



Information Bulletin

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THE PROVINCIAL SALES TAX ACT

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INFORMATION FOR OIL AND NATURAL GAS PRODUCERS

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. Tangible Personal Property vs. Real Property
- B. Taxable Goods
- C. Taxable Services
- D. Contractors
- E. Sales and Transfers of Business Assets
- F. Records Required
- G. Registration and Reporting Requirements
- H. Saskatchewan Electronic Tax Service (SETS)

A. TANGIBLE PERSONAL PROPERTY VS. REAL PROPERTY

In order to properly apply the Provincial Sales Tax in certain situations, it is necessary to distinguish between tangible personal property and real property. The applicability of tax to production machinery and equipment is often determined by whether the equipment remains tangible personal property (see Section B) or whether the equipment is incorporated into real property by the contractor (see Section D). Distinguishing between tangible personal property and real property is also necessary when determining the application of tax to repair labour charges (see Section C) and on sales of business assets (see Section E).

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 are considered to become real property after installation. A plant, even though it is mostly made up of machinery, storage tanks, pipes, etc., once affixed to land with the intention that it 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 C for further information).

B. TAXABLE GOODS

1. Equipment, Tools, Materials, Supplies and 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 these 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 Saskatchewan destination 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.

A number of oilfield suppliers located in other provinces are licensed to collect Saskatchewan's tax. Indicating a Saskatchewan land location when placing an order with a licensed supplier will help ensure that the supplier properly collects the tax. Saskatchewan land locations include land west of the 2nd and 3rd Meridian and Ranges 30-34, west of the 1st Meridian.

2. Equipment And Material Transfers

All new or used equipment and materials transferred into Saskatchewan from outside the province are subject to tax. Equipment transferred into Saskatchewan is subject to tax on its value. Tax applies even if the equipment will subsequently become real property.

Equipment and materials assigned to inventory depots or storage yards in Saskatchewan are subject to tax at the time of purchase or upon entry into Saskatchewan.

3. Tubular Goods

Tubular goods purchased from outside Saskatchewan are subject to tax on the total costs incurred prior to delivering the goods into the province, and on the transportation charges to Saskatchewan.

Total costs include the purchase price of the pipe, belling, bending, bevelling, flanging, grooving, slotting, threading, protective coating, lining, manufacturer's inspection fees, handling, transportation and other charges.

4. Equipment Rentals

The following examples are provided as guidelines for the taxation of equipment rentals:

- (a) 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	\$1,625
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.

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

5. Vehicles

- (a) Producers who bring vehicles into Saskatchewan for temporary use may elect to pay the tax by the following methods:

(i) **Tax on depreciated value**

Tax is payable on the original purchase price less straight line depreciation of 1.5% 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.

(ii) **Tax on temporary use**

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 remain in Saskatchewan until full tax (36/36) has been paid.

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 remain in Saskatchewan until full tax (3/3) has been paid.

- (b) When vehicles are licensed in Saskatchewan, the tax must be paid to the motor licence issuer on the value.
- (c) Lease or rental vehicles brought into Saskatchewan are subject to tax on the total lease charge.

6. Formation Fracturing

Producers are required to pay tax on treatment fluids, including distillate, crude oil, dilute hydrochloric acid, kerosene and other materials, such as propping agents used to stimulate reservoirs.

7. Treatment Chemicals

Tax applies to:

- chemicals used for acidizing, corrosion inhibition, paraffin removal, scale removal and chemicals used for similar purposes;
- chemicals used to improve the quality of or to remove contaminants from oil and gas, such as demulsifiers, desulfurizers, dehydrators, dispersants and antifoamers; and,
- conditioners used to treat water for water floods, steam floods and Steam Assisted Gravity Draining (SAGD) projects.

8. Enhanced Oil Recovery

Effective April 1, 2005, the Provincial Sales Tax and Fuel Tax no longer apply to substances used in approved Enhanced Oil Recovery (EOR) projects. This includes chemicals and agents such as natural gas, hydrogen chloride, liquid nitrogen, potassium chloride, liquid oxygen, carbon dioxide, propane and butane, that are injected directly into the formation.

In order to qualify for this exemption the substance must be:

- acquired on or after April 1, 2005;
- used in a new or existing EOR project that has been approved pursuant to *The Oil and Gas Conservation Act*;
- injected directly into an oil-bearing formation as part of the enhanced oil recovery process; and,
- primarily intended to directly enhance the recovery of oil (substances injected into a well for maintenance purposes are not eligible for the exemption).

9. Lost-In-Hole Charges

When equipment is lost down the hole or damaged beyond repair and billed to the oil producer no tax is payable by the oil producer, whether or not the equipment was invoiced as a sale, a third party charge or as a reimbursement charge.

10. Exchange Units

New, rebuilt or remanufactured equipment, including pumps, motors, retipped drill bits, clutches and similar items purchased on an exchange basis are subject to tax on the exchange price.

If the customer's equipment is rebuilt and no exchange takes place, the repair labour, parts, materials and shop supplies are subject to tax.

11. Gas Used By Producers

Tax is applicable to the value of natural gas consumed in stationary internal combustion engines used in the compression of natural gas for the purposes of gathering, processing, storage, transmission and injection.

Provincial Sales Tax is not applicable to natural gas self-produced and consumed by the producer in the operation of stationary engines at the well site unless the gas is consumed for any of the purposes outlined above.

Valuation of Taxable Natural Gas Consumed By Producers

Effective May 1, 2006, the value for Provincial Sales Tax purposes of taxable natural gas consumed by a producer is:

1. Where natural gas is purchased, the value is the purchase price.
2. Where natural gas is produced and consumed by a producer, the value for tax purposes shall be:
 - a) A deemed average production cost that is periodically determined in consultation with the industry, which value is currently set at \$87.00CDN per 1,000 cubic meters; or
 - b) Actual cost of the natural gas as determined from the producer's records, which value shall include operating expenditures, Crown and Freehold royalties, depreciation, depletion and amortization.

Note: The average production cost of \$87.00 was derived as an administrative alternative that allows producers to account for tax in lieu of calculating the actual costs. Where a producer elects to switch from the deemed cost to actual costs that producer must continue to use actual costs from that point forward.

12 Oil Used By Producers

Tax applies to the value of oil used for purposes such as fracturing (load oil), circulating or completion fluids (drilling mud) and dewaxing. The value of oil may be calculated as follows:

Taxable costs:

Mineral taxes
Lifting costs
Depreciation
Depletion
Amortization

Non-taxable costs:

Royalties
Local transportation costs
Non-relevant allocations from head office
Line usage charges

C. TAXABLE SERVICES

1. 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.
- Internal labour supplied by the operator of a joint venture and charged to the joint venture partners
- 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.

2. 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.

D. CONTRACTORS

1. Supply and Install Contractors

A contractor is any person who constructs, alters or improves real property. When a contractor enters into a contract for the repair, renovation or improvement of real property, the contractor is considered the consumer of materials incorporated into the property. Tax must be paid by the contractor on the cost of the materials for on-site construction and on the cost of equipment and supplies used in the performance of the contract. On-site labour charges are not subject to tax.

A contractor is not required to report, to the principal, the amount of tax paid on the materials, supplies and other goods used in the performance of a construction contract. In such cases, the contract price to the principal must be quoted "Provincial Sales Tax Included".

A person who supplies and installs goods that remain **tangible personal property** must collect tax on the total contract price from the customer, including labour charges to install, assemble or adjust the property.

For further information, please refer to Information Bulletin PST-12 (Contractors).

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 holdback 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).

2. Service Contractors

Tax does not apply to charges for services in relation to real property, such as seismic surveys, drilling, coring, logging and perforating. However, tax must be paid by a contractor on the cost of materials used in providing these services, including drill bits, casing, tubing, drilling fluids, welding rods, explosives, sealants, lubricants and solvents. (Producers are required to pay the tax if they supply these materials to the contractor.)

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 D(1) of this bulletin).

For further information, please refer to Information Bulletin PST-13 (Oil, Gas and Potash Drilling and Service Contractors).

E. SALE AND TRANSFER OF BUSINESS ASSETS

1. Sale of Used Equipment

Tax must be collected on the full selling price of used equipment. If an item is received in trade and tax has been paid on the trade-in, tax is collected on the cash difference.

Tax only applies on the sale of items that are tangible personal property, such as vehicles and office equipment. Sales of real property, such as buildings, gas plants, pump jacks and compressor stations, are not subject to tax provided the property remains in place when sold.

2. Sale of Oil and Gas Properties

Tax will apply to the sale of tangible personal property associated with oil and gas properties when a change of ownership takes place. A change in the percentage of or a working interest ownership would not in itself be considered a sale of an oil and gas property in situations where the operator remains the same.

Tax does not apply to real property involved with the sale of oil and gas properties. Normally, such sales involve real property only.

3. Equipment Transfers Between Properties

Transfers of equipment between company-operated properties within Saskatchewan are not subject to tax. As long as the properties are operated by the same company, equipment transfers will not be considered a change in ownership whether or not the joint venture participation is affected.

Equipment transferred from outside Saskatchewan is subject to tax in all cases, unless it can be shown that the tax has been previously paid.

4. Property Transfers Between Closely Related Parties

An exemption from tax is provided on transfers of tangible personal property where, in effect, financial control and ownership of the property does not change.

Eligible transfers to corporations includes where an election is filed under subsection 85(1) of the Income Tax Act (Canada) for the disposition of property, usually in exchange for shares. In order to qualify for the exemption, Form T2057 must be filed for income tax purposes and Provincial Sales Tax must have been previously paid on the tangible personal property. The transfer of assets to a partnership where an election is filed under subsection 97(2) of the Income Tax Act (Canada) would also qualify for a tax exemption.

There is no provision for a tax exemption on transfers of tangible personal property between unrelated corporations.

5. Amalgamations

When companies amalgamate through a formal amalgamation, within the meaning of subsection 87(1) of the Income Tax Act (Canada), the transfer of assets to the newly amalgamated company is not considered to be a sale of tangible personal property. Therefore, Provincial Sales Tax does not apply.

6. Winding Up of a Company

When assets are transferred to a shareholder as part of a winding up, dissolution, or liquidation of a corporation, and the shares of the shareholder are reduced in value or cancelled as a result of the transfer, consideration has been paid for the assets. Therefore, a sale has occurred and the shareholder is required to pay tax on the value of the assets at the time of transfer.

Where there is no change in beneficial ownership, such as the winding up of a wholly owned corporation, tax will not apply on the transfer of business assets.

For further information on transfers of business assets between closely related parties, please refer to Information Bulletin PST-60.

F. RECORDS REQUIRED

Oil and natural gas producers operating in Saskatchewan are required to maintain the following records:

- A list of Saskatchewan properties, including wells and other facilities
- Detailed approval for expenditure (A.F.E.) listings for Saskatchewan properties
- Accounts payable information relating to the above
- Material transfers into Saskatchewan
- Assets assigned to Saskatchewan properties or activity in Saskatchewan
- Detailed records of natural gas and oil being used for taxable purposes

G. REGISTRATION AND REPORTING REQUIREMENTS

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

H. 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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