

# [ PRESIDENTIAL DECREE NO. 1682, March 13, 1980 ]

## AMENDING CERTAIN SECTIONS OF THE NATIONAL INTERNAL REVENUE CODE OF 1977, AS AMENDED.

**WHEREAS**, there is a need to further amend certain provisions of the National Internal Revenue Code of 1977, as amended, to make them more responsive to current conditions, more specifically to the petroleum operations presently being conducted in the Philippines;

**NOW, THEREFORE, I, FERDINAND E. MARCOS**, President of the Philippines by virtue of the powers vested in me by the Constitution, do hereby order and decree the following:

**SECTION 1.** Section 20, paragraph (b) of the National Internal Revenue Code is hereby amended to read as follows:

"(b) The term 'corporation' includes partnerships, no matter how created or organized, joint-stock companies, joint accounts (cuentas en participation), associations or insurance companies, but does not include general professional partnerships and a joint venture formed for the purpose of undertaking construction projects or engaging in petroleum operations pursuant to an operating agreement under a service contract with the Government. General professional partnerships are partnerships formed by persons for the sole purpose of exercising their common profession, no part of the income of which is derived from engaging in any trade or business."

**SEC. 2.** Section 24, paragraph (b) (2) of the National Internal Revenue Code is hereby further amended by adding thereto a proviso to read as follows:

XX XX XX

"*Provided*, That any profit remitted abroad by a branch office to its mother company shall be subject to tax at fifteen per cent (15%) (except those registered with the Export Processing Zone Authority); *PROVIDED FURTHER*, That any profit remitted by a branch office to its mother company authorized to engage in petroleum operations in the Philippines shall be subject to tax at seven and one-half per cent (7.5%)."

**SEC. 3.** Section 29(b) (8) of the National Internal Revenue Code is hereby amended by adding thereto a new subparagraph to read as follows:

(8) *Miscellaneous items.* —

XX XX XX

(E) Filipino participation incentive allowance received by a Philippine corporation pursuant to an operating agreement under a petroleum service contract entered into between a service contractor and the Government under Presidential Decree No. 87."

**SEC. 4.** Section 30(b) (3) of the National Internal Revenue Code, as amended, is hereby further amended by adding a new sub-paragraph thereto to read as follows:

"(C) If the indebtedness is incurred to finance petroleum exploration."

**SEC. 5.** Section 30, paragraph (d) of the National Internal Revenue Code is hereby amended by adding a new paragraph thereto to read as follows:

"(d) Losses:

"XX XX XX

"(7) *Abandonment Losses.* — (A) In the event a contract area where petroleum operations are undertaken is partially or wholly abandoned, all accumulated exploration and development expenditures pertaining thereto shall be allowed as a deduction; Provided however, That accumulated expenditures incurred in that area prior to January 1, 1979 shall be allowed as a deduction only from any income derived from the same contract area. In all cases, notices of abandonment shall be filed with the Commissioner of Internal Revenue.

"(B) In case a producing well is subsequently abandoned, the unamortized costs thereof, as well as the undepreciated costs of equipment directly used therein shall be allowed as a deduction in the year such well, equipment or facility is abandoned by the contractor; *Provided however,* That if such abandoned well is reentered and production is resumed, or if such equipment or facility is restored into service, the said costs shall be included as part of gross income in the year of resumption or restoration and shall be amortized or depreciated, as the case may be.

**SEC. 6.** Section 30, paragraph (f) is hereby amended by adding a new paragraph thereto to read as follows:

"(f) *Depreciation.*

"XX XX XX

"(3) Depreciation of Properties Used in Petroleum Operations. An allowance for depreciation in respect to all properties directly related to production of petroleum initially placed in service in a taxable year under the straight-line or double-declining balance method of depreciation at the option of the service contractor. However, if the service contractor initially elects the double-declining method, it may, at any subsequent date, shift to the straight-line method. The useful life of properties used in or related to production of petroleum shall be ten (10) years or such shorter life as may be permitted by the Commissioner of Internal Revenue.

Properties not used directly in the production of petroleum shall be depreciated under the straight-line method on the basis of an estimated useful life of five (5) years."

**SEC. 7.** Section 30, paragraph (g) (1) of the National Internal Revenue Code, is hereby amended to read as follows: