

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:

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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 by completing and submitting an [Application for Vendor's Licence/Consumer Registration](#).

Please see Information Bulletin [PST-5, General Information](#) for information regarding vendor responsibilities and tax return filing.

B. GENERAL INFORMATION

Permanently Mounted Equipment

Certain oil and gas drilling and service rigs and related capital equipment are exempt from PST under *The Provincial Sales Tax Regulations*. The specified equipment must be used substantially in oil and gas exploration, oil and gas production drilling, or oil and gas well servicing, and must be capitalized or recorded as a long-term lease receivable in the company's records. The exemption replaces the PST remission on Permanently Mounted Equipment (PME) that was eliminated on April 1, 2017.

Substantially is defined as more than 90%, where measurement is made in terms of time or revenue, or some other measurement that is appropriate for that particular type of equipment. The measurement may be determined on a fleet basis by specific type of equipment.

These exemptions are retroactive to April 1, 2017 and are outlined in Sections C, D & E below. For information related to refund requests please see Information Notice IN 2018-10, *Provincial Sales Tax Exemption, Oil and Gas Industry Equipment*.

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, consumables and taxable vehicles and equipment used in providing the real property service. This includes the payment of tax on tool and equipment rentals.

Please see Sections G, H, I and J for the tax status of services provided in the petroleum drilling and well servicing industry.

Non-resident contractors, please see Information Bulletin [PST-38, Information for Non-Resident Real Property and Service Contractors](#) for further information regarding the calculation of PST on taxable vehicles and equipment.

C. GEOPHYSICAL SURVEY AND EXPLORATION EQUIPMENT

The following geophysical survey and exploration equipment is exempt from PST when the equipment is used substantially in the oil and gas industry as outlined in Section B and capitalized in the company's records:

- Bolt land air guns
- Electro-logging units
- Recording trucks
- Vibrator trucks and/or shooting trucks
- GPS surveying equipment and the associated computer software
- Capital maintenance on the above; expensed repair costs are taxable

All other geophysical survey and exploration equipment is taxable, including (this is not an all-inclusive list):

- Dynamite trucks
- Cap wire shooting trucks
- Jug and cable trucks
- Water trucks
- Crew trucks, tools and consumables such as recording paper, explosives and caps
- Repairs to taxable equipment

D. DRILLING AND SERVICE RIGS

Drilling rigs, service rigs and related equipment specified below are exempt from PST when used substantially in the oil and gas industry, as outlined in Section B, and capitalized in the drilling or service company's records:

- Drilling and service rigs, derrick, substructure, drawworks, catwalks, rotary table and mast assembly
- Drill pipe/collars
- Coring rigs
- Iron roughnecks
- Outriggers
- Circulating systems (mud pump, mixer and tank)
- Centrifuges
- Blowout prevention systems (blowout preventer and manifold)
- Boilers
- Drive systems (top, rotary and pump)
- Shale shakers and shaker tanks
- Flare Lines and flare tanks
- Engine and generator sets that power the drilling or service rig
- Doghouses permanently affixed to the rig
- Capital maintenance on the above; expensed repair costs are taxable

All other drilling and service rig related equipment is taxable, including (this is not an all-inclusive list):

- Power tongs
- Pipe tubs
- Rig mats
- Drill bits
- Storage tanks
- Doghouse and combination buildings that are not affixed to the rig
- Directional drilling and measurement while drilling (MWD) equipment
- Repairs to taxable equipment

E. WELL SERVICING EQUIPMENT

The well servicing equipment specified below is exempt from PST when used substantially in the oil and gas industry, as outlined in Section B, and capitalized in the company's records:

- Coiled tubing units and when mounted on the coiled tubing unit; tubing reels, injectors and air compressors
- Blowout prevention systems (blowout preventer and manifold)
- Control cabins (permanently attached)
- Cement pumper trucks
- Service rig contractor pump trucks
- Frac pumping units
- High volume blenders
- Acid pumping units
- Nitrogen pumping units
- Carbon dioxide pumping units
- Wireline trucks
- Slickline units
- Hot oil units
- Continuous rod units and endless rod units
- Swabbing units
- Snubbing units
- Flushby units
- Capital maintenance on the above; expensed repair costs are taxable

All other well servicing equipment is taxable, including (this is not an all-inclusive list):

- Side spool trailers
- Crane trucks
- Vacuum and pressure trucks
- Data vans
- Chemical vans
- Mobile nitrogen generation units
- Repairs to taxable equipment

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 are subject to tax on both the charge to ship the equipment to the customer and on the return charge, whether provided by the rental company or a third party. These charges are taxable whether the rental company is located inside or outside Saskatchewan.

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:

- Blowout preventer 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. TAXABLE SERVICES

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

- Cementing and casing 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
- Well suspension services
- Site remediation services (e.g. top up soil and level land etc.)
- 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/or produce a map or 3D image of the data findings.

Note: These services are taxable when related to Saskatchewan property.

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 computer services provided in relation 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).

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 on our website at Saskatchewan.ca/PST for more information regarding the application of PST to these services.

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 in the course of employment are not subject to tax.

H. EXEMPT SERVICES

The following categories of services are exempt from PST:

- Drilling of oil and natural gas wells; and,
- Downhole servicing and downhole repairs.

Charges for the service component of the invoice are exempt from tax, including associated charges such as mileage, permits etc. PST must be collected on materials and repair parts that are incorporated or installed on-site to complete the service. This includes materials such as acids, chemicals, drilling fluids, propping agents, polymers, sealants, cement, stimulation gases, lubricants and solvents.

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 and repair parts 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 consumables used in providing the services. These items may not be purchased exempt from tax.

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

I. 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

J. 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 G.
- Conversely, consulting and supervision services that relate to an exempt or non-taxable service, such as those outlined in Sections H and I, are not subject to PST.

Wellsite Supervisors

A standalone inspection service to monitor oil and gas well facilities, to ensure they are functioning properly, are not subject to PST when those charges are not directly related to the completion of a repair to the facility. If repairs are performed, PST must be collected on those charges. For further information regarding taxable services to real property, please see Information Bulletin [PST-12, Information for Businesses Providing Services to Real Property](#).

K. 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 in the course of employment are not subject to tax.

L. 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.

M. 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.

N. 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](#)

O. **BONDING AND CLEARANCE PROCESS AND ENSURING CONTRACTOR HOLDS A VALID LICENCE**

1) **Bonding/Clearance Requirement when Hiring Contractors**

Under Section 29 of *The Provincial Sales Tax Act*, non-resident contractors consuming or using equipment or other goods during the completion of a contract in Saskatchewan are required to:

- a) post a Guarantee Bond or cash deposit in an amount equivalent to 6% of the total contract amount, or
- b) obtain a clearance letter from the Ministry of Finance to provide to the principal.

It is recommended that the principal maintain a holdback of 6% until a clearance letter is provided or proof of bonding is obtained.

It is the responsibility of the principal to ensure that contractors comply with this provision as 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.

Proof of Guarantee Bond

In the majority of cases, bonding is obtained prior to work commencing. Original bonds are to be forwarded to the Revenue Division and written confirmation will be provided upon receipt.

If proof of bonding has been obtained, the principal is not required to also maintain holdbacks for PST purposes. However, in the event that change orders are subsequently issued which increase the total contract value, a holdback must be maintained on those change orders or a bond rider must be obtained.

Clearance Letter on Final Payment

In cases where proof of bonding has not been obtained, before the final payment is made on a contract, the 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:

- Visit our website at Saskatchewan.ca/PST, or
- Call 1-800-667-6102, extension 0956, or
- Email contractorclearance@gov.sk.ca.

If the contractor does not pay the PST payable with respect to the contract, the general contractor or principal will be requested to withhold from any hold back an amount equal to the tax due, to a maximum of 6% of the contract amount, and remit this amount to the Revenue Division.

Generally a clearance letter covers a specific contract for a specific customer. However, non-residents contracted for Master Service Agreements or similar arrangements are encouraged to request clearances on a monthly basis covering all jobs per customer within that month, versus on a job-by-job basis. For larger contracts spanning over a period of several months or years, a clearance may be requested for each progress period.

2) Principal's Obligation to Ensure Contractor Holds a Valid Licence

Section 29.01 of *The Provincial Sales Tax Act* requires the principal to ensure a contractor holds a valid Saskatchewan PST vendor's licence, whether the contractor is a resident or a non-resident, before making payment of PST to the contractor.

The principal can verify that a contractor holds a valid PST vendor licence by accessing the PST On-Line Registry at <http://www.skpstregistry.gov.sk.ca/>. It is recommended that the principal maintain a print from the registry for audit purposes. Alternatively, a clearance letter for the contract would act as sufficient evidence that the contractor holds a valid licence.

P. TAX TIPS LINE

When a business or individual does not comply with provincial tax legislation, businesses face unfair competition and a burden is placed on all taxpayers who do comply. It causes significant loss in the revenue available to fund services such as health, education and other important government programs.

Tax Tips Line provides an anonymous, fully confidential way for the public to report businesses or individuals who are participating in tax fraud. If you suspect that a business or individual is being dishonest with their provincial taxes or is misrepresenting their activities to reduce their taxes, you can report them using Tax Tips Line.

Please visit our website at Saskatchewan.ca/business-taxes to find out more regarding types of tax fraud and the information to report, if possible.

Tax Tips Line is specifically and solely for information related to provincial tax compliance. Any unrelated inquiries or information will not be addressed by the Tax Tips Line, and should be directed to the appropriate organization.

How to Report:

- 1) Toll-free 1-833-334-8477
- 2) Write: Ministry of Finance
Revenue Division
PO Box 200
REGINA SK S4P 2Z6
- 3) [Online Form Submission](#)

Q. 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: sasktaxinfo@gov.sk.ca

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

Fax: 306-787-9644

Internet: Tax bulletins, forms and information are available at Saskatchewan.ca/business-taxes.

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Government website: Saskatchewan.ca