

PST-13

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## THE PROVINCIAL SALES TAX ACT

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**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.

*Changes to this bulletin are indicated by a bar (|) in the left margin.*

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

- A. Registration and Reporting Requirements
- B. General Information
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- D. Exempt Services
- E. Non-Taxable Services
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- G. Out of Province Repair Services
- H. Other Sales
- I. Goods and Services for Your Own Use
- J. Fuel Tax
- K. Bonding and Clearance Process
- L. Saskatchewan Electronic Tax Service (SETS)

#### **A. REGISTRATION AND REPORTING REQUIREMENTS**

Contractors who operate in the petroleum industry and carry on business in Saskatchewan are required to register with the Revenue Division to file returns and to report PST. The application form may be found at the following link:

<http://finance.gov.sk.ca/forms/FI-1213ApplicationforVendorsLicence-ConsumerRegistration.pdf>

Please see Information Bulletin PST-5, *General Information* for information regarding vendor responsibilities and tax return filing.

#### **B. GENERAL INFORMATION**

##### **Permanently Mounted Equipment**

Effective April 1, 2017, the remission of PST provided under Order-in-Council 1436-67, for qualified Permanently Mounted Equipment (PME) used in the exploration and development of oil, gas and potash resources was eliminated.

PST applies to mobile capital equipment used in oil and gas exploration, development, servicing and testing. The tax applies to all equipment purchased or leased by petroleum drilling and well servicing contractors for both direct and indirect activities.

**For further information, please see Information Notice 2017-04, *Elimination of Provincial Sales Tax Remission for Permanently Mounted Equipment* which may be found at the following link: <http://finance.gov.sk.ca/Bulletins/ProvincialSalesTaxBulletins>**

### **Services to Real Property**

Effective April 1, 2017, PST applies to services to real property. Taxable services include construction, alteration, repair, erection, remodeling, improvement, or any other service in relation to real property or a building or other structure on real property.

The primary changes regarding the application of PST are as follows:

- Contractors performing services to real property are now licensed as vendors rather than consumers.
- Contractors are required to collect PST on the total charge to construct, alter, repair, erect, remodel or improve real property. Effective April 1, 2017, these charges, which were previously exempt from PST, become taxable and PST must be shown as a separate line item on the invoice to the customer.
- Contractors will purchase materials exempt from PST and collect the tax from their customer on the total contract, rather than paying PST on the purchase cost of the materials.

**Note:** Contractors must still account for PST on their tools, equipment and consumables used in providing the real property service. This includes the payment of tax on tool and equipment rentals.

**Please see Sections C, D and E for the tax status of services provided in the petroleum drilling and well servicing industry.**

Non-resident contractors, for further information please see Information Bulletin PST-38, *Information for Non-Resident Real Property and Service Contractors*.

### **C. TAXABLE SERVICES**

The following categories of services to real property are subject to PST:

- Construction of the well bore, including cementing services
- Above ground construction, servicing and repair
- Pipeline construction, servicing and repair

When performing taxable services PST must be collected on the total invoice to the customer, including all charges for labour, materials, transportation, insurance, service fees, overhead expenses, subsistence charges, etc., but not the GST. PST must be shown as a separate line item on the invoice.

Examples of taxable services include:

- Repairs to real property (e.g. compressor stations, pumpjacks, pipelines)
- Wellsite preparation services
- Above ground work for well completions
- Pipeline laying
- Insulating of pipelines, flowlines and tanks
- Welding services
- Hydro-Vac Services (trenching & hole boring)
- Well abandonment services
- Site remediation services
- General construction (e.g. buildings and roads)

### **Subcontractors**

Subcontractors are not required to collect PST on services provided to a contractor who is licensed as a vendor and indicates they are acquiring the subcontractor's service for resale, since the contractor will collect PST on the total charge to their customer. To purchase the services of the subcontractor without paying the PST, the contractor must quote their vendor's licence number to the subcontractor and the number must be recorded on the invoice or retained in the subcontractor's records.

### **Computer Services**

#### **Seismic Data Processing**

Fees charged for processing and digitizing seismic data are subject to PST on the total charge as taxable computer services. This includes charges from data processing and/or geoscience firms for the entry and processing of seismic data via a computer program, to enhance the data and produce a map or 3D image of the data findings.

#### **Instrumentation Services**

Services related to the development, maintenance, modification, configuration, upgrading, or testing of computer programs or computer systems and networks, and including the sale of software and hardware, are subject to PST on the total charge to the customer. This includes services related to electronic systems and control systems such as Supervisory Control and Data Acquisition systems (SCADA), Human Machine Interface (HMI), and Automation and Program Logic Controls (PLC).

### **Consulting and Supervision Services**

The application of PST to consulting and supervision services will depend on the nature of the services as follows:

- PST applies to charges for consulting and supervision when the duties directly relate to overseeing or assisting with the completion of taxable services, such as those outlined in Section C.
- Conversely, consulting and supervision services that relate to an exempt or non-taxable service, such as those outlined in Sections D and E, are not subject to PST.

### **Other Taxable Services**

Taxable services also include accounting 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](http://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.

### **D. EXEMPT SERVICES**

The following categories of services are exempt from PST:

- Drilling services to drill the well bore of an oil or natural gas well
- Downhole servicing and repair

Although the charges for the service component are exempt from tax, the materials incorporated or installed on-site to complete the service are subject to PST. Vendors of these exempt services must segregate the materials on their invoice to the customer and collect tax on the selling price of these items. If the materials are not segregated the tax must be collected on the total charge for the services provided. PST must be shown as a separate line item on the invoice.

Materials sold at a retail sale to the customer may be purchased exempt from PST. The contractor must quote their vendor's licence number to the supplier in order to purchase these items exempt from tax. The contractor must pay PST on the laid-down cost of all equipment and any consumables used in providing the services.

Examples of exempt services include:

- Rathole and mousehole services
- Well servicing (down hole activities only)
- Down-hole pumping and well stimulation services
- Perforating services
- Fracturing services
- Sidetracking/deepening of wells
- Coil tubing services
- Pressure truck services
- Flushby services
- Steam injection services
- Semi-Vac and Body-Vac services
- Hot oiling services
- Swabbing services
- Snubbing services
- Recompletion services
- Production workover service

**E. NON-TAXABLE SERVICES**

The completion of the following non-taxable services does not typically include a retail sale of materials to the customer. Therefore, PST is not collected on any portion of the invoice to the customer.

When performing these services the contractor must pay PST on the laid-down cost of all equipment and any consumables used in providing the services.

- Snow removal services
- Health and safety consulting services
- Air quality and environmental monitoring services
- Fracture mapping and reservoir monitoring services
- Coring services
- Logging services
- Wireline services
- Formation testing services
- Pressure testing services
- Calibration and testing of meters
- Water hauling services
- Oilfield fire services
- Pressure washing/steam cleaning services
- Tank cleaning services
- Collection and/or disposal of waste products
- Oilfield spill clean-up services
- Land acquisition services
- Surveying services
- Pipeline inspection and pigging services, when no repairs are provided
- Services provided by a person to that person's employer in the course of employment

**F. TOOLS/EQUIPMENT RENTALS**

A business that primarily rents out tools and equipment without an operator is issued a vendor's licence that allows them to purchase an exempt inventory of rental tools and collect PST on the rental charges.

Contracts for the rental of specialty tools and equipment provided by third parties will typically include charges for an on-site supervisor or consultant who provides technical assistance or advice on certain aspects concerning use of the tool without physically operating the tool. Where a person is given a right to use tangible personal property (tools), either directly or indirectly, with or without possession or control for a period of time these contracts are considered to be a taxable rental of equipment for PST purposes.

PST must be collected on the rental charges for specialty tools and equipment, including the following charges:

- Delivery/hot shot services
- Assembly – rig-up
- Dismantling – tear-out
- Cleaning, maintenance and repair
- Mandatory insurance, which is a standard requirement of the rental
- Freight charges

Freight charges related to the rental of 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, whether provided by the rental company or a third party.

Freight charges related to the rental of equipment provided by a Saskatchewan supplier are also subject to tax.

PST does not apply to charges for the supervisor, technician or consultant who accompanies the equipment to the job-site, as well as related subsistence and mileage charges, when the charges are reasonable and have been broken out and shown separately on the invoice.

Examples of taxable tool and equipment rentals typically include:

- 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
- Fracturing tools
- 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
- Perforating tools
- Power swivels
- Power tong service equipment
- Pumps
- Reamer cutter blocks
- Rigging and access mats
- Setting sleeves
- Storage vans, surface storage
- Testing equipment
- Tubing anchors
- Underbalanced drilling service equipment
- Water tanks and water bladders
- Wireline and hydraulic setting tools

#### **G. OUT OF PROVINCE REPAIR SERVICES**

Contractors are required to self-assess PST on repair services (parts and labour), when in the course of carrying on business in Saskatchewan, equipment or component parts are shipped outside the province for repairs and subsequently returned. Freight charges in and out of the province related to these repairs 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.

## H. **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. **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.

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

## I. **GOODS AND SERVICES FOR YOUR OWN USE**

Businesses are required to pay tax on purchases of new and used equipment, supplies and taxable services purchased for use in their business operations. Tax is payable as follows:

- When purchased from a licensed supplier, the tax must be paid to the supplier at the time of purchase.
- When purchased from a supplier who did not collect the tax, or when taken from an exempt resale inventory, the tax must be self-assessed and remitted with the regular tax return. This includes goods taken for personal or business use.
- When purchased from an unlicensed supplier located outside Saskatchewan, the tax must be self-assessed and remitted with the regular tax return on the laid down cost, which includes currency exchange, transportation charges, customs and excise duties, and importation charges; but not the GST.

## J. **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*

**K. BONDING and CLEARANCE PROCESS**

Under Section 29 of *The Provincial Sales Tax Act*, non-resident and resident contractors carrying on business in Saskatchewan are required to post a guarantee bond or cash deposit in an amount equivalent to 6 per cent of the total amount to be paid under the contract with respect to the sale of:

- a taxable service related to real property, or
- a taxable service related to real property where tangible personal property is installed in conjunction with a taxable real property service.

Non-resident contractors providing non-taxable services must also comply with this provision.

It is the responsibility of the principal to ensure that contractors comply with this provision. Failure to do so can leave the principal liable for any taxes which the contractor fails to remit, in addition to possible fines and penalties.

Alternatively, contractors required to demonstrate to a principal that their security obligation has been fulfilled can request a clearance letter from the Ministry of Finance. If approved, the letter obtained from Finance can be provided to the principal. It is recommended that principals maintain a holdback of 6 per cent until a clearance letter is provided or proof of bonding is obtained.

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 call 1-800-667-6102, extension 0956. If the contractor's account is not in good standing, the general contractor or principal will be requested to withhold from any hold back an amount equal to the tax due and remit this amount to the Revenue Division.

**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; and,
- subscribe to an email notification service that allows the option to be notified by email 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  
PO Box 200  
REGINA SK S4P 2Z6

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

Email: sask.tax.info@gov.sk.ca

In-Person: Ministry of Finance  
Revenue Division  
2350 Albert St  
REGINA SK S4P 4A6

Fax: 306-787-9644

Internet: PST bulletins, forms and information are available on the Internet at:  
<http://www.finance.gov.sk.ca/taxes/pst>

To receive automatic email notification when this or any other bulletin is revised, go to [www.finance.gov.sk.ca/taxes](http://www.finance.gov.sk.ca/taxes), click on the “What’s New” information then click on the “subscribe” button.