



# Information Bulletin

PST-13

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## THE PROVINCIAL SALES TAX ACT

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### OIL, GAS AND POTASH DRILLING AND SERVICE CONTRACTORS

This bulletin has been prepared to help you apply and collect the Provincial Sales Tax. It is a general guide and not a substitute for the legislation.

**The changes in this bulletin are indicated by a (I).**

The contents of this bulletin are presented under the following sections:

- A. Exempt Equipment
- B. Taxable Equipment
- C. Exempt Services
- D. Taxable Purchases
- E. Taxable Sales
- F. Registration and Reporting Requirements
- G. Saskatchewan Electronic Tax Service (SETS)

#### **A. EXEMPT EQUIPMENT**

A tax remission (rebate) is provided on certain mobile capital equipment that is used by the oil, gas and potash industries directly in the following activities:

- (a) Exploration
- (b) Development
- (c) Testing
- (d) Servicing

Purchases of the following equipment are eligible for a remission of tax. The equipment must be used primarily in the above activities and must be capitalized in the contractor's records:

- (i) All drilling and service rigs
- (ii) Standard rig components, such as draw works, rotary tables, mud pumps, blow-out preventers, drill pipe and drill collars
- (iii) Testing equipment
- (iv) Mobile equipment used for seismic exploration, formation testing, cementing, perforating, fracturing, acidizing and similar operations, including the trucks or trailers on which this equipment is permanently mounted
- (v) Capitalized replacement parts for the above equipment

**Note:** Equipment, repair parts, repair labour, and supplies which are expensed in the contractor's records are subject to tax.

When the tax is paid to a supplier on any capitalized mobile equipment that is eligible for a remission, a tax refund claim may be made to the Revenue Division. Copies of supporting purchase invoices should be included with the refund claim.

### **Rentals**

A tax remission is also provided for the rental of drilling and service rigs. The remission does not include rentals of testing equipment, drill pipe, pumps, tanks, speciality tools, parts, and instruments, whether attached to the rig or not.

## **B. TAXABLE EQUIPMENT**

The remission of tax on capitalized mobile equipment does not include equipment that is being used in the following subsidiary activities:

- (a) Construction, repair and testing of pipelines, gathering and processing facilities
- (b) Hauling goods and conveyance of personnel
- (c) Collection and/or disposal of waste products such as garbage and soil contaminated by drilling fluid
- (d) Safety or environmental monitoring and testing
- (e) Accommodation and other personnel facilities
- (f) Storage and repair
- (g) Fire prevention

Tax is payable on the following at the time of purchase or upon entry into Saskatchewan:

- (i) Passenger vehicles, unmounted trucks and trailers, including power units and bulk transport trailers
- (ii) Fire trucks, rig anchor trucks, vacuum trucks, water trucks, welding trucks, winch trucks
- (iii) Pressure washers and steam cleaning units, core vans, shower units, shop facilities, well-site trailers and similar equipment
- (iv) Rental charges and repair parts for all equipment described above
- (v) Rentals of testing equipment, drill pipe, pumps, tanks, speciality tools, parts and instruments, whether attached to the rig or not
- (vi) Rentals of tools and equipment used to provide directional drilling and measurement while drilling (MWD) services. This includes rentals of down-hole motors and bottom hole assembly components, including subs, stabilizers, roller reamers, non-magnetic drill collars, jars, shock absorbers or similar tools, the MWD assembly, the surface interface box, the driller's remote read-out, as well as the computer, printer, and plotter used for configuration, displaying, and logging.

## **Calculation of Tax**

A non-resident contractor who brings vehicles, equipment and tools into Saskatchewan may elect to pay the tax by using the following methods.

(a) **Tax on depreciated value**

Tax is payable on the original purchase price less straight line depreciation of 1 1/2% per month or part month, to a maximum of 60%, calculated from the date of purchase to the original date of entry into Saskatchewan. Where a trade-in is involved with the original purchase price, tax is applied on the cash difference, provided the Saskatchewan tax was previously paid in full on the trade-in.

(b) **Tax on temporary use formula**

- (i) If a retail sales tax has been paid in full to another jurisdiction, remit tax on 1/36 of the original purchase price (no trade-in allowed) for each month or part month the vehicles, equipment or tools remain in Saskatchewan until full tax (36/36) has been paid.
- (ii) If a retail sales tax has not been paid in full to another jurisdiction, remit tax on 1/3 of the original purchase price (no trade-in allowed) for each year or part year the vehicles, equipment or tools remain in Saskatchewan until full tax (3/3) has been paid.

(c) **Leases and Rentals**

Lease or rental vehicles, equipment and tools brought into Saskatchewan are subject to tax on the total rental charge.

(d) **Highway Transports**

Highway transport vehicles that operate in more than one jurisdiction may be eligible for payment of tax on a mileage prorated basis in lieu of the above calculations. If you wish further information on the mileage prorated option, please contact the Revenue Division at 1-800-667-6102 extension 6658.

When vehicles are licensed in Saskatchewan, the tax must be paid to the motor licence issuer on the value.

## **C. EXEMPT SERVICES**

Tax does not apply to charges for contract services, such as drilling, well stimulation, seismic exploration and surveys, coring, logging, formation testing, cementing, perforating, down-hole pumping, well stimulation (fracturing and acidizing) and similar operations. However, the tax must be paid by the contractor on the cost of any materials used in providing these services, including drill bits, casing, tubing, acids, fluids, proppants, welding rods, explosives, sealants, lubricants and solvents.

Effective April 1, 2005, chemicals and injection agents used in approved enhanced oil recovery projects are no longer subject to tax. Please see PST-14 for details.

## D. TAXABLE PURCHASES

### 1. Tangible Personal Property vs. Real Property

The Department of Finance follows Common Law rules to distinguish real property from tangible personal property. These are the rules that have been established by many years of Court decisions.

Property that is sunk into, bolted onto, cemented to, or otherwise "permanently" affixed to the land is normally considered real property. As well, goods that are so large and heavy that they cannot be moved are often considered as real property, even if they are not otherwise affixed to the land. However, some goods, such as portable buildings, photocopiers, and computer equipment that are affixed to the land or building may be considered to be tangible personal property if it is intended that the goods are to be periodically moved or are subject to repossession by a creditor.

Most production machinery and equipment is considered to become real property after installation. A plant, even though it is made up mostly of machinery, storage tanks, pipes, etc., once affixed to land with the intention that the plant will not be moved, is considered real property. Therefore gas plants, compressor stations, refineries, co-generation facilities, upgrader facilities, pipelines, treaters, pump jacks and other wellhead equipment are considered to be real property after installation.

Labour to install or remove real property is therefore tax exempt (refer to section D5 for further information).

### 2. Materials, Supplies And Equipment Repair Parts

Equipment, tools, materials, supplies and repair parts that are purchased for use in Saskatchewan, whether new or used, are subject to tax. Tax is calculated on the following costs:

When goods are purchased outright with no installation charges or remain **tangible personal property** after installation, tax is due on the total selling price of the goods, including any installation charges. If the goods are purchased from a licensed supplier, the tax must be paid to the supplier. If the goods are purchased from an unlicensed supplier located outside Saskatchewan, the tax must be submitted with your return on the purchase price, including exchange, transportation and installation charges, customs and excise duties and importation charges, but not the GST.

Transportation charges for the shipment of a taxable commodity to the destination in Saskatchewan, are subject to tax if the supply point originates outside Saskatchewan. If the supply point originates in Saskatchewan, including Lloydminster, the transportation charges are not taxable if they are shown separately.

### 3. Retipped Bits

Retipped bits purchased on an exchange basis are subject to tax on the exchange price.

If a customer's bits are rebuilt and no exchange takes place, the repair materials and labour are taxable.

#### 4. Mud Services

All drilling fluids and chemicals are subject to tax. Tax also applies to rental charges for storage vans, mud control instrumentation, tanks, mud-mixing devices, pallets and similar items.

#### 5. Labour Services

Labour services provided to repair, install, assemble, dismantle, adjust, restore, recondition, examine, refinish or maintain **tangible personal property** are subject to tax. Tax does not apply to mileage and travel charges related to these labour services providing the charges are segregated on the customer's invoice.

When these labour services are provided to **real property**, they are not subject to tax. Installation, removal, and on-site repair or maintenance labour related to real property is therefore exempt. When goods or equipment are removed to an off-site location for repair, the shop labour is taxable since the goods become tangible personal property when removed from the site.

##### Exempt Labour Services

Exempt labour services include:

- Repair services to tangible personal property provided by a person to that person's employer in the course of employment.
- Welding services provided on-site to real property
- Well site preparation
- Drilling supervision
- Well service operator fees to check and maintain oil and natural gas wells

For further information on repair labour, please refer to Information Bulletin PST-57.

#### 6. Other Taxable Services

PST applies to the following services:

- Engineering, Geoscience and Architectural Services (PST-65)
- Accounting Services (PST-62)
- Legal Services (PST-64)
- Employment Placement Services (PST-66)
- Computer Services (PST-7)
- Commercial Building Cleaning Services (PST-61)
- Advertising Services (PST-67)

Where taxable services are provided in relation to more than one jurisdiction, only the fees related to Saskatchewan are subject to tax. If a breakdown of charges by jurisdiction is not available, a reasonable allocation for the Saskatchewan portion of the services must be made.

Taxable services provided by a person to that person's employer for the sole use of the employer are not subject to tax.

## 7. Fuel Tax

Fuel consumed in stationary engines that are used in rigs, lighting plants or in other applications is subject to Saskatchewan Fuel Tax of 15 cents per litre.

Fuel used in a boiler to heat rig components, such as doghouses, tool-houses, change houses, combination buildings and derrick substructures is exempt. This fuel must be kept in separate tanks or metered to measure the actual consumption to obtain a refund of the tax paid.

For further information on the Fuel Tax, please refer to Information Bulletin FT-1.

## E. TAXABLE SALES

### 1. Fracturing and Cementing Services

It has become normal practice in the oil and natural gas industry for contractors providing reservoir stimulation and cementing services to itemize their charges to the customer and collect tax on the material portion of their service contracts. Alternatively, these contracts may be billed as a normal supply and install contract with tax paid by the contractor on his cost of materials (see section C of this bulletin).

### 2. Equipment Rentals

Businesses renting tanks, centrifuges and similar equipment may invoice their customers separately for equipment, delivery, rig up, tear out, cleaning and repairs. All these charges are subject to tax.

A rental company may provide personnel to supervise, install or maintain equipment, such as a rotating blowout preventer or top drive. The rental charges, installation and maintenance charges are subject to tax. Charges for site supervision, employee vehicles and subsistence are exempt, if shown separately.

Service and drilling contractors may invoice their customers a "rental charge" to recover their costs on equipment they have used to complete a service contract. For example, a typical invoice may read:

To service well A9-24-48-21-W3		
6 Hours	Equipment move units 1, 2, 3 @ 100/hr	600
6 Hours	Equipment move (3) men @2 hr @ 60 hr	360
25 Hours	Equipment rental tandem auger unit @ 65/hr	1625
5 Hours	Crew truck/man @ 20 hr	100

Since this is a real property service contract that includes personnel, supervision and equipment, it is not a rental for tax purposes and tax is not applicable.

### **3. Lost-In-Hole Charges (Customer Charge Backs)**

Where equipment is lost down hole or damaged beyond repair and billed to the oil producer, tax should not be applied to the charge to the customer. This is the case whether the equipment is invoiced as a sale, a third party charge or as a reimbursement charge. The service contractor is considered the consumer of this equipment even when the lost or damaged equipment is charged back to the oil producer.

Tax is payable by the service contractor for equipment lost down hole or damaged beyond repair that is expensed in the contractor's records. The tax payable would be based on the amount expensed in the service contractor's records. If the loss is treated as a capital item in the records of the oilfield service contractor, no tax applies.

### **4. Sales of Used Business Assets**

Businesses are required to collect tax on the sale of used assets, such as vehicles and equipment. When used assets are being sold as part of the closure of a business, the purchaser is required to self-assess and report the tax.

## **F. REGISTRATION AND REPORTING REQUIREMENTS**

### **Non-Resident Contractors (including service contractors)**

A non-resident contractor working in Saskatchewan is required to post a Guarantee Bond or cash deposit in an amount equivalent to 5% of the total contract amount. It is the duty of the general contractor or principal to ensure that the non-resident contractor complies with this provision. Failure to do so makes the general contractor or principal liable for any taxes which the non-resident contractor may fail to remit.

Before the final payment is made on a contract, the sub-contractor must obtain a clearance letter from the Revenue Division and provide a copy of the letter to the general contractor or principal. To obtain a clearance letter, please telephone 1-800-667-6102, extension 7750. If the contractor's account is **not** in good standing, the general contractor or principal will be requested to withhold from any hold back an amount equal to the tax due and remit this amount to the Revenue Division.

In the event that non-resident contractors working in Saskatchewan do not comply with these requirements, the general contractor or principal will be held accountable for the taxes owing.

For further information, please refer to Information Bulletin PST-38 (Non-Resident Contractors).

Contractors must become registered with the Revenue Division and report any tax payable on any vehicles, equipment, tools, repair parts, materials and supplies brought into Saskatchewan. There are no fees for registration. Tax return forms will be forwarded on a regular basis.

## **G. SASKATCHEWAN ELECTRONIC TAX SERVICE (SETS)**

Saskatchewan Finance has made it possible for collectors to report and remit tax electronically through the use of a standard Internet connection. The Saskatchewan Electronic Tax Service (SETS) offers a secure, fast, easy and convenient alternative to filing returns in paper format. Several E-File services are currently available through SETS.

Businesses may use SETS to file and pay returns for Provincial Sales Tax and other provincial taxes.

SETS allows businesses to:

- File and pay returns or make payments on account.
- File a return and post-date the payment to the due date.
- View account balance and statement information.
- Authorize your accountant to file on your behalf.
- Subscribe to an E-mail Notification Service that allows the option to be notified by e-mail that a tax return should be filed (replaces the paper forms normally received in the mail).

### **FOR FURTHER INFORMATION**

Write: Saskatchewan Finance  
Revenue Division  
2350 Albert Street  
Regina, Saskatchewan  
S4P 4A6

Telephone: Toll Free 1-800-667-6102  
Regina 306-787-6645

E-mail: sask.tax.info@finance.gov.sk.ca

Fax: 306-787-9644

Internet: Provincial Sales Tax bulletins, forms and information are available on the Internet at:

<http://www.gov.sk.ca/finance/revenue/pst/pst.htm>

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