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## **BULGARIAN BOOK RELATED LEGISLATION ISSUES**

Ladies and Gentlemen,

Dear Colleagues,

There is no specific legislation in Bulgaria related to the book, the book industry and the book sector. There are laws and regulations by the Council of Ministers, related mainly to the economical issues of the book.

The UDF government adopted the currency board policy as the only alternative to the economic chaos in the recent 5-6 years. It managed to stabilize the Bulgarian lev and made the economic results in the production and trade areas more predictable. This made possible the adoption of a stricter tax policy, which naturally resulted in higher tax collection rate even at the end of the first year. Part of the “shade economy” was forced to come “out of the dark”. This strategy undoubtedly led to a healthier national economy and created possibilities for revitalizing of certain sectors.

In the book sector, though, the “revitalization” was too short. The increase of the average discretionary income of the population went together with an increase of the average living expenses and this forced its cultural needs way back in the list. Simply put, when there’s barely enough money for bread and medication, the book is turned from a necessity into a... dream.

It is a well known fact that there is not bad or good legislation as such. There is legislation, which is adequate or inadequate, stimulating or hampering the development of one sector or another. After the economic and legal anarchy, which the UDF government inherited, it is only natural for the productive development towards proven European practices and models to pass through several phases, first being the “rehabilitation”. The adoption of a degree of financial discipline, equal for all, is undoubtedly the first most important step. The government made it decisively and achieved the predicted economical effect. But the program for economical rehabilitation affected all the economical subjects, regardless of what they needed – “rehabilitation” or “stimulation”. The common economic delimiter for everyone – producing from toilet paper to encyclopedias – without making it easier for the former, makes it extremely hard for the latter, that is the publishers. Alas! – all around the world the toilet paper is used more widely and more often than the encyclopedias! In the ridiculous absurdity of this example are enclosed the issues of the current book related legislation in Bulgaria.

Both, the manufacturer of toilet paper and the manufacturer of encyclopedias, that is the publisher, are taxed with:

- VAT – 20%;
- Income tax – 32% or 36% if below or above 5000 DM respectively;
- 5% customs duty, if the product is imported;
- 2% temporary import tax.

Until the book in Bulgaria is regarded only as a product of the economy, there is a clear possibility for the book production, which created itself regardless of the lack of any state support after the democratic changes, to wither and die. At present about 150-200 publishing companies manage to maintain their publishing profile as primary, but in extremely hard circumstances.

The value-added tax in fact is killing the publishing business. I don't have to prove it to the experts here – higher book prices, less demand, almost non-existent discretionary funds, and lack of re-investment opportunities and business expansion. More frightening is the fact of bringing the book to the level of any other product, which has a priori greater demand or higher price, which unavoidably de-legalizes the publishing business. The publishers, driven by economical forces, do not declare all sales, not paying the VAT due, in effort to save some discretionary funds. Others go even further – they sell undeclared print runs, on which they are paying neither VAT, nor income tax, etc. The chain reaction of law violations is more serious, when the actors in the trade are more unidentified, and in Bulgaria today the street book selling has replaced almost entirely the defunct once well-organized and working centralized book trade system. It won't be easy for the state to collect its taxes from the street vendors, who, for logical reasons, are not equipped with cash registers with tax memory. The state hardly would be able to track the sales of publisher's titles, respectively the VAT due. This actually makes the VAT meaningless, because the chain "publisher-printer-bookseller-customer" has been broken. The state would benefit much more economically from zero or reduced VAT rate of 4-5%, because the tax (if there is any) will be much more collectable, and if there is none, it will provide at least:

- accumulation of funds in the book publishing business;
- new employment opportunities;
- trade discount increase up to 40% (now the highest is 30%), which will provide booksellers with funds to open bookshops – to buy or lease them;
- total legalization of the book publishing business – timely payment of the taxes, due to the need of the necessary investments;
- gradually raising the price of the book, respectively providing for the needs of reproduction and profit of the book industry.

Book publishing in Bulgaria today is almost entirely in private hands. The Bulgarian publishers today are economically independent and they don't want state charity. But this doesn't mean that the state has to turn its back at its long-term interests for the sake of the short-term positive results of the reform. The results in Poland after the removal of VAT for the books are more than encouraging for every reformer with a vision for the future. Books in Poland after the removal of

VAT never lowered their prices, but returned to the bookshops, raised their print-runs while the publishing and book-selling companies legalized their activities eventually. Even a rough comparison between the VAT rates in countries with almost the same population (about 10 million) like the Czech Republic and Hungary makes it obvious that the book industry is developing better at lower tax rate. In the Czech Republic the VAT on books is 5%, in Hungary it is 12%. In 1997 in the Czech Republic 11 519 titles are published compared with 9343 in Hungary. A translator in the Czech Republic is paid 100 USD for an author's sheet compared with 85 USD in Hungary. And if we look at Poland, the translator's fee is twice that of its Hungarian colleague – 170 USD. But in Poland VAT is 0%!

Similar is the situation with author's fees – lower VAT rate on books makes it possible for the publisher to pay higher royalties.

In Bulgaria today 20% is the VAT on the royalty fees also. And with countries with which we don't have a non-double taxation agreement – USA is one of those – the publisher is required to calculate 15% tax on the royalty fee and to deduct it in favor of the state. Moreover, royalties are treated by the tax authorities as a long-term investment and with this regard are not tax-deductible. The amount of royalties is “spread”, figuratively speaking, over the term of the contract – 1,2 or 3 years.

Bulgaria has ratified the Florence Agreement, but – as David Kingham rightly states – there are “problems with its interpretation and implementation”. In 1998 the Council of Ministers issues a Regulation on the ways and means to implement the Florence Agreement. Unfortunately, the spirit of the Agreement is not understood, since in its part related to the books it states that the reading and knowledge should not be taxed. In article 7 of the Bulgarian regulation it says:

*The objects under article 1, part 1 and 2 can be sold, leased or let only after written approval issued by the authorities under article 3 and payment of the respective duties, fees with equivalent effect and taxes.*

Even at such short glimpse at the Bulgarian book related legislation, it is quite obvious that it needs some changes to be harmonized with the legislation of the European countries. Unfortunately the claims of the book community before the government for a change in the VAT law and for a reduction of the rate down to 5% yet remain unheard. The First National Conference for the Book held at the end of 1998 in its closing statement proposed to the Minister of Culture to head a National Council for the Book, in which responsible authorities from the executive and the legislative branches will be also present. It remains for the Council to work out a long-term national program for the book, as well as to propose to the government and the Parliament changes to the current legislation, designed to lower the economical burden on the Bulgarian book and to make it more accessible.

In the mid June, within the days of the European Month of Culture, the Council of Europe, the Ministry of Culture, the National Book Center, the Bulgarian Publishers' Association and the Bulgarian Writers Association are to organize an international conference on the current situation and the issues of the Bulgarian book policy. There, a framework of a future Law for the Book is to be proposed for a wide public discussion. The preparation of this conference already started and it is our hope for it to have the desired by the whole book community in Bulgaria social effect.

*Review of the national book policies, Council of Europe, Strasbourg, 1999.*