

Oil and Gas Industry – Producers and Processors

Social Service Tax Act

Do you qualify for the production, machinery and equipment (PM&E) exemption or other exemptions?

Do you know when you must pay tax?

This bulletin provides specific tax information to help producers and processors in the oil and gas industry understand how the social service tax, also called the provincial sales tax (PST), applies to their businesses.

For general PST information that applies to all businesses, such as who needs to register, when general exemptions apply, and how to charge and collect the PST, please read our [Small Business Guide to Provincial Sales Tax \(PST\)](#).

You will find specific tax information for other sectors of the oil and gas industry in the following bulletins:

Bulletin SST 126, *Oil and Gas Industry—Service Providers and Contractors*

Bulletin SST 127, *Oil and Gas Industry—Exploration, Discovery and Development*

Table of Contents

Qualifying as a Manufacturer	2
When Does Machinery and Equipment Qualify	3
Qualifying PM&E.....	5
Claiming Exemptions	7
Change of Use.....	8
Taxable Goods	8
Other Exemptions	11
Improvements to Real Property	14
Asset Sales	15

Qualifying as a Manufacturer

If you are involved in the production or processing of petroleum or natural gas, you may qualify as a manufacturer. If you qualify as a manufacturer, you can receive the production machinery and equipment (PM&E) exemption.

You qualify as a manufacturer if you meet one of the following criteria:

- the petroleum or natural gas that you produce is for sale and it is expected that the total value of sales for that class of product will exceed \$30,000 per year,
- the petroleum or natural gas that you produce is for your own business use and it is expected that the total manufactured cost for that class of product will exceed \$30,000 per year, or
- if the petroleum or natural gas that you produce is for both sale and your own business use; the total value of sales is \$30,000 or less per year, and it is expected that the total manufactured cost for that class of product will exceed \$30,000 per year.

To qualify as a manufacturer, the expected total sales or your own personal use should exceed \$30,000 per year for each class of tangible personal property (goods). For example, if you process natural gas for distribution and then decide to open a polyurethane foam plant, each plant must qualify separately as they produce a different class or type of product.

For more general information, please see [Bulletin SST 054, Manufacturers](#).

When Does Machinery and Equipment Qualify

If you are a producer or processor who qualifies as a manufacturer, you may purchase or lease PM&E tax-exempt, if it is used primarily and directly at a processing plant or refinery. Primarily means used over 50%.

You may measure primarily in a number of different ways. It depends on the nature of the machinery and equipment. You may measure it in time, volume, production value or some other measurement that is appropriate for that particular type of equipment.

In some cases, you may use the machinery or equipment seasonally or during specific production phases. When this happens, the time when the machinery or equipment is idle or in storage is not considered use. You calculate primarily based on the actual usage.

Directly means machinery and equipment must be a part of, or an integral component of, the process that transforms the raw material into the finished product.

In processing petroleum or natural gas, the PM&E exemption applies to the machinery or equipment used at a processing plant or refinery, up to the point where the petroleum or natural gas is a marketable product. The marketable product may be for storage or sale, or for further processing into a different product.

If you process multiple products or have multiple production lines, the machinery or equipment may be eligible for the PM&E exemption if each product or production line meets the exemption criteria on its own merits.

Marketable product means a naturally occurring or processed petroleum or natural gas that is available for sale for direct consumption:

- as a domestic, commercial or industrial fuel,
- as an industrial raw material, or
- when it is delivered to a storage facility.

Petroleum or natural gas does not have to be used as a fuel for it to be a marketable product. It must be available for sale, but it may be used for another purpose, for example, as an input for a different marketable product.

Processing Plant

A processing plant for the PM&E exemption is a facility where natural gas is treated, by removing water or other impurities, or by separating different types of gases.

Activities, such as blending, grading, combining, grouping, mixing, sorting, testing, packaging or repackaging are excluded from the PM&E exemption unless they occur at the plant and are one step in or occur immediately after processing.

Processing plants may, depending on the configuration of the plant, include the following.

- A building or series of buildings which may include a compressor, dehydrator, separator, sweetener, treator unit or related facilities where all the buildings are within a single area, such as within one gate.
- Groupings consisting of a compressor, dehydrator, separator, sweetener or treator unit, or a combination, located together may be considered a processing plant.

The following are not processing plants.

- Machinery or equipment transporting or distributing petroleum or natural gas from the well head, to the processing plant or refinery, between processing plants.
- Machinery or equipment transporting a marketable product.
- Stand alone compressors on gathering lines.

Qualifying PM&E

The following machinery and equipment qualify for the exemption when used for qualifying purposes as outlined in the previous sections.

- Machinery and equipment used in processing plants or refineries up to the point where the petroleum or natural gas is a marketable product, including compressors, gas dehydration equipment and sulphur recovery equipment.
- Pipes, regulators, compressors and other related equipment dedicated to the transmission of waste gas, composed primarily of hydrogen sulphide and carbon dioxide, within a gas processing plant, or from a gas processing plant to a well head for the sole purpose of injecting waste gas into a depleted well for permanent disposal.

Software is exempt if designed and integrated with eligible production machinery and equipment. It must be an integral part of the equipment and necessary for its operation. It can be purchased separately from the equipment without paying PST.

Generally, software is taxable unless it is an integral part of production machinery that is exempt. Software is neither machinery nor equipment and therefore is not eligible for the PM&E exemption.

Computer hardware not used directly in processing or to monitor the operation of exempt PM&E does not qualify for the exemption.

For more information on hardware and software including services, please see [Bulletin SST 040](#), *Computer Software and Hardware*.

Parts for Exempt Machinery and Equipment

Effective February 22, 2006, if you are eligible for the PM&E exemption, you do not pay PST on leased or purchased parts that you use to assemble qualifying machinery or equipment. This does not include materials used to make parts (see the section below, *Materials Used to Make Parts*).

Effective February 20, 2002, if you are eligible for the PM&E exemption, you do not pay PST on parts leased or purchased for use on exempt machinery or equipment by an eligible person.

Between July 31, 2001 and February 20, 2002, only parts that by design would likely be used as replacement parts for industrial machinery and equipment were exempt. Generic parts were taxable prior to February 20, 2002. There is no refund for tax-paid parts held in inventory.

For information on what is not exempt as a part, see the section below, Taxable Goods.

Parts Inventory

If you have a parts inventory of mixed taxable and exempt items, you may make a reasonable estimate of the portion used on exempt machinery or equipment and purchase that portion without paying PST. Reconcile this estimate to your actual usage. If the reconciliation shows you used more parts for taxable purposes than estimated, you pay the PST owing on parts you purchased exempt, but used for taxable purposes.

If you have a PST registration number, send in this additional amount with your regular tax return. If you do not have a PST registration number, you self-assess the PST due using the *Return of Tax due on Taxable Tangible Personal Property by a Purchaser/Seller not Registered under the Social Service Tax Act* form ([FIN 428](#)).

PM&E Exemption Area and Limitations

The exemptions for PM&E are site specific and limited in scope. The exemptions for oil and gas producers exist only at the well head or at processing plants. (For information on what is a processing plant, see the section above, Processing Plants.)

Well head means the actual well. It does not include the total area of the well site. The well head exemption applies to the machinery and equipment in, on or immediately adjacent to the well. For example, valves, chokes, pressure gauges and similar items located at or adjacent to the well that make it possible to regulate well production are exempt. Pipelines are taxable as part of the transportation system.

Items involved in the distribution or transportation system are taxable as they are outside the allowed exemption. For example, gathering lines are taxable as they are used for transportation.

Claiming Exemptions

You give the supplier a completed *Certificate of Exemption—Production Machinery and Equipment* form ([FIN 453/M](#)) when you purchase or lease:

- exempt production machinery or equipment, or
- parts or taxable services for exempt machinery or equipment.

This requirement applies whether you are registered or not registered as a vendor. There is an option of using an alternative approved certification (see below in this section).

You complete all parts of the certificate. Where a description of the items purchased or leased is required, you list each type of machinery or equipment. It is not enough to simply state “production machinery and equipment”.

For example, if you are purchasing drill bits, regulators or coiled tubing, you list each as a specific item on the form. If you are purchasing parts for eligible machinery, include what piece of exempt equipment the part is attached to. For example, state “filters or seals used on a circulating system” on the certificate not only “filters or seals”.

When you purchase or lease a large quantity of machinery or equipment, you may attach an itemized list or a copy of the sales invoice to the completed certificate. The invoice must clearly describe the machinery or equipment being purchased or leased and it must indicate which is exempt.

When you are making purchases or leases (rentals) frequently from the same supplier, you may provide one completed certificate to your supplier along with a list of items that you are claiming an exemption for. You can make future exempt purchases/leases of the same items from that supplier based on this same certificate.

You use the *Certificate of Exemption—Production Machinery and Equipment* form ([FIN 453/M](#)) only for claiming exemption on production machinery, equipment, and related parts and taxable services. It does not replace the *Certificate of Exemption* ([FIN 453](#)) used to purchase goods for resale, etc.

As an alternative to using the *Certificate of Exemption—Production Machinery and Equipment* form ([FIN 453/M](#)), you may claim an exemption by stamping or printing a certification on the purchase order.

The purchase order must clearly indicate the purchaser/lessee's name, address, registration number where applicable, and the goods or services being acquired. Stamp or pre-print on the form a certification using the following wording:

Production Machinery and Equipment Exemption:

We certify that the goods and services purchased are eligible for exemption from social service tax under Section 76(1)(k) of the *Social Service Tax Act*, Division 13 of the regulations to the Act.

You may also write to us with suggested alternative wording. We must approve the suggested wording before you use it.

Change of Use

If you purchase an item exempt and later use that item for a taxable purpose, PST applies from the moment the use changes. You calculate and self-assess PST on the greater of the depreciated value or 50% of the original purchase price.

For information on depreciation rates, please see our website at www.sbr.gov.bc.ca/ctb/DepreciationRates.htm

Taxable Goods

Unless exempt, your purchase of machinery, equipment or other goods purchased in the province are taxable. You pay PST on the full purchase price at the time of purchase. If the items are leased, you pay PST on each lease payment either when the lease payment is paid or when the lease payment becomes due under the terms of the lease agreement, whichever is earlier.

You pay PST when you buy equipment or supplies that you use in your business.

For example, you pay PST on the items listed below. Included within each category are examples of taxable equipment.

- A vehicle designed for public highway use, including
 - transport trucks
 - automotive units on which well servicing equipment or cementing and fracturing equipment is mounted (e.g. mobile welders) but not a truck-mounted well service rig

- Pipelines used to transport or distribute petroleum or natural gas from the well head to the processing plant or refinery, between processing plants, or those lines used to transport marketable products, including
 - pipes, valves, fittings, pumps, compressors, regulators and equipment ancillary to any machinery and equipment on these pipelines
- Furnishings, or machinery or equipment related to the use of a building, including
 - general and administrative equipment and supplies, such as desks or the accounting department's computers
- Machinery and equipment used in construction, including
 - backhoes, bulldozers, air hammers, excavators
- Storage tanks, including
 - terminal or refinery storage tanks
 - fuel storage tanks
 - The degree to which the fuel storage tank is integrated with exempt equipment is a factor in determining if it may be exempt. For example, if the fuel storage tank is fully integrated with other exempt components, and serves as the direct fuel supply, the fuel tank could qualify as a component of the processing plant and would be exempt.
- Telecommunication equipment, including
 - satellite equipment for communications, cell phones, radio antennas
- Vessels, rail cars, locomotive engines and non-turbine aircraft.
- Materials consumed or used in the production process, unless specifically exempted under another section of the Act, including
 - propane used in heating, oils, lubricants, grease, heating fuel, cleaning supplies, pipe dope, small tools
 - electrical cables not integrated into machinery or equipment

What is Included in the Purchase Price

When you purchase goods within British Columbia, the purchase price includes charges for transportation and installation, interest, finance, service, customs, and excise when these charges happen at or before the time that the title passes to the purchaser. Include fuel surcharges for delivery but do not include the goods and

services tax (GST). The charges remain part of the purchase price even if the charges are separated on either the invoice or on the seller's books.

If the charges occur after the purchaser receives title to the goods, they are not taxable when the charges are separately listed on the invoice. They do not form part of the original purchase price.

For information on goods purchased from out-of-province, see the section below, Purchases from Out-of-Province Suppliers.

Materials Used to Make Parts

Materials you use to make parts are not exempt from PST as parts. If you need to modify materials before you are able to use them, **they are not** parts; they are taxable materials, therefore you pay PST on them.

For example, filter bag material you purchase from a roll or in bulk and then cut to size for use on filtration equipment at a gas plant is taxable as material.

Where any modification or manufacturing before use occurs, you are using materials, not exempt parts.

Consumables

Industry often calls consumables, "supplies". A good consumed or used up in the operation or maintenance of machinery or equipment is a consumable, even if it is necessary for that item's operation or maintenance.

The following are some examples of consumables.

- Hydraulic fluid in a cylinder is a consumable as it is not attached to or part of the cylinder. The hydraulic fluid retains its separate identity.
- Consumables may be materials or substances actually used or consumed in the servicing process. Examples are KCL fluid added to drilling mud to control pressure or materials, and acid, sand or nitrogen purchased from a reservoir stimulation contractor.
- Diesel or gasoline not used in an internal combustion engine. Examples are gasoline used as a cleaning agent or diesel used as a lubricant.
- Oxygen or acetylene gas and pipe dope.
- Additives for raw petroleum or natural gas.

Consumables are taxable unless they qualify for another exemption under the Act. Two examples of exempt consumables are water, which is exempt to everyone, or an additive to raw petroleum or natural gas that is a catalyst or direct agent. You will find more about exemptions in the section below, Other Exemptions.

For detailed lists of taxable and non-taxable items for the oil and gas industry, please see our website at www.sbr.gov.bc.ca/ctb/OilandGas.htm

Purchases from Out-of-Province Suppliers

If you purchase or lease taxable goods from an out-of-province supplier, you pay PST on the total amount that you pay to bring the goods into British Columbia, including charges for transportation, customs, excise, and any other costs. You do not include the GST, or other provinces' or countries' retail sales tax.

If you have a PST registration number and the supplier does not charge you PST, you self-assess and record the PST due at Step 3 of your next tax return.

If you do not have a PST registration number and the supplier does not charge you PST at the time of the sale, you self-assess the PST due using a *Return of Tax Due on Taxable Tangible Personal Property by a Purchaser/Seller not Registered under the Social Service Tax Act* form ([FIN 428](#)). Do this at the time you bring or ship the goods into British Columbia.

For more information, please see [Bulletin SST 043](#), *Goods Purchased from Out-of-Province Suppliers*.

Other Exemptions

Geophysical Surveying

If you engage in petroleum or natural gas exploration and development, you may be eligible for the PM&E exemptions for geophysical surveying equipment. For more information, please see [Bulletin SST 127](#), *Oil and Gas Industry – Exploration, Discovery and Development*.

Materials Incorporated into a Finished Product

You do not pay PST when you purchase goods that will be processed, fabricated, or manufactured into, attached to, or incorporated into other goods for resale or lease. This exemption does not apply to containers used to package or deliver the finished product, such as drums, if the containers are returnable to the seller.

To purchase the above items without paying PST, give the supplier your PST registration number. If you do not have a PST registration number and you qualify, give the supplier a completed *Certification of Exemption* form ([FIN 453](#)).

Catalysts and Direct Agents

Substances that qualify as catalysts or direct agents vary according to industry and process. Catalysts and direct agents used in a production process are exempt from tax, if the resulting product is for sale or lease.

To qualify as a catalyst or direct agent, a substance must (by contact or temporary incorporation with the material being manufactured or transformed) produce or modify a chemical reaction – not a physical reaction.

For a catalyst, the substance must remain unchanged at the end of the reaction. For a direct agent, the chemical reaction must make the substance useless for any other purpose – it reaches its point of destruction or dissipation.

For detailed lists of taxable and non-taxable items relating to catalysts or direct agents for natural gas production or the oil refining process, please see our website at www.sbr.gov.bc.ca/ctb/OilandGas.htm

For details on how to claim this exemption, see the section above, Materials Incorporated into a Finished Product.

If you need further information on whether a substance qualifies as a catalyst or direct agent, please contact us.

Pollution Control and Waste Management

Eligible petroleum and natural gas processors may purchase or lease machinery and equipment tax-exempt if used exclusively (over 90%) and directly for either pollution control and/or waste management.

There are three conditions, as well as limitations, specific to each exemption. All three conditions must be met.

1. The exemption is open only to manufacturers eligible for the PM&E exemption or their contractors.
2. The machinery and equipment is used only at an eligible site. For processors, eligible sites are the natural gas processing plant or the petroleum refinery.
3. The pollutants and waste (see limitations) result from the manufacture of goods.

Pollution control limitations

The machinery and equipment must be used in the detection, prevention, measurement, treatment, reduction or removal of pollutants in the water, soil or air.

Waste management limitations

The machinery and equipment must be used to carry refuse or waste from production machinery and equipment, or to exhaust dust or noxious fumes produced by production machinery and equipment. Basic clean-up equipment for a plant does not qualify.

Taxable Services Exemption

Generally, you pay PST for services you receive that are related to your goods. This includes services to install, assemble, construct, dismantle, repair, adjust, restore, recondition, refinish or maintain. However, if you are eligible for the PM&E exemption, you do not pay PST on services to exempt production machinery and equipment that you purchased or leased.

For details on how to claim your exemption, see the section above, Claiming Exemptions.

Note: Your service provider does not pay PST on purchases of parts and materials used in providing service(s) if those parts become attached to, and remain with, the machinery and equipment. Your service provider may purchase these items without paying tax by giving their PST registration number to the supplier.

For more information, please see [Bulletin SST 018](#), *Taxable Services*.

Work-Related Safety Items

You do not pay PST on work-related safety equipment designed to be worn by a worker. For example, self-contained breathing apparatus (SCBAs), hard hats and other protective clothing are exempt. There are also safety items that are exempt to everyone, such as portable fire extinguishers and refills, or gas detection monitors.

For more information, please see [Bulletin SST 002](#), *Exemption for Safety Equipment*.

Containers, Labels and Packing Materials

You do not pay PST on containers and packing materials that are considered a part of the merchandise sold; these may be purchased without paying PST when certain conditions are met.

For more information, please see [Bulletin SST 020](#), *Containers, Labels and Packing Materials*.

Improvements to Real Property

Real property is land and any items permanently attached to land (buildings and structures). The way you structure a contract determines whether the contractor pays PST, or you pay PST on the goods that become improvements to real property on installation.

Effective February 19, 2003, the production machinery and equipment exemption includes qualifying machinery, equipment or parts:

- that become an improvement to real property once installed, and
- that are acquired and installed by a contractor under a lump sum (also known as fixed price) contract.

In these cases, you do not pay PST.

For more information on improvements to real property, please see [Bulletin SST 072](#), *Real Property Contractors*.

Fixtures may also be improvements to real property if they meet certain conditions that relate to size, degree of affixation and use. For example, all compressors installed in a pipeline are fixtures. However, the compressor may or may not qualify as an improvement to real property.

A compressor that is assembled in a shop and skid mounted for ease of movement among various locations, and then transported and attached to a pipeline qualifies as a fixture. However, it does not qualify as an improvement to real property due to its ease of movement.

Larger compressors constructed on-site are fixtures that may qualify as improvements to real property if they meet all the requirements. For more information on fixtures, please see [Bulletin SST 078](#), *Fixtures*.

The following are some examples of improvements to real property.

- Natural gas compressors are an improvement to real property if they were purchased prior to April 1, 2000, installed in pipelines that are affixed, and are intended to remain affixed.

- Storage tanks that are set on real property may be an improvement to real property. The size and use of tanks determine whether they are improvements to real property or whether they are taxable goods.
- Process tanks of a size that cannot be transported in one piece, but are assembled and erected on the site, are improvements to real property when set on real property. However, process tanks of a size that can be transported to the site in one piece are goods. PST applies to them regardless of whether they are set on real property.

For more on tanks, see the taxable and non-taxable lists for the oil and gas industry on our website at www.sbr.gov.bc.ca/ctb/OilandGas.htm

If you are unsure about what is an improvement to real property, please contact us.

Asset Sales

Some assets of producing oil and gas properties are considered real property. PST does not apply on the purchase of the following assets as they are considered real property:

- downhole equipment, includes casing, pumps, rods and tubing which are affixed and intend to remain affixed
- surface equipment, includes wellheads, pumpjacks, lineheaters, valves and meters, and separators and pipelines for gathering oil and gas
- crude oil storage tanks

However, you pay PST if these assets are bought separately and apart from the land or buildings, or bought for removal (for example, as part of a demolition or plant closure) as this is a sale of goods and PST applies.

You pay PST on the purchase of assets, such as, equipment used in repair shops, office furniture and equipment, including computers and computer software, communications equipment, and vehicles. You do not pay PST on items that are exempt under the production machinery and equipment exemption.

For more information, please see [Bulletin SST 092](#), *Transfer of Business Assets Between Closely Related Parties* and [Bulletin SST 078](#), *Fixtures*.

Need more info?

Oil and Gas website: www.sbr.gov.bc.ca/ctb/OilandGas.htm

Telephone (Vancouver): 604 660-4524

Toll-free in Canada: 1 877 388-4440

E-mail: CTBTaxQuestions@gov.bc.ca

The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation. The *Social Service Tax Act* and Regulations are on our website at www.sbr.gov.bc.ca/ctb

Acknowledgments

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References: *Social Service Tax Act*, Sections 1, 5, 6, 9, 11, 70(b), 71(k), 76(1)(b), 76(1)(c), 76(1)(c.1), 76(1)(h), 76(1)(j.1), 76(1)(k), 76(5), 76(6), 76(7) and 77(c), and Regulations 2.10, 2.52, 3.14, 13.1, 13.2, 13.7, 13.8, 13.9, 13.10, 13.10.2(1), 13.10.2(2), 13.10.3, 13.13 and 13.14