



PST-13

Issued: March 1985

Revised: November 2013

THE PROVINCIAL SALES TAX ACT

Was this bulletin useful?

[Click here to complete our short](#)

READER SURVEY

PETROLEUM DRILLING & WELL SERVICING CONTRACTORS

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

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

- A. Registration and Reporting Requirements
- B. PST Remission on Mobile Capital Equipment
- C. Geophysical Survey and Exploration Equipment
- D. Drilling and Service Rigs
- E. Well Servicing Equipment
- F. Tools/Equipment with an Operator and Tools/Equipment Rentals
- G. Taxable Equipment used in Indirect Activities
- H. Out of Province Repair Services
- I. Taxable Services
- J. Other Sales
- K. Fuel Tax
- L. Saskatchewan Electronic Tax Service (SETS)

A. REGISTRATION AND REPORTING REQUIREMENTS

Contractors who operate in the petroleum industry are required to register with the Revenue Division to file returns and to report PST. Non-resident contractors may be required to obtain a clearance letter upon completion of their Saskatchewan contracts. For further information, please refer to Information Bulletin PST-38, *Information for Non-Resident Real Property and Service Contractors*.

- Contractors who provide services including operating drilling rigs and service rigs; seismic exploration and surveys; coring; logging; formation testing; cementing and perforating; and down-hole pumping and well stimulation are issued a registered consumer permit which allows them to self-assess and remit tax on the items brought into the province to provide their services. The contractor's services are not subject to PST.

- Contractors, who rent out tools and equipment and may provide a consultant or supervisor, are issued a vendor's licence which allows them to carry an exempt rental inventory and to collect and remit tax on the rental charges. This scenario is discussed in Section F.

Resident petroleum contractors are required to pay PST on the purchase price or laid-down cost of all taxable consumables and equipment purchased in Saskatchewan or imported into the province for own use. Laid-down cost includes currency exchange, total freight charge to the final destination, customs and excise taxes and duties – but not the GST. The tax is also payable on repair services related to the equipment.

A resident contractor is defined as having a permanent place of business in Saskatchewan and includes having an established branch office with full time staff and complete accounting records for Saskatchewan operations.

Non-resident petroleum contractors are required to pay PST on taxable equipment imported into the province for own use on either the depreciated cost of the equipment or on a temporary use method. Please refer to Information Bulletin PST-38, *Information for Non-Resident Real Property and Service Contractors* for information regarding the calculation of tax for non-residents importing equipment and consumables into the province. Tax must be paid to the vendor for consumables, equipment and repairs purchased in Saskatchewan.

B. PST REMISSION ON MOBILE CAPITAL EQUIPMENT

Order-in-Council 1436/67 provides a remission of PST paid on drilling rig equipment that is used directly in oil and gas exploration and service rig equipment used directly in

down-hole development, servicing and testing of oil and gas wells. To qualify for the remission, the equipment must be attached to the rig and integral to the drilling/servicing process and must be capitalized in the records of the drilling and/or service rig company that is operating the equipment.

- The remission includes rentals of drilling and service rigs but does not include the rental of rig components or specialty tools and instruments, even when attached to the drilling or service rig. Specialty tools are tools that are designed for specific use in the oil and gas industry.
- The remission applies to mobile equipment purchased in Saskatchewan or imported into the province and includes the **trucks or trailers** on which the related equipment is permanently mounted. If the equipment eligible for the remission is mounted on a truck, then the truck is eligible for the remission. If the equipment is mounted on a trailer, then the trailer is eligible for the remission and the truck that pulls the trailer is taxable. Rentals of complete units also qualify for the remission. **Note:** When the trucks or trailers are registered inter-provincially (IRP), the Saskatchewan Pro-Rated Vehicle Tax (PVT) paid is eligible for a 60 per cent refund.
- Capital maintenance on eligible equipment is included in the remission. Repair costs that are expensed for accounting purposes are taxable.

C. GEOPHYSICAL SURVEY AND EXPLORATION EQUIPMENT

Geophysical survey and exploration equipment that is eligible for a PST remission when the equipment is capitalized in the company's records includes:

- bolt land air gun used for seismic activity
- electro-logging units used for seismic work
- recording truck with equipment used to record seismic data including jugs (geophones)
- vibrator truck and/or shooting truck used to create shock waves, cable truck with permanently mounted equipment such as a generator or monitoring equipment
- GPS surveying equipment and the associated software
- capital maintenance on the above; expensed repair costs are taxable

Taxable equipment and consumables used in geophysical survey and exploration activities include:

- dynamite truck, cap wire shooting truck, jug and cable trucks used solely for hauling with no permanently mounted equipment
- recording paper, explosives and caps
- crew trucks, tools and consumables used by surveyors to plot and mark the points to be "shot"
- water trucks
- cable truck used solely to haul cable
- mobile electricity generators
- survey equipment used for mapping exclusion zones such as pipelines, water lines and housing
- repairs to the above equipment

D. DRILLING AND SERVICE RIGS

Standard rig components that are eligible for the remission when the equipment is attached to the rig, integral to the drilling process and capitalized in the drilling or service company's records include:

- **drilling rigs and standard rig components including:** the derrick; substructure; drawworks; catwalks; rotary table and handling tools (e.g. power tongs); commercial breakout machine (or "iron roughneck"); pipe tub; outrigger; rig mats used solely to support the drilling rig; circulating systems (mud pumps, mud tanks, mud mixers, discharge and return lines and separators); blow out preventers (BOPs); drill pipe and drill collars or on a coiled tubing drilling rig – tubing reel; boiler; mast assembly; drive systems (i.e. top, rotary and pump); shale shaker and tanks; flare lines and tanks; generating systems (diesel, electric, natural gas) and fuel tanks; dog house/combination buildings that are integral to the drilling operation (i.e. fitted for BOP storage or contains motors or controls fundamental to the drilling process); drill bits; and any vehicles on which the equipment may be permanently mounted

- **service rigs and standard service rig components including:** the rig carrier; derrick; substructure; drawworks; catwalks; handling tools (e.g. power tongs); BOPs; boiler; mast assembly; outrigger; generating systems (diesel, electric, natural gas) and fuel tanks; pump truck and pump truck parts; pump lines and valves that run from the pump truck to the well; flare lines and tanks; dog house/combination buildings that are integral to the servicing operation (i.e. fitted for BOP storage or contain motors or controls fundamental to the service rig operations); and vehicles on which the equipment is permanently mounted
- **directional drilling and measurement while drilling (MWD) equipment including:**
down-hole motors; bottom hole assembly components including subs, stabilizers, cutting head, boring head, reamers, drill bits and drill collars; jars; shock absorbers; endless tubing units and trailer mounted masts; MWD assembly; surface interface box; electro-logging equipment; driller's remote read-out; and computer, printer and plotter used for configuration, displaying and logging
- computer software used at the well-site to operate down-hole equipment that qualifies for the remission
- controlled pressurized systems used in the drilling of an under-balanced well including the pressurized tank/separator, storage tanks and flare stack
- permanently mounted air drilling services equipment (super stable foam units) that force air and/or chemical down the bore hole during drilling
- rat, mousehole and coring rigs
- testing equipment used directly in down-hole activities related to exploration, development or the operation of drilling and well servicing rigs
- capital maintenance on the above; expensed repair costs are taxable

Taxable equipment used in drilling activities include:

- support trucks; skid steer loaders; bobcats; crew/rig push trucks; winch trucks/picker trucks; pipe trucks; crane units; iron trucks; welding trucks; and similar equipment even when capitalized to the rig
- electrical equipment including switchgears; transformers; panel boards; suitcase; and generators and alarm systems – unless the equipment is attached to the rig, capitalized in the records and is integral to the drilling and/or servicing operation
- rig matting except when used to support the drilling rig
- maintenance tools (hand tools) even when capitalized to the rig
- toolpush shack
- environmental monitoring and testing equipment
- equipment used to service, test and harden drill stem

- oilfield fire fighting and prevention equipment
- power units and bulk transport trailers used for hauling
- rig anchor trucks including mounted equipment
- safety equipment including safety trailers, H2S monitors and breathing equipment
- water hauling trucks for drilling rigs
- cement storage bins
- well site trailers used for accommodations, office space and temporary storage
- repair parts and labour for the above

E. WELL SERVICING EQUIPMENT

Well service equipment used directly in down-hole servicing including fracturing, acidizing and cementing equipment, is eligible for the remission when capitalized, and include:

- mobile equipment used for cementing, perforating, fracturing, loading wells, service rig work, acidizing and other down-hole activities
- wireline truck used to perform logging and perforating
- pressure and vacuum trucks used primarily for down-hole servicing
- hot oil units used to pump oil down-hole for de-waxing
- pumping units and high volume blenders used to pump fluids (chemicals, nitrogen, water, sand, acids, oil and cement) down-hole for fracturing, for under-balanced drilling and for completion purposes. When the power unit and equipment is a single unit, the entire unit is exempt; when the equipment is mounted on a separate trailer, the trailer is exempt but the bulk transportation unit is taxable.
- fracturing vans and/or computer data vans used in controlling the fracturing operations, including the equipment on which it is permanently mounted
- acid pumper – truck mounted and combination N2/Acid pumper
- nitrogen pumper – trailer mounted
- CO2 pumper truck
- cementer – truck or trailer mounted units

- coiled tubing units and side spool trailers used for cleaning out holes, including equipment mounted on the coiled tubing unit: air compressor, reel, picker and injector unit that injects tubing down-hole as well as a side spool used to pull tubing out of a well and also to rerun the tubing and land it back down the well
- crane truck used to support coiled tubing when it replaces the conventional coiled tubing unit with an anchor support and is used primarily in down-hole servicing
- continuous rod units and endless rod units
- power tong unit including truck when used to operate the power tongs
- swabbing units
- snubbing units
- flushby units
- capital maintenance on the above; expensed repair costs are taxable

Taxable well servicing equipment and consumables include:

- Equipment not directly used in down-hole activity: fracturing fluid burner systems; hydration trailers; chemical vans; iron/manifold trucks; sand storage trailers; CO₂ boost pump trucks; and storage units
- portable fracturing completion separator packages that are not directly involved in pumping fluids down-hole
- side spooler used to change tubing on the coiled tubing truck
- crane/picker trucks, unless used primarily as a service rig to support the coiled tubing
- oilfield fire fighting equipment
- pressurizing, de-pressurizing and vacuum units used primarily for disposal purposes
- pressure washers and steam cleaning units
- well-site trailers; doghouses used for storage (other than BOPs); office space; shower; and lunchroom
- swabbing units used for production (in place of a pump jack)
- transport units including chemical bulker; proppant transport (without permanently mounted equipment)
- consumables including drill bits; casing; tubing; frac sleeves; acids; chemicals; nitrogen; drilling fluids; propping agents; polymers; welding rods; sealants; cement; stimulation gases; and lubricants and solvents
- repair parts and labour for the above

F. TOOLS/EQUIPMENT WITH AN OPERATOR AND TOOLS/EQUIPMENT RENTALS

Order-in-Council 1436/67 includes a remission of PST payable on the rental of drilling rigs and service rigs and the trucks or trailers on which the related oil well and service equipment are permanently mounted. However, Order-in-Council 1436/67 specifically excludes rental of specialty tools and instruments attached to the drilling rig when leased from a lessor. Therefore, third party rentals of specialty tools and instruments do not qualify for the remission.

1. Tools/Equipment with an Operator

A contractor who supplies tools/equipment with an operator is considered to be providing a service and is not considered to be renting out tools/equipment. A service company is responsible for controlling the function and operation of the equipment.

The services provided in the petroleum drilling and well servicing industries are not subject to PST.

The contractor is required to account for PST on the laid-down cost of all equipment used to complete service contracts unless the equipment qualifies for the remission and is capitalized in their records. The invoice to the customer/producer may indicate a "rental charge" to recover the costs on their equipment; however, this charge does not attract PST.

A contractor who rents tools/equipment for their own use is required to pay PST to the rental company or to self-assess PST on the rental charges when renting from an unlicensed vendor. The contractor will invoice the customer/producer to recover their total rental charge including the PST. When itemizing costs on the invoice, the contractor should not itemize the PST paid on their rental charges.

Partial Invoice Example:

700 Km	1 Service Rig	700 Km	700 *6.00	\$4,200
1 Unit	1 Set Up Charges	1 Unit	1 *1,000	<u>1,000</u>
	Equipment:		Subtotal	\$5,200
	Third Party Tool Rentals:			
	Service Packer (PST included)*			\$7,625
	Third Party Tool Rentals			

*See rental example on following page

Note: Specialty tools and equipment provided by third parties typically come with an on-site supervisor or consultant; however, it is not the usual practice for these individuals to control the function or operate the tool once attached to the rig. As a result, these tools are considered taxable rentals for PST purposes.

2. Tools/Equipment Rentals

Contractors who primarily rent out tools and equipment without an operator are issued a vendor's licence that allows them to carry exempt rental tools and to collect PST on the rental charges. The provision of an on-site supervisor, technician or consultant who does not actually operate the tools does not change the supply from a rental to a service for PST purposes.

The duties of a supervisor, technician or consultant typically include:

- assisting with set-up, installation or removal of the equipment
- remaining on-site to provide technical support but not actually operating or controlling the function of the equipment
- providing advice or instruction to the contractor on how to use the equipment to ensure accuracy, efficiency and safety
- providing maintenance of the equipment while in use

Taxable rental charges include:

- delivery/hot shot services
- assembly – rig-up
- dismantling – tear-out
- cleaning, maintenance and repair
- mandatory insurance, which is standard requirement of the rental

Exempt charges, when segregated on the invoice, include:

- the charges for the supervisor, technician or consultant who accompanies the equipment to the job-site as well as related subsistence and mileage charges
- other exempt services that are provided subsequent to the original rental contract
- optional insurance which is not a standard requirement of the rental

Partial Invoice Example:

Rental of Service Packer:

2 Item	Service Packer	2 @ 2,500*	\$ 5,000
1 Item	Setting Tool	1 @ 500*	500
2 Hrs	Supervisor	2 @ 700	1,400
100 Km	Mileage for Supervisor	100 @ 1	<u>100</u>
	Subtotal		\$7,000
	GST @ 5%		350
	PST @ 5%*		<u>275</u>
	Total		\$7,625

Taxable Tools/Equipment Rentals

PST is payable on taxable charges with respect to the rental of equipment including:

- bailers
- BOP equipment and diverters
- casing patch and scrapers
- centrifuge bins and mats
- crossover spools
- directional drilling equipment
- drill pipe, drill collars and drill bits
- drilling rig components
- fishing tools used to recover items lost down-hole
- flare tanks
- gensets, light towers, light plants
- multi-stage fracturing system
- mud control instrumentation, mud motors, mud tanks, mud-mixing devices and mud shale shakers
- MWD equipment including gamma kits and gamma sets
- packers, jars, baskets, bridge plugs, rib element, crossover subs, couplings and cement retainers
- power swivels
- pumps
- reamer cutter blocks
- rigging and access mats
- setting sleeves
- storage vans
- surface storage
- testing equipment
- tubing anchor
- water tank and water bladders
- wireline and hydraulic setting tools air parts and labour for the above

Freight charges related to the rental of taxable equipment provided by an out of province supplier are subject to tax on both the charge to ship the equipment into the province and on the return charge.

Freight charges that form part of the rental of taxable equipment provided by a Saskatchewan supplier are also subject to tax.

G. TAXABLE EQUIPMENT USED IN INDIRECT ACTIVITIES

Tax must be paid on all equipment and consumables used in activities that are not directly related to exploration, drilling, testing and down-hole servicing including:

- pipeline inspection, laying and servicing
- hauling goods and to convey personnel
- collection and/or disposal of waste products
- safety and environmental monitoring and testing
- accommodation and other personnel facilities
- storage and repair
- road building and maintenance
- snow removal
- fire fighting and fire prevention
- production and extraction

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

- passenger vehicles, unmounted trucks and tractors and trailers including power units and bulk transport trailers used to transport equipment or other goods into the province
- swabbing units used for production (in place of a pump jack)
- spool trucks used to string electrical wire down-hole
- temporary storage and repair facilities
- equipment used for inspecting and servicing drill stem
- core vans (portable lab) used to examine core samples
- perforation charges, swab cups and bridge plugs
- well site-trailers and shop trailers
- front-end loaders
- water trucks, welding trucks, winch trucks
- pressurizing, depressurizing and vacuum units trucks used primarily for disposal services
- hauling equipment, including waste disposal
- fire fighting equipment, safety clothing and safety equipment
- steam injection equipment including water storage tanks, water treatment equipment, pumps and boiler packages, fire ignition unit, light plant, injection lines and portable enclosure
- maintenance tools including welders, welding supplies, pipe cutters, grinders and hoists
- any other equipment that does not qualify for the remission of tax outlined in the Order-in-Council 1436/67

H. **OUT OF PROVINCE REPAIR SERVICES**

Resident contractors who ship equipment or component parts outside of the province for repairs that are not eligible for the remission are required to self-assess PST on the repair parts and labour. Freight charges in and out of the province are not subject to tax.

Non-resident contractors who ship equipment or component parts outside of the province for repairs during a job are required to self-assess PST on the repair parts and labour unless the repairs qualify for the remission and are capitalized. Any related freight charges in and out of the province are not subject to tax.

Repair parts and labour provided to non-resident equipment and component parts that are removed from the province for repair services between jobs are not subject to tax.

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

Note: In province repairs and installation services of tangible personal property that are not eligible for the remission are subject to tax. Repairs and inspection services to real property are not subject to tax. For further information, please refer to Information Bulletin PST-57, *Information for Businesses Providing Repair and Installation Services*.

I. **TAXABLE SERVICES**

Taxable services include accounting services, computer services, legal services, commercial building cleaning services, employment placement services, engineering and architectural services, and others.

Please refer to the information bulletins found at the following link for more information regarding the application of PST to these services:

www.finance.gov.sk.ca/Bulletins/ProvincialSalesTaxBulletins

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.

J. **OTHER SALES**

1. **Sales of Used Business Assets**

Businesses are required to collect tax on the sale of used assets, such as taxable 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. For further information, please refer to Information Bulletin PST 58, *Information on the Taxation of Used Goods*.

2. **Fracturing and Cementing Services**

It has become normal practice in the petroleum 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.

Note: This section of the Information Bulletin has been left as in previous Information Bulletins while the issue of PST treatment in relation to cementing transactions is before the courts in *Husky Oil Operations Ltd. v. Government of Saskatchewan*. This section will be reviewed by Finance once the outcome of that case is known.

3. **Lost or Damaged Charges (Customer Charge Backs)**

When a drilling or service contractor invoices a producer for lost or damaged equipment, the charge is not subject to tax. The drilling or service contractor is responsible for PST on the equipment, if applicable.

When a contractor is providing equipment rentals, and the equipment is lost or damaged, the charge to the producer or service contractor is taxable.

K. **FUEL TAX**

Fuel consumed in stationary engines that are used in rigs, lighting plants or in other applications is subject to Saskatchewan Fuel Tax at the rate prescribed in *Information Bulletin FT-1, General Fuel Tax Information*.

Dyed heating fuel or dyed fuel oil may be purchased tax exempt for direct heating use, including use in a boiler to heat rig components such as doghouses, tool houses, change houses, combination buildings and derrick substructures.

Dual purpose storage tanks (storage tanks that are not solely used to supply fuel for heating) must contain clear tax paid fuel. To obtain a refund of tax on the fuel used for heating, an approved meter must be used to measure the quantity of fuel being dispensed for this purpose.

For further information on the Fuel Tax, please refer to the following Information Bulletins:

FT-1, *General Fuel Tax Information*

FT-4, *Fuel Tax Exemption Permits – Information for Permit Holders*.

L. SASKATCHEWAN ELECTRONIC TAX SERVICE (SETS)

Finance has made it possible to report and remit tax electronically through the use of a standard Internet connection. 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 PST 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 email notification service that allows the option to be notified by e-mail that a tax return should be filed. This replaces the paper forms normally received in the mail.

FOR FURTHER INFORMATION

Write: Ministry of Finance
Revenue Division
Box 200
Regina, Saskatchewan
S4P 2Z6

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

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

Fax: 306-787-9644

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

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

To receive automatic e-mail notification when this or any other bulletin is revised, go to www.finance.gov.sk.ca/taxes, click on the "What's New" information then click on the "subscribe" button.

Acknowledgment

We wish to acknowledge and thank the Canadian Association of Oilwell Drilling Contractors, the Petroleum Services Association of Canada and the Canadian Association of Petroleum Producers for consulting with us on information for the oil and gas industry. By working with us, they help us provide better information to their members.