



# Oil and Gas Industry – Exploration, Discovery and Development

## Provincial Sales Tax Act

This bulletin provides specific tax information to help businesses involved in the exploration for, discovery of, and development of petroleum and natural gas understand how the provincial sales tax (PST) applies to their businesses.

This bulletin focuses on the exploration for, discovery of, and development of petroleum and natural gas, which includes the initial extraction phase and the production testing phase. For purposes of the production machinery and equipment (PM&E) exemption, exploration stops when the completion process begins. The completion process readies a viable well for production.

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

**Bulletin PST 113**, *Oil and Gas Industry—Producers and Processors*

**Bulletin PST 115**, *Oil and Gas Industry—Service Providers and Contractors*

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## Overview

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In this bulletin:

- **goods** mean tangible personal property as defined in the *Provincial Sales Tax Act*. Tangible personal property is personal property that can be seen, weighed, measured, felt or touched, or that is in any other way perceptible to the senses, and includes:
  - natural or manufactured gas,
  - electricity,
  - heat,
  - affixed machinery, or
  - an improvement to real property or part of an improvement to real property that is removed from the site at which it is affixed or installed, while it is removed from that site.
- **obtain** means:
  - purchased or leased in BC,
  - brought or sent into BC,
  - received in BC, or
  - received as a gift.
- **substantially** means more than 90%.

If you qualify for the PM&E exemption, you may obtain certain machinery and equipment (PM&E) exempt from PST.

The PM&E exemption includes replacement parts, materials and services for qualifying PM&E, and parts and materials to assemble qualifying PM&E.

The following activities qualify for the PM&E exemption and are discussed in this bulletin.

- Geophysical surveying
- Exploration for, discovery of, or development of petroleum or natural gas

The following activities qualify for the PM&E exemption and are discussed in the referenced bulletins:

- Manufacturing, software development and local government power generation – please see [Bulletin PST 110](#), *Production Machinery and Equipment Exemption*
- Logging – please see [Bulletin PST 112](#), *Logging Industry*
- Extraction or processing of petroleum or natural gas – please see [Bulletin PST 113](#), *Oil and Gas Industry – Producers and Processors*
- Exploration for minerals or development of mines, or extraction or processing of minerals – please see [Bulletin PST 111](#), *Mining Industry*

# Geophysical Surveying

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You may obtain the PM&E listed below exempt from PST if:

- for commercial purposes, you regularly engage in the exploration for petroleum, natural gas or minerals or the development of petroleum, natural gas or mineral deposits, and
- the PM&E is obtained for use substantially for such activities.

As exploration and development are not site specific, there is no requirement that this PM&E be used within a specific site. For details on **regularly**, see the section below, Exploration for, Discovery of, or Development of Petroleum or Natural Gas.

This exemption is limited to the following PM&E:

- Acoustical survey equipment, including:
  - full wave form sonic loggers
  - side-scanning sonar
  - sonar
- Electrical amplifying devices, electronic amplifying devices and electrical thermostats designed for use with any of the machinery or equipment described in this section
- Equipment for electrical and electromagnetic surveying, including:
  - inductive conductivity probes
  - resistivity survey equipment
  - self-potential meters
  - time and frequency domain-induced polarization equipment
  - time and frequency electromagnetic surveying equipment
- Equipment for remote sensing, including:
  - reflectance, infrared and hyperspectral spectrometers
  - ultraviolet lamps
- Field potentiometers, meggers, non-polarizing electrodes and electrical equipment for making measurements in drill holes
- Gravity meters and other instruments designed to measure the elements, variations and distortions of the natural gravitational force
- Ground penetrating radar equipment and side looking aperture radar
- Instruments or equipment for seismic prospecting, including:
  - blaster and controller
  - blasting system
  - cables
  - data processing units
  - enviro-drills
  - geophones
  - global positioning and navigation systems
  - heli-drills
  - integrated navigation systems
  - recorder box

- recording system
- seismic drilling equipment
- seismic instrumentation
- vibrators
- Magnetometers, gradiometers and magnetic susceptibility meters
- Scintillometers, spectral gamma-gamma density and Geiger-Muller counters, gamma-ray spectrometers, potassium gradiometers and other instruments for radioactive methods of geophysical prospecting

**Please note:** Equipment not specifically listed above is not eligible for exemption, even when used in geophysical surveying. For example, ATVs and snowmobiles are taxable even when used to transport personnel and equipment to surveying sites.

## **Exploration for, Discovery of, or Development of Petroleum or Natural Gas**

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You may obtain the PM&E listed below exempt from PST if:

- for commercial purposes, you regularly engage in the exploration for, discovery of, or development of petroleum or natural gas, and
- the PM&E is obtained for use substantially for such activities.

As exploration, discovery and development are not site specific, there is no requirement that this PM&E be used within a specific site.

**Regularly** means that you undertake the activity on a routine basis. This could be full-time, seasonally or on some other part-time basis.

How you make the measurement of substantially depends on the nature of the PM&E. You may measure it in terms of time, volume or some other measurement that is appropriate for that particular type of PM&E.

In some cases, you may use the PM&E seasonally or during specific phases in the exploration or development process. When this happens, the time when the machinery or equipment is idle or in storage is not considered use. You calculate substantially based on the actual usage.

For example, if you operate a drilling rig only during the winter drilling season and it is stored during the off-season, the total use of that drilling rig will be based only on the time that it is actually being operated. During the actual drilling period, if the rig is used over 90% of the time to drill for petroleum or natural gas, then the drilling rig qualifies for this exemption.

This exemption is limited to the following PM&E:

- Boilers and steamers (required for heating blowout preventers)
- Drilling rigs, including the following machinery or equipment that is part of a drilling rig:
  - cement equipment
  - circulating systems
  - derricks

- engines or power plants
- pumps
- substructures and foundations
- Hardware obtained for use during the drilling process, including:
  - blowout preventers
  - casing
  - couplings
  - drill bits, drill collars and drill pipes
  - fittings
  - thread protectors
  - tubing
- Machinery or equipment obtained for use during the production testing phase, including:
  - dehydrators and heaters
  - flare stacks
  - pressure piping systems and appurtenances
  - pumps and motors
  - separator vessels
- Machinery or equipment obtained for use in well logging and drill stem testing, including instrumentation
- Parts of a pump truck, including:
  - pumps, tanks, lines, pipes, controls, manifolds, drop boxes, mixing hoppers and valves
  - engines and transmissions
- Portable doghouses, portable winches and portable pickers
- Shelters obtained for use substantially as protective coverings for any of the machinery or equipment described in this section
- Support mats obtained for use with any of the machinery or equipment described in this section while the machinery or equipment is stationary
- Truck-mounted service rigs

## **PM&E and Software Used to Operate, Control or Monitor Exempt PM&E**

If you are eligible for the PM&E exemption, you do not pay PST on PM&E and software obtained for use primarily to operate, control or monitor exempt PM&E.

**Please note:** Software is not PM&E and does not qualify for the PM&E exemption unless it is obtained for use as described in this section. For example, word processing, spreadsheet, email, photo editing and anti-virus software does not qualify for the PM&E exemption.

However, you may be eligible for other software exemptions, such as exemptions for non-executable software or software incorporated into other software. For more information, please see [Bulletin PST 105](#), *Software*.

## Parts, Materials and Services for PM&E

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### Parts for PM&E

If you are eligible for the PM&E exemption, you do not pay PST on parts you obtain for use on exempt PM&E, or to assemble exempt parts or exempt PM&E.

### Materials for PM&E

If you are eligible for the PM&E exemption, you do not pay PST on materials you obtain, provided they:

- are used to repair, maintain or modify exempt PM&E, or to assemble exempt parts or exempt PM&E, and
- remain part of, or attached to, the exempt parts or exempt PM&E.

For example, sheet metal and bulk wire are materials eligible for exemption if the above conditions are met.

### Taxable Items

The following are not exempt as parts or materials for PM&E:

- goods used to self-manufacture qualifying PM&E for own use,
- gases, liquids or consumable solids,
- substances used primarily to lubricate machinery or equipment (e.g. grease), or
- goods obtained for use primarily for repairing, maintaining, modifying or assembling:
  - scaffolding, walkways, catwalks and similar structures, unless these items are an integral part of exempt PM&E and were obtained as part of the exempt PM&E, and
  - bases and foundations that are, or become a part of, real property, for exempt PM&E.

### Inventory of Parts and Materials

If you use the same parts and materials for both taxable and exempt purposes, you **must not** purchase all the parts and materials exempt from PST.

However, you may make a reasonable estimate of the portion used on exempt PM&E and obtain that portion exempt from PST. Reconcile this estimate to your actual usage. If the reconciliation shows you used more parts and/or materials for taxable purposes than estimated, you self-assess the PST owing on the portion obtained exempt, but used for taxable purposes.

If you have a PST number, you must self-assess the PST due on your next PST return. If you do not have a PST number, you must self-assess the PST due using a *Casual Remittance Return* ([FIN 405](#)) on or before the last day of the month following the month in which you used the parts and/or materials for a taxable purpose.

If the reconciliation shows you used more parts and/or materials for exempt purposes than estimated, you can claim a refund from the ministry for the PST paid on the portion used for exempt purposes. For more information on refunds, please see [Bulletin PST 400](#), *PST Refunds*.

## Related Services for Exempt PM&E

If you are eligible for the PM&E exemption, you are exempt from PST when you purchase related services provided to exempt PM&E. For details on how to claim the exemption, see the section below, Claiming the PM&E Exemption.

## Claiming the PM&E Exemption

You must, at or before the time of sale or lease, provide your supplier with a completed *Certificate of Exemption - Production Machinery and Equipment* form ([FIN 492](#)) when claiming the following exemptions:

- purchases or leases of exempt PM&E,
- purchases or leases of exempt parts or materials for PM&E, or
- purchases of related services for exempt PM&E.

This requirement applies whether or not you have a PST number (i.e. you cannot use your PST number instead of the *Certificate of Exemption - Production Machinery and Equipment* ([FIN 492](#))). However, you do have the option of using an alternative certification (see below in this section).

You must complete all parts of the certificate. Where a description of the items purchased or leased is required, you list each type of machinery, equipment, parts and/or materials. It is not enough to simply state “production machinery and equipment”. For example, if you are purchasing drill bits, drill collars and blowout preventers, you list each as a specific item on the form.

If you are purchasing related services for PM&E, specify what PM&E the related service will be provided to. For example, state “repair services for a truck-mounted service rig” and not just “repairs”.

When you purchase or lease a large quantity of PM&E, you may attach an itemized list or a copy of the purchase order to the completed certificate.

The purchase order must clearly describe the PM&E being purchased or leased and it must indicate which is exempt.

You are generally required to provide a completed certificate to the supplier for each purchase or lease. However, when you are making frequent purchases or leases of the same item(s) from the same supplier, you may provide one completed certificate to the supplier along with a list of item(s) that you are claiming an exemption for. You can make future exempt purchases or leases of the same item(s) from that supplier based on the one certificate, provided the information on the certificate is still correct. You must complete a new exemption certificate if the information has changed.

You only use the *Certificate of Exemption - Production Machinery and Equipment* ([FIN 492](#)) for claiming an exemption under the PM&E exemption (i.e. for PM&E and related parts, materials and related services). This certificate does not replace the *Certificate of Exemption – General* form ([FIN 490](#)).

## Suppliers

If you do not obtain a completed *Certificate of Exemption - Production Machinery and Equipment* ([FIN 492](#)) or an alternative to the exemption certificate (see below) at or before the time of the sale or lease, you are required to charge and collect the PST on that sale or lease and remit it to the ministry with your return for the reporting period. If your customer provides the required information after the sale or lease but within 180 days of the sale or lease, you may refund or credit the PST you charged. For more information on providing refunds and credits to your customers, please see [Bulletin PST 002](#), *Charging, Collecting and Remitting PST*.

**Please note:** If your customer claims this exemption with an exemption certificate, and it is later found that they did not qualify for the exemption, your customer is liable for any tax, interest and penalties associated with the purchase or lease. However, if you had reason to believe that your customer was not entitled to the exemption (e.g. the item purchased was not eligible for the PM&E exemption or your customer mentioned the equipment was actually for personal use) and you provided the exemption, you may also be subject to an assessment.

## Alternative to the Exemption Certificate

As an alternative to using the *Certificate of Exemption - Production Machinery and Equipment* form ([FIN 492](#)), you may develop your own certification, provided that all the required information and the declaration statement from the exemption certificate is included.

Providing the required information and the declaration statement in an electronic format is acceptable if the format includes an electronic signature. An electronic signature may include an electronic acceptance or agreement of the declaration statement, or a statement indicating that transmitting the information and declaration electronically by the purchaser or lessee is agreement of the declaration.

## Other Exemptions

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### Goods Incorporated into Other Goods for Resale

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. To purchase these items exempt from PST, give the supplier your PST number. If you do not have a PST number and you qualify, give the supplier a completed *Certificate of Exemption – General* ([FIN 490](#)).

### Containers, Labels and Packaging Materials

You do not pay PST on containers and packaging materials (other than reusable containers) if you use them to package goods for sale or lease, or if you provide them to your customers with their purchases of goods. However, you must pay PST on containers and packaging materials if you use them for other purposes, such as storing, handling or shipping goods, or you use them to provide a service.

Generally, you are not required to charge PST on the containers and packaging materials you provide with goods and services, unless you separately charge your customers for them. However, in limited circumstances, you may be required to charge PST on the fair market value of the containers and packaging materials.

For more information, please see [Bulletin PST 305](#), *Containers and Packaging Materials*.



## Safety Equipment and Protective Clothing

The following safety equipment and protective clothing is exempt from PST:

- work-related safety equipment and protective clothing designed to be worn by, or attached to, a worker if required under specified provincial work safety legislation when purchased or leased by an employer, self-employed person or educational institution,
- specifically listed work-related safety equipment and protective clothing designed to be worn by a worker, including safety goggles and steel-toed boots, and
- specifically listed general safety equipment and protective clothing.

For more information, please see [Bulletin PST 100](#), *Safety Equipment and Protective Clothing*.

## Taxable Goods

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Unless an exemption applies, you must pay PST when you purchase or lease machinery, equipment or other goods in BC. You pay PST on the full purchase price at the time of purchase. If the goods 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.

### What is Included in the Purchase Price

PST must be calculated on the total purchase price paid by the purchaser to receive title to goods that are subject to PST. This includes the value of services accepted by the seller on account of the purchase price and any charges for financing, interest, customs and excise, as well as any delivery or other transportation charges (including shipping and handling) incurred at or before the time that title to the goods being sold passes to the purchaser. This applies whether or not the charges are shown separately on the sales invoice.

PST does not apply to delivery or transportation charges where title to the goods passes to the purchaser at the seller's premises because the delivery charge does not form part of the purchase price of the taxable goods. If the seller charges the customer for delivery of the goods to another location, and this charge is separately stated on the sales invoice, PST applies only to the purchase price of the goods.

For more information on what is included in the purchase price, please see [Bulletin PST 302](#), *Delivery Charges*.

### Consumables

Consumables are often called 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 examples of taxable consumables.

- Cleaning solutions, rags, carpenters' chalk and masking tape
- Heating fuel
- Oils, lubricants, grease and hydraulic fluid
- Oxygen or acetylene gas

Although most consumables are taxable, there are some that qualify for exemption. For example, water is a consumable that is exempt in all cases.

## Change of Use

If you obtain PM&E, parts, materials or other goods exempt and later use them for a taxable purpose, PST applies as of the date you use the item for a taxable purpose.

You calculate and self-assess PST on the greater of the **depreciated value** or 50% of the original purchase price. This calculation must be done separately for each item.

You must self-assess the PST due on your next PST return. If you do not have a PST number, you must self-assess the PST due using a *Casual Remittance Return* (**FIN 405**) on or before the last day of the month following the month in which you used the PM&E, parts, materials or other goods for a taxable purpose.

The **depreciated value** is determined on a straight-line basis as follows:

$$\text{Depreciated value} = \text{Purchase price} - [\text{purchase price} \times \text{depreciation rate}]$$

You may only calculate the depreciated value on the following types of equipment using the depreciation rates listed below. Periods of less than 30 days must be computed to the nearest 30-day period with 15 days counted as one 30-day period.

Type of Equipment	Depreciation Rate
Vehicles, including all trailers and self-propelled equipment, and equipment mounted on a vehicle	2.5% per 30-day period (30% per year)
Aircraft	2.0833% per 30-day period (25% per year)
Vessels, and equipment mounted on a vessel	1.25% per 30-day period (15% per year)
Railway rolling stock	0.8333% per 30-day period (10% per year)
Other equipment, furnishings and affixed machinery	1.667% per 30-day period (20% per year)

## Examples of Taxable Goods

The following are taxable machinery, equipment or other goods used in the oil and gas industry.

- Boats, trains and non-turbine aircraft.
- Buildings, furnishings, camp equipment or machinery or equipment related to the use of a building as a building (other than shelters that are exempt under the PM&E exemption for PM&E obtained for use in the exploration for, discovery of, or development of petroleum or natural gas – see the section above, Exploration for, Discovery of, or Development of Petroleum or Natural Gas).
- General, administrative and office machinery or equipment and supplies, such as desks, phones, computers, photocopiers and fax machines.
- Machinery or equipment obtained for use in:
  - the construction of buildings,
  - the construction or maintenance of roads, or

- site preparation (other than machinery or equipment exempt as PM&E obtained for use in the exploration for, discovery of, or development of petroleum or natural gas).
- Machinery or equipment used to generate heat, such as a boiler.
- Machinery or equipment used to repair, maintain or service exempt PM&E.
- Portable or mobile generators and alternators (other than specified exempt generators located at a well site). This includes stand-by and electric generators and alternators and drive motors for them.
- Scaffolding, walkways, catwalks and similar structures, unless these items are an integral part of exempt PM&E, and are sold or leased as part of exempt PM&E.
- Software, other than software used primarily to operate, control or monitor certain PM&E (see the section above, PM&E and Software Used to Operate, Control or Monitor Exempt PM&E).
- Telecommunication equipment, such as satellite equipment, cell phones and radio antennas.
- Vehicles designed for public highway use, such as:
  - transport trucks and ATVs, and
  - automotive units on which well servicing equipment or cementing and fracturing equipment (e.g. mobile welders) is mounted, but not truck-mounted service rigs for use in exploration for, discovery of, or development of petroleum or natural gas.

Please see Appendix 2 for additional examples of taxable machinery, equipment or other goods used in the oil and gas industry.

## Goods 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 BC, 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 and you have a PST number, you must self-assess the PST due on your next PST return. If you do not have a PST number, you must self-assess the PST due using a *Casual Remittance Return* ([FIN 405](#)) on or before the last day of the month following the month you received the goods into BC.

## Equipment Brought into BC

If you bring taxable equipment into BC for use, you pay PST on the depreciated value of each item. You calculate and self-assess PST on the greater of the depreciated value or 50% of the original purchase price. For details on how to determine depreciated value, see the section above, Change of Use.

## Equipment for Temporary Use

If you bring taxable equipment into BC for temporary use only (6 days or more in a 12-month period) to perform a specific task related to mining, and then take the equipment back out of the province, you pay PST using the temporary use formula (except leased equipment – see the section below, Leased Equipment). The days the goods are in BC may be consecutive or spread over a 12-month period.

The temporary use formula allows you to pay PST on 1/3 of the value of the equipment for each 12-month period that the equipment is in BC.

**Please note:** Certain vehicles brought into BC for temporary use in petroleum or natural gas exploration or development may qualify for the 1/36 formula. For more information, please see [Bulletin PST 115](#), *Oil and Gas Industry – Service Providers and Contractors*.

## **Leased Equipment**

Unlike purchased equipment, you pay PST on taxable leased equipment even if it is brought into the province for less than 6 days.

For more information, please see [Bulletin PST 307](#), *Goods Brought into BC for Temporary Use*.

## **Improvements to Real Property**

Real property is land and anything that is attached to the land in such a way that it ceases to be personal property at common law. This would normally include buildings, structures, and things such as machinery or equipment that are attached to the land (or to buildings or structures) by some means other than their own weight. Things that are attached so that they cease to be personal property at common law are often referred to as improvements to real property. However, for the purpose of the PST, improvements to real property exclude affixed machinery (see section below).

Real property contractors are required to pay PST on the goods they obtain for the purposes of fulfilling a contract for the supply and installation of affixed machinery or improvements to real property, unless a specific exemption applies. When a contractor pays PST, they do not charge their customers PST on their contracts to improve real property.

Contractors may qualify for an exemption on goods they obtain to fulfill a written contract to supply and affix, or install, affixed machinery or improvements to real property for a person who qualifies for the PM&E exemption. For the exemption to apply, the written contract must be with a person (e.g. an oil and gas producer) who would be exempt from PST if they had obtained the goods instead of the contractor. The exemption does not include any tools or equipment that contractors use to install the qualifying PM&E.

## **Affixed Machinery**

For the purpose of the PST, affixed machinery is machinery, equipment or apparatus that is used directly in:

- the manufacture, production, processing, storage, handling, packaging, display, transportation, transmission or distribution of goods, or
- the provision of software or a service, and

is affixed to, or installed in, a building, a structure or land so that it ceases to be personal property at common law.

Although affixed machinery ceases to be personal property at common law upon installation (i.e. it would normally be considered to be an improvement to real property), for the purpose of the PST, it remains a good upon installation. Therefore, if real property in which

affixed machinery is installed is sold or leased, the purchaser or lessee of the real property is purchasing or leasing goods (the affixed machinery) and is required to pay PST on the purchase or lease of those goods.

Generally, compressors installed in a pipeline are affixed machinery.

For more information on improvements to real property and affixed machinery, please see [Bulletin PST 104](#), *Real Property Contractors*.



## Need more info?

Online: [gov.bc.ca/PST](http://gov.bc.ca/PST)

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References: *Provincial Sales Tax Act*, sections 1, 25, 41, 49, 51, 80.1, 82, 82.1, 141, 145, 147, 148 and 153; *Provincial Sales Tax Exemption and Refund Regulation*, sections 1 "obtain", 32-35, 38, 39 and 90-120; *Provincial Sales Tax Regulation*, sections 10 and 16.

## Appendix 1 – Examples of Exempt Items

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This list is currently in development and will be available soon.

## Appendix 2 – Examples of Taxable Items

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This list is currently in development and will be available soon.