must not have relief gurt with fine scallops or shape of “Spanish tulip”.

Problem blast and legal contradiction to the real economic environment, characterized by both: the European law and the Bulgarian legal definition about the bullion coins, has been observed in the characteristic: “and they are or they have been legal tender in the state of origin”. As a reference to the European common definition about legal tender⁹, it could be defined by three elements: a) obligatory acceptance, b) acceptance in full face value and c) entitled from exemption form payment.

The adoption of full face value is the monetary value of coins equal to the amount pointed on them. Some modern bullion coins do not indicate nominal value, only their weight in ounces is pointed on them. For example the Krugerrand (The Republic of South Africa), is

⁶ See OJ C 289, 28.11.2009, p. 12 – 25

⁷ See OJ C 322, 27.11.2010, p. 13 – 26

⁸ <<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011PC0295:BG:HTML>>, Proposal for Regulations of the European Parliament and of the Council on the issue of Euro coins, 05.12.2011. 13.46h.

⁹ See Commission recommendation of the 22^d of March 2010 about spreading and operation of the Euro banknotes and Euro coins as legal tender, OJ L 83, 30.03.2010, p. 70 – 71

one of the most popular and recognizable bullion coins. In this line of thought, coins as Krugerrand are not legal tender in the state – issuer, and therefore they do not meet the legal requirements for investment gold. It follows that the sale is not exempted of Value added tax. In practice, this is not true and coins of this type are included in both: „The list of gold coins that suit to the criteria set out in article 344, section 1, item 2 of The Directive 2006 /112/EU of The Council /The special scheme for the investment gold/”, and in the joint order of the Minister of finance and the Governor of the Bulgarian National Bank.

Both lists for 2010 and 2011 Bulgaria have expanded the face values of the bullion coins. Nine (9) face values of 1 lev, 5 levs, 10 levs, 20 levs, 100 levs, 125 levs, 1 000 levs, 10 000 levs and 20 000 levs are indicated by them. They cover all face values of the minted bullion coins in Bulgaria, excepting the gold coin of 5 000 levs issued in 1993, named “Association of The Republic of Bulgaria to The European Community: Alphabet”. Since 1880 by 2010 in Bulgaria there has been minted 36 gold coins at all: 3 of them during The Principality of Bulgaria /1878 – 1908/, 2 of them during The Third Bulgarian Kingdom /1908 – 1946/, 6 of them during The Democratic Republic of Bulgaria /1946 – 1991/ and 25 bullion coins during The Republic of Bulgaria /since 1991 by nowadays /. According to face value, bullion coins are included in Table №1 and Table №2, and they are supplemented in Table №3.

Table №3

№	Year	Nominal, lev	Name, Series	Gold sample	Weight, gram	Diameter, mm	Circulation, numbers
1	1981	1 000	1300 years of Bulgaria: A mother with a child	900/1000	16,89	30,00	2 000
2	1994	10 000	“Alexander Nevski” Memorial Church	900/1000	8,64	24,00	30 000
3	1998	20 000	The Four Gospels of tsar Ivan Alexander	999/1000	1,55	13,92	30 000
4	1999	20 000	120 years of Bulgarian National Bank	999/1000	1,55	13,92	30 000
5	2002	1	Gold Bulgarian lev	999/1000	15,55	24,50	2 000
6	2002	5	XXVIII Summer Olympics in Athens /Greece/, 2004 Fencing	999/1000	1,24	13,92	12 000
7	2002	5	XXVIII Summer Olympics in Athens /Greece/, 2004 Weight Lifting	999/1000	1,24	13,92	12 000
8	2002	5	XXVIII Summer Olympics in Athens /Greece/, 2004 Race	999/1000	1,24	13,92	12 000
9	2002	5	XXVIII Summer Olympics in Athens /Greece/, 2004 Wrestling	999/1000	1,24	13,92	12 000
10	2002	5	XXVIII Summer Olympics in Athens /Greece/, 2004 Swimming	999/1000	1,24	13,92	12 000
11	2002	5	XXVIII Summer Olympics in Athens /Greece/, 2004 Archery	999/1000	1,24	13,92	12 000
12	2002	5	XXVIII Summer Olympics in Athens /Greece/, 2004 Cycling	999/1000	1,24	13,92	12 000
13	2002	5	XXVIII Summer Olympics in Athens /Greece/, 2004 Tennis	999/1000	1,24	13,92	12 000
14	2002	5	XXVIII Summer Olympics in Athens /Greece/, 2004 Gymnastics – horse bracelets	999/1000	1,24	13,92	12 000
15	2002	5	XXVIII Summer Olympics in Athens /Greece/, 2004 Pierre de Coubertin	999/1000	1,24	13,92	12 000
16	2004	125	125 years of Bulgarian National Bank	999/1000	7,78	21,00	3 000
17	2008	20	St. Tsar Boris I The Baptizer	999/1000	1,55	13,92	8 000
18	2009	100	Bulgarian iconography. St. Demetrios the Wonderworker	999/1000	8,64	24,00	4 000

In Bulgarian National aspect

Bulgarian legislation is in close synchronization and harmonization with the European fiscal rule in matters of legal regulations of the investment gold. The Bulgarian normative order is developed in The Value added tax Act, chapter 12 – investment gold. The definition about the investment gold is legally determined in item 24, section 1 of The Additional Provisions to the Value added tax Act that should be read as follows:

“The investment gold” is:

- a) Gold in the form of a bar or a wafer of weights accepted in the bullion markets,, of a purity equal to or greater than 995 thousandths;
- b) Gold coins are determined in the order of the Governor of the Bulgarian National Bank and the Minister of finance, by the following conditions:
 - aa) their purity is equal to or greater than 900 thousandths;
 - bb) they are minted after 1800;
 - cc) they have been or they are legal tender in the country of origin;
 - dd) they are sold at a price which does not exceed the open market value of gold contained in the coins by more than 80%.

Thus formulated definition about investment gold coins accepts only those coins that suits to the conditions that are set out in the above paragraphs: aa, bb, cc and dd, and which are included in the joint order of the Minister of finance and the Governor of the Bulgarian National Bank.

There is collision in the texts of paragraph: bb, item 24, section 1 in The Additional Provisions, where it is defined the joint order of the Minister of finance and the Governor of the Bulgarian National Bank, and paragraph 3 of article 175, where it is determined the one – man right to establish the list of investment gold coins¹⁰ only by the Minister of finance. According to paragraph 4 of article 175, the order of Minister of finance has to be promulgated in „State gazette”.

The joint order of the Minister of finance and the Governor of the Bulgarian National Bank ¹¹ is publicly available and it points 122 gold coins with their characteristics /weight in ounces, weight in grams, diameter in mm, nominal, purity /1000, year of issue/. The joint order includes 34 Bulgarian coins which are pointed in Tables № 1, 2 and 3 of current paper.

It has been made research with scientific purpose whether Bulgarian coins meet the statutory criteria for bullion coins. All of the issued Bulgarian gold coins are in agreement to the criteria: they are included in the joint order of the Minister of finance and the Governor of the Bulgarian National Bank, their purity is equal to or greater than 900 thousandths, they are minted after 1800, and they have been or they are a legal tender in the country. Latter criterion is to sell coins at price which does not exceed the open market value of the gold contained in the coins by more than 80%., which is the object of this research.

The study is done on the basis of current market from the 5th of December 2011, on the basis of the quotations of the Bulgarian National Bank for the available gold coins. The analysis has been made in two methods:

- by International fixing of the investment gold /London fix PM/ and the reference rate of USD to the Bulgarian lev;
- By the daily Gold rate announced by the Bulgarian National Bank.

Under both methods the following coins do not meet the criteria for the market stock price

¹⁰ See item 4, paragraph 3, article 175, chapter 24 „Responsibilities of the Minister of finance” of the Value added tax Law.

¹¹ <http://bnb.bg/bnbweb/groups/public/documents/bnb_law/order_instructionlowvat_bg.pdf>, The joint order of the Minister of finance and the Governor of the Bulgarian National Bank, which defines “the investment gold” for the purposes of section 1, item 24, letter „B” 1 in the Additional Provisions of the Value added tax Act, 05.12.2011, 13.44 h.

deviation of less than 20%:

- St. Tsar Boris I The Baptizer;
- Bulgarian iconography;
- St. Demetrios the Wonderworker;
- Four Gospels of tsar Ivan Alexander;
- 120 years of Bulgarian National Bank;
- United Nations Decade for Women.

CONCLUSIONS

- In European items, the Lists of gold coins meeting the criteria, specified in article 344, paragraph 1, item 2 of Directive 2006/112/EU of the Council to 2008, and are published in the Official Journal of the European Union, „C” series, should increase the graphic performance than currency and nominal.
- The statutory criterion to specify whether “they are or have been legal tender in the country of origin”.
- It should be cleared the legal contradiction in National Legislation in the texts of paragraph B, item 24, section 1 of The Additional Provisions, defining the joint order of the Minister of finance and the Governor of the Bulgarian National Bank, as well as par. 3 of art. 175, which define the one – man right of the Minister of Finance to determine the list of gold coins, that are investment gold.
- The announced market prices by BNB for bullion coins should follow the more dynamic and should meet the criterion of maximum variation of 80% from market price.

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ИНВЕСТИЦИОННИ ЗЛАТНИ МОНЕТИ. АНАЛИЗ НА ПРАВНО - ИКОНОМИЧЕСКИТЕ ИМ ХАРАКТЕРИСТИКИ /С АКЦЕНТ НА БЪЛГАРСКИТЕ ИНВЕСТИЦИОННИ ЗЛАТНИ МОНЕТИ/

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***Ключови думи:** Инвестиционни златни монети, инвестиционно злато, аверс, реверс, гурт*

***Резюме:** Инвестиционните златни монети са инвестиционно средство за физическо притежание на активи под формата на злато. Този тип продукти са инвестиционна форма, насочена предимно към населението. Една от основните предимства на този тип инвестиции е, че са освободени от данък добавена стойност в рамките на Европейската общност. В статията са разгледани видовете инвестиционни златни монети, правно - икономическите им характеристики както в европейско общностен аспект, така и в национален аспект. Авторът анализира и извежда слабите моменти в правната европейска и национална рамка. Детайлно е разгледано емитирането и отсичане на всички български златни монети, като е направен коментар по отношение на дефинираните критерии за инвестиционни златни монети, както и дали българските монети отговарят на тези критерии.*