

Oil and Gas Industry – Service Providers and Contractors

Social Service Tax Act

Do you provide services to the oil and gas industry?

Do you know when tax applies?

This bulletin provides specific tax information to help service providers in the oil and gas industry understand how the social service tax, also called the provincial sales tax (PST), applies to their businesses. You will also find specific tax information for the oil and gas industry in [Bulletin SST 055](#), *Oil and Gas Industry—Producers and Processors*, and [Bulletin SST 127](#), *Oil and Gas Industry—Exploration, Discovery and Development*.

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 \(PST\)](#).

Table of Contents

| | |
|--|---|
| Production Machinery and Equipment (PM&E)..... | 2 |
| Services..... | 2 |
| Purchases | 7 |
| Change of Use | 9 |
| When to Self-Assess PST..... | 9 |
| Out-of-Province Contractors | 9 |

The revision bar (|) identifies changes to the previous version of this bulletin dated September 2008.

Production Machinery and Equipment (PM&E)

As a service provider to the oil and gas industry, the PM&E exemption can apply to you in two different ways.

1. If you are eligible for the PM&E exemption, you do not pay PST on qualifying machinery and equipment.
2. If your customer is eligible for the PM&E exemption, you do not charge PST for services you perform on qualifying machinery and equipment. Please see the section below, *Services*.

When You are Eligible for the PM&E Exemption

If you are a service provider who regularly engages, for commercial purposes, in the exploration, discovery or development of petroleum and natural gas, you may be eligible for exemption on the purchase or lease of qualifying machinery and equipment used exclusively in such activities. For example, if you provide drilling services to an owner of an exploratory well, you may qualify for the exemption on the purchase or lease of your drilling rig.

For more information on determining if you are eligible for the PM&E exemption, how to claim the exemption and what machinery and equipment qualify, please see [Bulletin SST 127](#), *Oil and Gas Industry - Exploration, Discovery and Development*.

Effective February 22, 2006, you may also qualify for the PM&E exemption if you use qualifying machinery and equipment to provide manufacturing services to eligible manufacturers. For more information, please see [Bulletin SST 054](#), *Manufacturers*.

Services

Generally, you charge PST on taxable services you provide that are related to your customer's goods. A taxable service is any service provided to install, assemble, dismantle, repair, adjust, restore, recondition, refinish or maintain tangible personal property.

However, you do not charge PST on the following types of services.

- Consulting services (e.g. an engineering consultant sent to a well site to determine the viability of a well).
- Equipment leases where an operator is provided. However, you charge PST on leases where an operator is not provided. For more information, please see [Bulletin SST 082](#), *Rentals and Leases of Tangible Personal Property*.

- Specifically exempted services, such as diagnostic or inspection services when no repairs are performed.
- Scaffolding removal or erection.
- Services performed on fixtures. To determine whether machinery is a fixture, an improvement to real property or goods, please see [Bulletin SST 078](#), *Fixtures*.

For more information on taxable and non-taxable services, please see [Bulletin SST 018](#), *Taxable Services*.

When Your Customer is Eligible for the PM&E Exemption

Your customer may be eligible for the PM&E exemption if they:

- regularly engage, for commercial purposes, in the exploration, discovery or development of petroleum and natural gas, or
- qualify as a manufacturer, such as producers and processors of petroleum and natural gas.

If your customer is eligible for the PM&E exemption, you do not charge PST for services you perform on qualifying machinery and equipment.

The following are examples of qualifying machinery and equipment for exploration, discovery or development of petroleum and natural gas:

- petroleum and natural gas drilling rigs,
- truck-mounted well service rigs,
- hardware used during the drilling process, such as drill bits, drill collars and drill pipes, and
- well logging and drill stem testing equipment.

The following are examples of qualifying machinery and equipment for eligible producers and processors of petroleum and natural gas:

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

Please note: The term well head has been replaced with well site to clarify the eligibility for the production machinery and equipment exemption. A well site is the area identified as such in the application for approval for drilling submitted to the Oil and Gas Commission. The well site is also identified by a survey map or similar description provided by the well site operator.

For more examples of qualifying machinery and equipment, and information on the specific criteria for exemption, please see [Bulletin SST 055, Oil and Gas Industry - Producers and Processors](#) and [Bulletin SST 127, Oil and Gas Industry - Exploration, Discovery and Development](#). Also see the taxable and non-taxable lists for the oil and gas industry located on our website at www.sbr.gov.bc.ca/industry_specific/oil_and_gas/oil_and_gas.htm

The following are examples of machinery and equipment that do not qualify for the PM&E exemption:

- pipelines used to transport or distribute petroleum or natural gas from a well site to the processing plant or refinery, between processing plants, or to transport marketable products,
- compressors, valves, fittings, pumps, regulators and related equipment used in transporting or distributing petroleum or natural gas from the well site to the processing plant or refinery, between processing plants, or to transport marketable petroleum or gas,
- any vehicle designed so that it can be used on a public highway, such as transport trucks, trucks used to transport petroleum and gas products to refineries or processing plants, automotive units on which well servicing equipment (e.g. mobile welders) or cementing and fracturing equipment is mounted but not truck-mounted service rigs, and
- furnishings and machinery or equipment related to the use of a building, and machinery or equipment used in construction.

Parts and materials provided with your service

You do not pay or charge PST on parts and materials that are attached to, and remain with, exempt machinery or equipment when provided with your service. To purchase the above items without paying PST, give the supplier your PST registration number.

Parts and materials sold separately from your service

You do not charge PST on **parts** purchased or leased by an eligible customer for qualifying machinery or equipment.

Effective February 22, 2006, you do not charge PST on **parts** purchased or leased by an eligible customer to assemble qualifying machinery or equipment.

Effective February 18, 2009, you do not charge PST on **materials** purchased by an eligible customer, provided they:

- are used to repair, maintain, modify or assemble qualifying machinery or equipment, and
- remain part of, or attached to, the machinery or equipment.

Materials eligible for exemption include sheet metal, bulk wire and bulk conveyor belting material.

Taxable materials

You charge PST on materials that are used primarily to repair, maintain, modify or assemble:

- scaffolding, walkways, catwalks and similar structures, unless these items are an integral part of the machinery or equipment, and are sold or leased as part of the machinery and equipment that is exempt, and
- bases and foundations, that are, or become, a part of realty for the machinery or equipment.

You also charge PST on consumables that are separately itemized on your customer's invoice, such as oil, lubricants, drilling mud, cement and related additives, acid, sand and nitrogen (see section below, Consumables for more information).

Determining eligibility for PM&E

You may not always know if your customer is eligible for the PM&E exemption, or if they use the machinery and equipment for a qualifying use.

Therefore, if we determine later that your customer should have paid PST, you will not be liable for the uncollected PST if you have followed these instructions.

- You have a completed certification from the purchaser/lessor on file. This can be either a *Certificate of Exemption – Production Machinery and Equipment* form ([FIN 453/M](#)), or a ministry-approved certification written or stamped on the invoice or purchase order.
- The machinery and equipment purchased/leased is clearly identified on the certification document used.

Items purchased must be eligible for the exemption. For example, the exemption would not apply to consumables, cell phones or office furniture.

Please note: Effective April 1, 2008, qualifying businesses may enter into a **voluntary** agreement with the ministry for a Special Registration Number (SRN). If your customer provides you with an SRN, you can sell eligible machinery, equipment and parts

exempt from PST and your customer does not need to provide a completed certificate. Record the customer's SRN on the invoice and keep a copy for your records to show why you did not charge PST.

However, your customer cannot use an SRN to purchase exempt services. This means, in order for your customer to purchase exempt services on qualifying machinery and equipment, they must provide you with a completed certificate. For more information on the SRN, please see [Bulletin SST 010](#), *Special Registration Number*.

Real Property and Services

Real property is land and any items permanently attached to land (e.g. buildings and structures). Materials and equipment that become permanently attached to the land or buildings are called improvements to real property. You do not charge PST on sales and leases of real property, or on services to real property. For example, you do not charge PST on the price of labour to construct a lease road associated with drilling a well, or on the price of labour for real property maintenance services, such as grading. However, the materials and equipment that become improvements to real property are taxable.

The following materials and equipment are examples of improvements to real property when they are installed either on real property (the land) or installed to improve an item attached to real property (buildings and structures).

- Oil storage tanks – large capacity for refineries (for example, 170 feet X 55 feet; 120 feet X 40 feet) including lining, coating and insulating.
- Pipelines – buried and surface.
- Gas or oil plant.
- Culverts.
- Well equipment, including downhole equipment such as pumps, rods, and tubing, and surface equipment such as wellheads, pumpjacks, pipelines, pipeline compressors, lineheaters, valves and meters, and separators when permanently affixed.

When you supply and install improvements to real property, you are considered to be a contractor. For contracts that you **enter into before October 1, 2008**, the way you structure your contract determines whether you pay PST or you charge your customer PST on the materials and equipment that you supply and install to complete the contract. For contracts that you **enter into on, or after, October 1, 2008**, generally, you are required to pay PST. However, under certain circumstances, you charge your customer PST. If you are involved in real property contracts, it is important that you read [Bulletin SST 072](#), *Real Property Contractors*, for detailed information.

All contractors regardless of their location apply PST the same way. As an out-of-province contractor, you may have to pay PST on equipment you use to fulfill your contract depending on the amount of time the equipment is in British Columbia. For more information, see the section below, Out-of-Province Contractors.

Purchases

Unless exempt, your purchases 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 on the purchase or lease of new or used goods and services that you use in your business, such as stationery, furniture and office equipment.

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. For example, KCL fluid added to drilling mud to control pressure.
- 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 an exemption. Two examples of exempt consumables are water, which is exempt to everyone, or any additive that is used in raw petroleum or natural gas that is a catalyst or direct agent.

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

Goods Purchased for Resale

You do not pay PST on goods you purchase for resale or lease to your customers. For example, if you purchase consumables, such as acid, sand or nitrogen to provide reservoir stimulation and you separately itemize these on your invoice, they would be considered goods for resale. To purchase goods without paying PST, give the supplier your PST registration number.

Work-Related Safety Items

Effective February 20, 2008, all work-related safety equipment and protective clothing, designed to be worn by, or attached to, a worker, will be tax exempt if they **meet provincial work safety legislation** and are purchased by an employer, self-employed person, or school boards or similar authority. The definition of work gloves has also been expanded to include all gloves with built-in safety features, such as reinforced thumbs, cuffs or palms designed to protect a worker from physical harm, including traffic safety gloves to enhance visibility.

There are also safety items that are exempt to everyone, such as gas detection monitors, portable fire extinguishers and their refills.

For more information, please see the Safety Equipment and Protective Clothing Industry website at www.sbr.gov.bc.ca/industry_specific/safety/safety.htm

Purchases from Out-of-Province Suppliers

If you purchase 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, except the goods and services tax (GST). If 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 PST at the time of the sale, you self-assess the PST due using the *Casual Remittance Return for Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered under the Social Service Tax Act* form (**FIN 428P**). 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*.

Change of Use

Changing from Exempt to Taxable 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/business/Consumer_Taxes/Provincial_Sales_Tax/depreciation_rates.htm

Changing from Own Use to Sale

If you purchase an item to use in your business and paid PST on the item, but you later sell the item to a customer, you charge the customer PST. If you did not use the item before you sold it, you may qualify for a refund from the ministry. For more information, please see [Bulletin GEN 008](#), *Refunds of Overpayments of Tax*.

When to Self-Assess PST

If a supplier does not charge you PST on sales or leases of taxable equipment or supplies that you use to provide services or carry on your business, you self-assess the PST due. Examples of taxable items include lubricating oil, anti-freeze, general tools, such as wrenches and hammers, office furnishings and office supplies.

Out-of-Province Contractors

Exempt Goods

If you are eligible for the PM&E exemption, you do not pay PST on exempt machinery and equipment when it is brought into British Columbia for temporary use in the province.

For example, if you are eligible for the exemption and you rent drill bits and collars, you do not pay PST on the lease (rental) as these items are exempt. You provide a completed and signed *Certificate of Exemption – Production Machinery and Equipment* form ([FIN 453/M](#)) to the person you rent from.

Taxable Goods

Goods are subject to PST when they are brought into the province for use unless they qualify for exemption or for payment of PST on a 1/36th or 1/3rd formula basis.

Out-of-province businesses working in British Columbia pay PST on their equipment and supplies. These include goods purchased in British Columbia, and equipment and supplies brought into the province.

PST applies to the depreciated value of the equipment at the time of entry into the province for use or 50% of the purchase price, whichever is greater.

The taxable value includes any manufacturing, labour, service, customs, excise, transportation or other costs incurred before use in British Columbia. You use the *Payment of Tax Due on Equipment, Vehicles and Materials Brought Into British Columbia* form ([FIN 435](#)) to pay the PST.

Temporary Use Formulas

Depending on the situation, you use either the 1/36th or 1/3rd formula for calculating PST on temporary use. In certain cases, the equipment may be taxable under either formula. You may pay PST using the formula that results in the least amount of tax.

1/36th formula

Only the following goods used for petroleum or natural gas exploration or development qualify for the 1/36th formula:

- cementing trucks,
- acid fracturing trucks, including pressure fracturing trucks that produce the same petroleum or gas flow stimulation as acid fracturing trucks, or
- vehicles with permanently mounted seismic recording or well logging equipment.

First entries into the province

If you are eligible to use the 1/36th formula, you determine the equipment's value in the following way.

- New equipment purchased outside of British Columbia for temporary use in the province is taxed on 1/36th of the purchase price of the equipment. PST is payable at the time of first entry into the province. You pay the PST for each month, or portion of a month, that the equipment is in the province.
- Equipment previously used outside the province and brought into British Columbia for temporary use is taxed on 1/36th of the depreciated value to a maximum of 50% of the purchase price. PST is payable at the time of first entry into the province.

Your purchase price in both cases includes transportation, service, customs, excise, and any other charges you pay prior to use of the good in this province.

Subsequent entries and capital improvements

For all subsequent re-entries of the same equipment into British Columbia, you pay PST on 1/36th of the value established at the first entry of that good into the province. After 36 payments on that equipment, no further PST is due on it.

Capital additions and major repairs

Capital additions or capitalized major repairs made to tax-paid equipment are taxable. Calculate PST on the first entry value, at the time of first entry. You do not include transportation costs on capital additions or major repairs as these costs were included as part of the purchase price at the time of first entry. There is no subsequent PST on transportation costs.

Repair or storage of equipment under the 1/36th formula

You do not pay PST on equipment that enters British Columbia only for repair and storage, and then is removed from the province. Once use occurs in British Columbia, the equipment is taxable. You pay PST based on the total time the equipment is in the province.

Repair parts for equipment qualifying for the 1/36th formula

You pay PST on repair parts used to service equipment used in British Columbia. You do not pay PST on repair parts for equipment used only outside of British Columbia.

Equipment qualifying for 1/3rd formula

Machinery and equipment brought into the province for temporary use that does not qualify for exemption as production machinery and equipment, may be eligible for payment of PST on the 1/3rd formula. This includes vehicles, trailers, well servicing, road building and construction equipment.

You cannot use the 1/3rd formula to calculate PST on parts that you bring into the province. You pay PST on the total amount that you pay to bring the goods into British Columbia, including any charges for transportation, customs, excise and any other costs, except the GST.

For more information, please see [Bulletin SST 098](#), *Equipment Brought Into the Province for Temporary Use (1/3 Formula)*.



Need more info?

Oil and Gas website: www.sbr.gov.bc.ca/industry_specific/oil_and_gas/oil_and_gas.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/business/Consumer_Taxes/Provincial_Sales_Tax/legislation.htm

References: *Social Service Tax Act*, Sections 1, 5, 6, 9, 11, 12, 20(1)(a), 24, 76(1)(c), 76(1)(k), 76(6) and 77, and Regulations 2.10, 2.38, 2.45(e), 3.29, 13.1, 13.4, 13.6, 13.7, 13.8, 13.9, 13.10, 13.10.2, 13.10.3, 13.11, 13.12, 13.13 and 13.14; Bill 2, *Budget Measures Implementation Act*, 2009