

THE RETAIL SALES TAX ACT

OIL PRODUCERS, OIL WELL DRILLING AND SERVICE CONTRACTORS

Note: Revisions to contents of previous Bulletin (July 2019) have been identified by revision bar (I) in the right margin.

This bulletin has been prepared to help oil producers and oil well drilling and service contractors comply with the requirements of *The Retail Sales Tax Act*.

Section 1 – GENERAL INFORMATION

- Except as noted in this bulletin, retail sales tax (RST) is payable by oil producers and oil well drilling and service contractors on the “fair value” of taxable tangible personal property (TPP) imported into or purchased in Manitoba for use. TPP includes machinery, equipment, apparatus and storage structures, including down-hole tubing, underground tanks, pipes, pumps and equipment.
- Geophysical survey equipment, drill rigs and well servicing equipment used in oil and gas exploration and development are exempt from RST. This includes equipment purchased for use in Manitoba and equipment brought into Manitoba on a temporary basis.
- RST is payable on services to TPP, such as repairing, maintaining, testing, installation and cleaning – including services to the exempt equipment listed above.
- “Fair value” is generally the purchase price in Canadian dollars including any charge related to the purchase such as freight, packaging, duty, exchange, brokerage and installation.
- Oil producers and oil well drilling and service contractors must register with the Taxation Division to remit RST. Following registration, the Taxation Division will provide tax reporting forms on a monthly, quarterly, or annual basis.
- RST is payable at the rate of 7 per cent.

Section 2 – TAXABLE MACHINERY, EQUIPMENT, APPARATUS & MATERIALS**Taxable
Machinery,
Equipment,
Apparatus,
Materials &
Supplies**

- Taxable machinery, equipment, apparatus, materials and supplies include:
 - casing of all types, casing heads, tubing, tubing head, fittings, couplings, thread protectors, blow-out preventors, christmas tree, tanks, and electrical systems
 - cement, pumps, pump jacks, motors, rods, gauges, valves, meters, pressure gauges, manifolds, pigs, balls, traps, counterweights or any other wellhead equipment
 - down-hole equipment
 - drilling mud and mud additives including acids, caustics, bactericides, anti-foamers, defoamers, emulsifiers, filtrate reducers, shale control inhibitors, thinners, dispersants, weighting materials, and lost circulation materials
 - hydrate and paraffin inhibitors, paraffin solvents
 - sand used for propan
 - vehicles designed for public highway use - including un-mounted trucks, tractors and/or trailers, used to transport equipment, passengers or other goods used in construction and/or repair and maintenance servicing.
- Building materials including: paint, gravel, lumber and culverts.
- Chemicals, such as corrosion inhibitors and acidizing chemicals, used in water supply wells or salt water disposal wells.
- Chemicals used for well drilling, coring, well logging, drill stem testing, well casing perforations, swabbing and well abandonment.
- Chemicals used in the process of water flooding, in the cleanup of oil spills and laboratory analysis (other than agricultural lime used to restore farm land).
- Corrosion and scale inhibitors, paraffin and scale remover, cleaners and other materials used to clean, protect, repair or maintain machinery, equipment and apparatus.
- Electrical apparatus including: switchgears, transformers, panel boards, generators, conduits, fittings, and alarm systems.
- Maintenance tools and equipment including: welders, welding supplies, pipe cutters, grinders, and hoists.
- Maintenance supplies including: nuts, bolts, lubricants, tools, abrasives, sealants, solvents, welding rods and gases, paint, wiping rags, and laboratory supplies.
- Safety clothing, fire extinguishers, and safety equipment.
- Treaters, separators, storage tanks (including frac tanks) and flow lines

(above or below ground including coating material and insulation).

Section 3 – EXEMPT MACHINERY, EQUIPMENT, MATERIALS & SUPPLIES

Exempt Drilling & Well Servicing Rigs

- Purchase or rental of drilling rigs or well servicing rigs designed and used solely (greater than 90%) for oil and gas exploration or development, or for servicing oil or gas wells. This includes standard rig components, such as derricks, mast assembly, substructure, power drive system, draw works, rotary tables, mud system, blow-out preventers and drill system (drill pipe, drill collars and drill bits) and all parts and equipment integrated into or carried on a drilling or work-over unit, including measurement while drilling (MWD) equipment.
- Purchase or rental of mobile equipment used for seismic exploration, formation testing, cementing, perforating, fracturing, acidizing and similar operations including trucks or trailers on which the related oil well and service equipment is permanently mounted.

Note: If these trucks are registered under the International Registration Plan (IRP), any Manitoba prorated vehicle tax (PVT) paid to the base jurisdiction is eligible for a 60% PVT refund. Application can be made to the Taxation Division for the refund.

- Capitalized replacement parts for the above equipment.

Note: Repair parts, labour, and supplies (generally expensed in contractor's records) are taxable.

- Oil and gas testing equipment used in activities related to exploration, development or to the operation of drilling rigs or well servicing rigs.

Exempt Geophysical Survey or Exploration Equipment

- Geophysical survey and exploration equipment used in oil and gas exploration or development including:
 - magnetometers
 - induced polarization transmitters and receivers
 - gravimeters and other instruments designed to measure the elements, variations and distortions of the natural gravitational force
 - electromagnetic and radio imaging transmitters and receivers
 - seismic survey gear, including recording equipment
 - magnetotelluric survey gear
 - magnetic susceptibility equipment
 - radiometric equipment
 - computer software programs specially designed for oil or gas exploration or development.

Exempt Materials & Supplies

- Materials and chemicals that are incorporated into crude oil or gas to stimulate and increase crude oil production (acidizing, fracturing) or to remove contaminants from the oil or gas including: acid, gel, kerosene, diesel fuel, demulsifiers, emulsifiers, dehydrators, dewaxers and dispersants.

- Agricultural lime used to restore farm land.

Section 4 – SERVICES

Taxable Services

- Services to TPP including assembly/installing or disassembly/uninstalling, well completion (other than cementing in well casings), repairing, maintaining, testing, cleaning, painting, rust-proofing, altering, modifying, or updating of machinery, equipment, or apparatus whether above or below ground are subject to RST. Services to underground flow lines and tanks are also subject to RST (earthwork is exempt if segregated on the service invoice).
 - Pulling and installation of down-hole tubing, wellhead and related production equipment (except when performed solely for purposes of well stimulation).
 - Charges for corrosion preventive maintenance on well equipment including hot oil treatment of well machinery, equipment, and apparatus.
 - Services (installation, repair, maintenance, painting, construction, etc.) to moveable buildings including storage structures (i. e. large steel tanks) that are not buildings.
 - Repair and maintenance of mechanical and electrical systems installed into or attached to buildings, machinery, equipment, or apparatus.
- Note:** Contractors performing taxable services are required to collect RST on the entire charge for these services. RST must be paid on tools and equipment used in providing the service, but well repair parts and direct consumables such as rust proofing materials can be purchased exempt from RST.

Exempt Services

- Well drilling, coring, logging, drill stem testing, well casing perforations, swabbing, and well abandonment.
- Well stimulations, i.e. acidization and other chemical stimulations and fracturing with sand and/or gel, kerosene, diesel fuel, hot oil. Related steaming services are also exempt.
- Pulling and reinstallation of down-hole tubing when done solely for purposes of oil well stimulation.
- Excavating and trenching to repair below surface lines, provided that the earthwork is segregated from the taxable repair services on the invoice. (See Bulletin No. 031 *Mechanical and Electrical Trades*)
- All other services to real property, including the on-site construction, repair or maintenance of permanent buildings, roads, ditches and fences.
- Water hauling, snow removal, and grass cutting.

Note: While these services are exempt from RST, the service provider is required to pay RST on all taxable equipment, parts, materials, and supplies that are used or consumed in the performance of the service.

Section 5 – EQUIPMENT BROUGHT INTO MANITOBA FOR TEMPORARY USE BY NON-RESIDENT CONTRACTORS

Purchased Equipment

- Equipment, other than the exempt equipment noted in Section 3 of this bulletin, is subject to RST. This includes:
 - passenger vehicles, un-mounted trucks or trailers
 - well-site trailers, shop trailers and similar units
 - water trucks, welding trucks, vacuum trucks
 - all other capital equipment.
- The equipment of a non-resident contractor is subject to RST on the full “purchase price” (see Bulletin No. 005 *Information for Contractors*) if:
 - the equipment is brought into Manitoba for permanent use; or
 - the equipment is purchased for initial use in Manitoba; or
 - the equipment is purchased and delivered in Manitoba.
- Non-resident contractors who bring equipment that they have owned for at least 30 days in another jurisdiction prior to bringing the equipment into Manitoba for a temporary period may, instead of paying RST at 7 per cent of the taxable value, pay RST based on the number of days that the property is temporarily used or available for use in Manitoba. Equipment brought into Manitoba within 30 days of being purchased is fully taxable at 7 per cent. No tax is payable on the temporary use of equipment in Manitoba unless it is in Manitoba for a total of six or more days in a calendar year.

Temporary use tax on taxpayer owned equipment should be calculated on the following basis:

$$\text{Tax} = 7\% \times A \times B/1095$$

A = Taxable value of the equipment

B = Number of days in the province

Please Note: As done previously, taxpayers can continue to apply the tax at 7% of 1/36th of the taxable value of the equipment, which for a full month approximates the tax which would apply using the formula above. The self-assessed tax is due with a contractor’s monthly RST return.

For this purpose, the **taxable value** of taxpayer-owned equipment must be established each time the equipment enters Manitoba, calculated as either:

- a) The price paid for the equipment when it was purchased, less 0.5% of

that purchase price for each month the purchaser has owned the equipment (minimum taxable value 20 per cent of purchase price), or

- b) New replacement cost of similar equipment (in Canadian dollars), less 1% of that replacement cost for each month the purchaser has owned the equipment (minimum taxable value, 20 per cent of new replacement cost).

In addition, tax is payable in full on the cost of bringing the taxable equipment into Manitoba and preparing it for use. This includes the cost of crating, handling, transportation, installation, assembly and any other related costs.

Note: Any additional third party service charges for dismantling, moving and re-installing the equipment are also taxable if the equipment is subsequently re-installed at another location in Manitoba.

- The cost of repair services and replacement parts purchased in Manitoba for this equipment is subject to RST in full (excluding capitalized costs of exempt drill and well servicing rigs, as noted in section 3).
- Contractors who have registered their vehicles under the International Registration Plan (IRP) and have paid the PVT through their prorated office on the total capitalized value including the value of any permanently mounted equipment on the truck (if applicable) are not required to pay any additional RST on the truck, trailers pulled by these trucks or any of the permanently mounted equipment. See Bulletin No. 044 for IRP registered vehicles. All unattached equipment may be subject to the temporary-use calculations.

Leased Equipment

- If the taxable equipment is being leased, and the equipment is in Manitoba for a total of six or more days in a calendar year, the RST is payable on the total monthly lease payment for each full month that the equipment is used or available for use in Manitoba. Where the equipment is only in Manitoba for part of a month, the taxable lease payment can be reduced in proportion to the number of days it was not used or available for use in the province.
- Taxable lease payments include basic lease charges, royalties, license fees and any other consideration in connection with the equipment (excluding GST).
- RST is also payable on all other charges in connection with the equipment including charges (in full) for crating, handling, transportation, installation, and repair or maintenance of the equipment while in Manitoba.

Section 6 – SALE OF OIL AND GAS WELLS

Sale of Oil and Gas Wells

- Tax is payable on the used TPP included in the sale of existing oil and gas wells. This applies to all property other than real property and

includes machinery, equipment, apparatus and storage structures that may be installed on, under or in, or attached to buildings or land such as down hole tubing, underground tanks, pipes, pumps and related equipment.

Section 7 – TAX ON ELECTRICITY

- Tax Reduction on Electricity**
- A reduced tax rate applies to purchases of electricity by a well operator for use in the operation of machinery and equipment at a completed well site in the production of oil or gas. The reduced rate is 1.4 per cent. An application must be made to the Taxation Division.

FURTHER INFORMATION

This bulletin is intended to serve as a guideline and is not all-inclusive. For the specific wording of the law, please refer to the *Retail Sales Tax Act* and *Regulations*. Further information may be obtained from:

Winnipeg Office

Manitoba Finance
Taxation Division
101 - 401 York Avenue
Winnipeg, Manitoba R3C 0P8
Telephone (204) 945-5603
Manitoba Toll Free 1-800-782-0318
Fax (204) 945-0896
E-mail: MBTax@gov.mb.ca

Westman Regional Office

Manitoba Finance
Taxation Division
314, 340 - 9th Street
Brandon, Manitoba R7A 6C2
Fax (204) 726-6763

ONLINE SERVICES

Our Web site at manitoba.ca/finance/taxation provides tax forms and publications about taxes administered by Taxation Division, and a link to Manitoba's laws and regulations. Forms and publications can also be obtained by contacting the Taxation Division.

Our online service at manitoba.ca/TAXcess provides a simple, secure way to apply for, and to file, pay and view your Taxation Division tax accounts.