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Oil and Gas Industry – Producers and Processors

Provincial Sales Tax Act

Latest Revision: *The revision bar (|) identifies changes to the previous version of this bulletin dated June 2014. For a summary of the changes, see Latest Revision at the end of this document.*

This bulletin provides information to help producers and processors in the oil and gas industry understand how the PST applies to their businesses.

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

- **Bulletin PST 114**, *Oil and Gas Industry – Exploration, Discovery and Development*
- **Bulletin PST 115**, *Oil and Gas Industry – Service Providers*

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Overview

In this bulletin:

- **goods** means 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, and
 - 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.
- **oil and gas producer** means a person who extracts or processes petroleum or natural gas:
 - for sale if there is a reasonable expectation that the total value of sales of that petroleum or natural gas will exceed \$30,000 per year,
 - for the person’s own business use if there is a reasonable expectation that the total cost of extracting or processing that petroleum or natural gas will exceed \$30,000 per year, or
 - for both sale and the person’s own business use if there is a reasonable expectation that the total cost of extracting or processing that petroleum or natural gas will exceed \$30,000 per year.
- **qualifying petroleum or natural gas** means petroleum or natural gas extracted or processed by an oil and gas producer either for sale by the oil and gas producer, or for the oil and gas producer’s own business use.
- **substantially** means more than 90%.

If you qualify for the production machinery and equipment exemption (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.

- Extraction or processing of petroleum or natural gas
- Pollution control and waste management
- Transmission or distribution of goods or software
- Transmission or distribution of electricity

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

- Manufacturing, software development and local government power generation – see [Bulletin PST 110](#), *Production Machinery and Equipment Exemption*
- Logging – see [Bulletin PST 112](#), *Logging Industry*
- Exploration for, discovery of or development of, petroleum or natural gas – see [Bulletin PST 114](#), *Oil and Gas Industry – Exploration, Discovery and Development*
- Exploration for minerals or development of mines, or extraction or processing of minerals – see [Bulletin PST 111](#), *Mining Industry*
- Geophysical surveying – see [Bulletin PST 114](#), *Oil and Gas Industry – Exploration, Discovery and Development* and [Bulletin PST 111](#), *Mining Industry*

Extraction or Processing of Qualifying Petroleum or Natural Gas

If you are an oil and gas producer, you may obtain PM&E exempt from PST if the PM&E is for use in BC:

- primarily at the well site or the qualifying part of the processing plant or refinery, and
- primarily and directly in the extraction or processing of qualifying petroleum or natural gas.

As an oil and gas producer, you may also obtain generators exempt from PST if the generator is:

- to be located primarily at a well site, and
- obtained for use in the extraction or processing of qualifying petroleum or natural gas.

Primarily means used over 50%. How you make the measurement of primarily depends on the nature of the PM&E. You may measure it in terms of time, volume, production value 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 production phases. When this happens, the time when the PM&E is idle or in storage is not considered use. You calculate primarily based on the actual usage.

Directly means PM&E must be a part of, or an integral component of, the process that transforms the raw material into the marketable product (see below).

Qualifying Sites

The exemption for extraction or processing of qualifying petroleum or natural gas is site specific and limited in scope, and only applies at the well site and at the qualifying part of a processing plant or refinery.

Well Site

A well site is the area identified as such in the application for approval for drilling submitted to the Oil and Gas Commission. The well site is identified by a survey map or similar description provided by the well site operator.

Qualifying Part of a Processing Plant or Refinery

The qualifying part of a processing plant or refinery is the part of the processing plant or refinery up to the point where the petroleum or natural gas becomes a **marketable product**.

Marketable product means a naturally occurring, refined or processed petroleum or natural gas that is:

- available for sale for direct consumption as a domestic, commercial or industrial fuel or as an industrial raw material, or
- delivered to a storage facility.

A **processing plant** is a plant in which petroleum or natural gas is processed and includes any of the following units (including combinations of units).

- Dehydrators
- Separators
- Sweeteners
- Treaters

Activities, such as blending, grading, combining, grouping, mixing, sorting, testing, packaging, repackaging and generating heat are excluded from the PM&E exemption unless they occur at the qualifying part of the processing plant or refinery and are one step in, or occur immediately after, processing.

The following are not processing plants.

- Machinery or equipment used to transport or distribute petroleum or natural gas:
 - from the well site,
 - to the processing plant or refinery, or
 - between processing plants.
- Machinery or equipment used to transport a marketable product.
- Stand-alone compressors on gathering lines.

Transportation or Distribution Machinery and Equipment

PM&E used to transmit or distribute qualifying petroleum or natural gas at the well site or at the qualifying part of the processing plant or refinery does not qualify for the exemption for extraction or processing of qualifying petroleum or natural gas, but may be eligible for the exemption for transmission or distribution of goods or software. For more information, see Transmission or Distribution of Goods or Software below.

Examples of Qualifying PM&E

See Appendix 1 for examples of PM&E that qualify for this exemption.

Self-Manufacture for Own Use

If you are an oil and gas producer, the PM&E you obtain for use in BC primarily and directly to manufacture goods or develop software qualifies for the PM&E exemption if the goods or software are for use in BC in the extraction or processing of qualifying petroleum or natural gas.

This applies only to the PM&E used to produce the goods or develop the software that is obtained for use primarily at a well site or the qualifying part of a processing plant or refinery.

Pollution Control and Waste Management

Pollution Control

Machinery and equipment obtained for use substantially and directly in the detection, prevention, measurement, treatment, reduction or removal of pollutants in the water, soil or air qualify for the PM&E exemption if:

- the pollutants are attributable to the manufacture of goods, or the extraction or processing of petroleum or natural gas,
- the machinery and equipment are obtained by a person eligible for the PM&E exemption (e.g. an oil and gas producer), and
- the machinery and equipment are obtained for use substantially at:
 - the qualifying part of a processing plant or refinery, or
 - a well site.

The following are examples of pollution control PM&E that qualify for this exemption:

- Blowout ignition system
- Flare tank systems, flare stacks, flare lines and incinerators that are used to control polluting emissions
- Optical hydrogen sulphide sensors

Waste Management

Machinery and equipment obtained for use in BC substantially and directly in carrying refuse or waste from exempt PM&E, or for exhausting dust or noxious fumes from exempt PM&E, qualify for the PM&E exemption if:

- the refuse, waste, dust or noxious fumes are attributable to the manufacture of goods, or the extraction or processing of petroleum or natural gas,
- the machinery and equipment are obtained by a person eligible for the PM&E exemption (e.g. an oil and gas producer), and
- the machinery and equipment are obtained for use substantially at:
 - the qualifying part of a processing plant or refinery, or
 - a well site.

Note: Basic clean-up equipment for a well site, processing plant or refinery does not qualify.

The following is an example of waste management PM&E that qualifies for this exemption.

- Salt water disposal lines located within a processing plant

Waste Gas Machinery and Equipment

Waste gas machinery and equipment means pipes, valves, fittings, pumps, compressors and regulators, and other related machinery or equipment used to transmit, or inject, waste gas comprised primarily of hydrogen sulphide and carbon dioxide.

Waste gas machinery and equipment qualify for the PM&E exemption if obtained by an oil and gas producer solely to:

- transmit waste gas within a natural gas processing plant, or from a natural gas processing plant, to a location where it is injected into a disposal well for permanent disposal, or
- inject waste gas into a disposal well for permanent disposal.

Manufacturers and Mine Operators

Manufacturers and mine operators also qualify for the PM&E exemptions for pollution control and waste management. For more information, see [Bulletin PST 110](#), *Production Machinery and Equipment Exemption* and [Bulletin PST 111](#), *Mining Industry*.

Transmission or Distribution of Goods or Software

Oil and gas producers qualify for the PM&E exemption for machinery and equipment used to transmit or distribute goods or software in an intangible format if:

- the machinery and equipment are obtained by an oil and gas producer for use in BC primarily and directly in the transmission or distribution of goods or software at the well site or the qualifying part of the processing plant or refinery,
- the machinery and equipment are obtained for use primarily at the well site or at the qualifying part of the processing plant or refinery, and
- the goods or software to be transmitted or distributed are primarily:
 - qualifying petroleum or natural gas,
 - goods that are to be attached to or processed, fabricated, manufactured or incorporated into qualifying petroleum or natural gas, or
 - goods, or software in an intangible format, that are to be attached to or processed, fabricated, manufactured or incorporated into goods, or software in an intangible format, for use in the extraction or processing of qualifying petroleum or natural gas.

The following are examples of PM&E that qualify for this exemption.

- Compressors (including those powered by electricity or natural gas) – when used at a well site or processing plant or refinery up to the point where the natural gas is a marketable product
- Pipe – located at a well site, processing plant or refinery and used up to the point where the petroleum or natural gas is a marketable product (see also Waste Management above); pipes used for gathering lines or after the petroleum or natural gas is a marketable product are taxable
- Pumps – located at a well site, processing plant or refinery and used up to the point where the petroleum or natural gas is a marketable product (see also Waste Management above); pumps used after the petroleum or natural gas is a marketable product are taxable

Machinery and equipment (e.g. compressors and pipelines) located at the qualifying part of a processing plant or refinery that are used to transport a marketable product from the qualifying part of a processing plant or refinery do not qualify for the PM&E exemption.

Machinery and equipment not located at a well site or at the qualifying part of a processing plant or refinery that are used to transport petroleum or natural gas from or between eligible sites also do not qualify for this exemption. For example, you pay PST on pipelines that are not located at a well site that transmit natural gas from a well site to the qualifying part of a processing plant.

Manufacturers and Mine Operators

Manufacturers and mine operators also qualify for the PM&E exemption for transmission or distribution of qualifying minerals, goods or software. For more information, see [Bulletin PST 110](#), *Production Machinery and Equipment Exemption* and [Bulletin PST 111](#), *Mining Industry*.

Transmission or Distribution of Electricity

In this section, **electrical machinery and equipment** means transformers, and converters, inverters, regulators, breakers and switches that are designed for use with transformers.

Note: The exemptions described below are for machinery and equipment, not electricity. Electricity is not machinery or equipment, and does not qualify for the PM&E exemption, even when used in the processes described below.

Oil and gas producers qualify for the PM&E exemption for electrical machinery and equipment if:

- the electrical machinery and equipment are obtained by an oil and gas producer for use in BC substantially in the transmission or distribution of electricity at or to the well site or the qualifying part of the processing plant or refinery,
- the electrical machinery and equipment are to be situated at the well site, processing plant or refinery, and
- the electricity is for use:
 - primarily and integrally in the extraction or processing of qualifying petroleum or natural gas, or
 - primarily to power PM&E that is exempt under the PM&E exemptions for:
 - extraction or processing of qualifying petroleum or natural gas,
 - pollution control,
 - waste management,
 - transmission or distribution of goods or software, or
 - PM&E used to operate, control or monitor exempt PM&E.

Manufacturers and Mine Operators

Manufacturers and mine operators also qualify for the PM&E exemption for electrical machinery and equipment. For more information, see [Bulletin PST 110](#), *Production Machinery and Equipment Exemption* and [Bulletin PST 111](#), *Mining Industry*.

Electricity Used Primarily for a Non-Qualifying Purpose

If 50% or more of the electricity is used for a purpose other than the above purposes, such as the general use of a building, the transformer and other equipment for use and used with transformers is not eligible for the PM&E exemption.

Service Providers

Businesses that use machinery and equipment to provide manufacturing services to oil and gas producers are eligible for the PM&E exemption for service providers. For more information, see [Bulletin PST 115](#), *Oil and Gas Industry – Service Providers*.

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

If you are eligible for the PM&E exemption, you are exempt from PST on:

- PM&E and software obtained for use primarily to operate, control or monitor exempt PM&E, or
- software obtained for use to operate PM&E for use primarily to operate, control or monitor other exempt PM&E, if the PM&E is for use substantially at a well site or the qualifying part of a processing plant or refinery.

The following are examples of PM&E that qualify for this exemption.

- Automated equipment for use to control or monitor production at the well site or the qualifying part of the processing plant or refinery
- Control panels – used to run generators at a well site
- Electronic drilling recorders (EDRs) and EDR systems
- Gas flow equipment when used downhole to monitor gas flow
- Measurement while drilling (MWD) equipment used to monitor the drill bit's downhole position
- Optical sensors used with hydrogen sulfide testing equipment
- Pit volume totalizer (PVT) - used to monitor the bore hole / mud flow
- SCADA (Supervisory Control and Data Acquisition) used to monitor and control production at the well site, processing plant or refinery

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. This includes word processing, spreadsheet, email, photo editing and anti-virus software.

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

Parts, Materials and Services for PM&E

Parts for PM&E

If you are eligible for the PM&E exemption, you are exempt from 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 are exempt from 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.

Materials eligible for exemption include sheet metal and bulk wire.

Taxable Items

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

- Gases, liquids or consumable solids (e.g. sealants, lubricants such as grease)
- Parts and materials used to self-manufacture qualifying PM&E for own use
- Parts and materials 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
 - 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 (unless you have a tax payment agreement – see Tax Payment Agreements below).

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 or materials for taxable purposes than estimated, you must self-assess (pay directly to us) the PST owing on the portion obtained exempt but used for a taxable purpose.

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 or materials for a taxable purpose.

If the reconciliation shows you used more parts or materials for exempt purposes than estimated, you can claim a refund from us for the PST paid on the portion used for exempt purposes. For more information, 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 Claiming the PM&E Exemption below.

For more information, see [Bulletin PST 301](#), *Related Services*.

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* ([FIN 492](#)) when claiming the following exemptions.

- Purchases or leases of exempt PM&E
- Purchases or leases of exempt parts or materials for exempt PM&E
- 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 materials. It is not enough to simply state “production machinery and equipment”. For example, if you are purchasing drill bits, regulators or coiled tubing, 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 separator” 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) 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* ([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 must charge and collect the PST on that sale or lease and remit it to us 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, see [Bulletin PST 400](#), *PST Refunds*.

Note: If your customer claims this exemption with an exemption certificate and it is later found 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 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* ([FIN 492](#)), you may develop your own certification, provided all the required information and the declaration statement from the exemption certificate are 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

Geophysical Surveying

If you engage in petroleum or natural gas exploration and development, you may be eligible for the PM&E exemptions for geophysical surveying equipment, or for exploration for, discovery of or development of petroleum or natural gas. For more information, see [Bulletin PST 114](#), *Oil and Gas Industry – Exploration, Discovery and Development*.

Goods Incorporated into Other Goods for Resale or Lease

You are exempt from PST on goods you obtain solely for processing, fabricating, manufacturing, attaching or incorporating 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](#)).

For more information, see [Bulletin PST 208](#), *Goods for Resale*.

Containers and Packaging Materials

You are exempt from PST on containers and packaging materials (except reusable containers) you obtain solely for packaging 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, see [Bulletin PST 305](#), *Containers and Packaging Materials*.

Catalysts, Direct Agents and Chemical Substances

Subject to the exceptions below, you are exempt from PST on catalysts, direct agents and chemical substances if they are obtained for use:

- in the processing or manufacture of a product for sale or lease, and
- to produce or modify a physical or chemical reaction that is essential for that processing or manufacturing.

For a substance to qualify as a **catalyst**, the substance must produce or modify a chemical reaction and must remain unchanged at the end of the reaction. For a substance to qualify as a **direct agent**, the substance must produce or modify a chemical reaction and must be consumed in the chemical reaction to the point of destruction, dissipation or uselessness for any other purposes. Chemical substances qualify for the exemption as long as they meet the criteria listed in the bullets above.

The reaction produced or modified by catalysts, direct agents and chemical substances may be physical or chemical. To qualify for the exemption, catalysts, direct agents and chemical substances do not need to come into direct contact with, or be temporarily incorporated into, the material being processed or manufactured.

The following qualify for this exemption.

- Dehydration chemicals (e.g. glycols and silica gel) used in the processing of natural gas to separate and remove water from wet natural gas
- Diethanolamine used as a direct agent to absorb H₂S from natural gas
- Methanol – when used to ensure the flow of natural gas is not impeded during natural gas processing

Exceptions

Catalysts, direct agents and chemical substances do not qualify for the exemption if they are used:

- to produce energy or as a source of energy, except:
 - electricity for use in an electrolytic process
 - exothermic sleeves obtained for use in the casting of metal or metal alloys,
- to process goods, unless the processing is one step in, or occurs immediately after, a series of operations or a complex operation that results in a substantial change in the form or other physical or chemical characteristics of the goods,
- to transform goods from one state to another (gaseous, liquid or solid state) by applying pressure or a change in temperature, unless the transformation is one step in, or occurs immediately after, a series of operations or a complex operation that results in a substantial change in the form or other physical or chemical characteristics of the goods,
- for the primary purpose of maintaining, lubricating or prolonging the life of machinery and equipment,

- for adding to waste removed from the production process,
- for adding to a tailings pond or settling pond,
- for testing purposes, or
- for cleaning or sanitizing (e.g. for sanitizing equipment or facilities), unless the catalyst, direct agent or chemical substance is for use for the primary purpose of cleaning or sanitizing the goods.

If you have any questions, or if you need further information on whether a catalyst, direct agent or chemical substance qualifies for the exemption, please contact us.

You do not need to provide any documentation to claim this exemption. However, the supplier's records must clearly show the reason why the goods were sold exempt from PST (i.e. the supplier documented on the receipt that the items were purchased exempt as catalysts).

Materials Used to Make Prototypes

You are exempt from PST on most materials used to make qualifying prototypes. For information on what qualifies as a prototype and the criteria for this exemption, see [Bulletin PST 209](#), *Exemption for Prototypes*.

Safety Equipment and Protective Clothing

The following safety equipment and protective clothing are 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 and 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, see [Bulletin PST 100](#), *Safety Equipment and Protective Clothing*.

Refunds

If you are eligible for the PM&E exemption and you paid PST on exempt PM&E, or on exempt parts, materials or related services for exempt PM&E, you may be eligible for a refund.

Requesting a Refund from your Supplier

If you paid PST to your supplier on exempt PM&E because you did not provide a completed *Certificate of Exemption - Production Machinery and Equipment* ([FIN 492](#)) at the time of sale or lease, your supplier may provide you with a refund or credit of the PST paid if you provide a completed certificate within 180 days of the date the PST was paid.

Requesting a Refund from Us

To apply for a refund from us, provide us with a completed *Application for Refund of Provincial Sales Tax (PST) Paid on Production Machinery and Equipment* ([FIN 355/PME](#)) and the required supporting documentation listed in the form instructions. Send your refund application and supporting documents to the address provided on the application form.

We must receive your refund claim within four years of the date you paid the PST. If you receive a refund from your supplier, you cannot also apply for a refund from us.

Taxable Goods

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 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 if 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, see [Bulletin PST 302, Delivery Charges](#).

Change in 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.

Calculating Depreciation

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. Goods not listed below **cannot** be depreciated.

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

To calculate the depreciation rate, follow these steps:

1. Calculate the number of whole years between the date you acquired the goods and the date you used them for a taxable purpose.
2. After calculating #1 above, calculate the number of days remaining in the partial year (if any) between the date you acquired the goods and the date you used them for a taxable purpose. Both the first and last days should be counted.
3. Divide the number of days calculated under #2 by 30 and round to the nearest whole number (0.5 and above is rounded up to 1). This is the number of 30-day periods.
4. Calculate the depreciation rate by multiplying the applicable rates in the table above by the number of years and 30-day periods.

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 and equipment related to the use of a building as a building (except shelters that are exempt under the PM&E exemption for PM&E obtained for use in the exploration, discovery or development of petroleum or natural gas).
- Cleaning supplies, such as cleaning solution and rags.
- Gases, such as oxygen and acetylene, that are not exempt as catalysts, substances and direct agents (see Catalysts, Substances and Direct Agents above).
- General, administrative and office machinery or equipment and supplies, such as desks, phones, computers, photocopiers and fax machines.
- Machinery and equipment obtained for use in:
 - the construction of buildings,
 - the construction or maintenance of roads, or
 - site preparation (except machinery and equipment exempt as PM&E obtained for use in the exploration, discovery or development of petroleum or natural gas).
- Machinery and equipment used to generate heat, such as a boiler.

- Machinery and equipment used to repair, maintain or service exempt PM&E.
- Portable or mobile generators and alternators (except 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, except software used primarily to operate, control or monitor certain PM&E (see PM&E and Software Used to Operate, Control or Monitor Exempt PM&E above).
- Storage tanks, including terminal or refinery storage tanks, and fuel storage tanks.
- 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 a truck-mounted service rig.

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 must pay PST on the total amount 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 your 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 brought, sent or received goods into BC.

Goods Brought Into BC

Generally, PST applies if you bring or send goods into BC, or receive delivery of goods in BC, for use, unless a specific exemption applies.

If you own the goods and you brought or sent the goods into BC, or received delivery of the goods in BC for **temporary use** in BC, see [Bulletin PST 307](#), *Goods Brought Into BC for Temporary Use*.

If you own the goods and they are not for temporary use in BC, see [Bulletin PST 310](#), *Goods Brought Into BC*.

If you lease the goods, see [Bulletin PST 315](#), *Rentals and Leases of Goods*.

Real Property Contracts and Affixed Machinery

Real property is land and anything that is attached to the land so it becomes part of real property upon installation (i.e. 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.

Real property contractors must pay PST on taxable goods they obtain to fulfil a contract to supply and affix, or install, goods to real property. They do not charge their customers PST on the charge for the contract.

Exception: Contractors are exempt from PST on goods they use to fulfil a contract if the contract is with certain persons who are exempt from PST. They may also be exempt if they have an agreement that states their customer agrees to pay the PST on the goods and that agreement meets specific conditions.

For more information, see [Bulletin PST 501](#), *Real Property Contractors*.

Affixed Machinery

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 in the provision of software or a service, and
- affixed to, or installed in, a building, a structure or land so that it becomes part of real property.

Certain machinery, equipment and apparatus are excluded from the definition of affixed machinery. For more information on what is excluded, see [Bulletin PST 503](#), *Affixed Machinery*.

For the purpose of the PST, affixed machinery that is already installed is tangible personal property (goods). This means if you purchase or lease real property in which affixed machinery is already installed, you are purchasing or leasing goods (the affixed machinery) and must pay PST on the purchase price or lease price of that affixed machinery, unless a specific exemption applies.

Generally, compressors installed in a pipeline are affixed machinery.

For more information, see [Bulletin PST 503](#), *Affixed Machinery*.

Tax Payment Agreements

Eligible businesses may apply to enter into a voluntary tax payment agreement (TPA) with us.

A TPA allows eligible businesses to defer paying PST when they purchase or lease certain items for business use, and to self-assess and pay the PST due on any items later used for a taxable purpose.

For more information, see [Bulletin PST 317](#), *Tax Payment Agreements*.



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The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation.

Latest Revision

August 2016

- Added information on claiming refunds if you pay PST on exempt PM&E
 - Clarified when real property contractors may be exempt from paying PST on goods they use to fulfill a contract
 - Clarified the information in the Catalysts, Direct Agents and Chemical Substances section
 - Clarified that you are exempt from PST on:
 - goods you obtain solely for processing, fabricating, manufacturing, attaching or incorporating into other goods for resale or lease
 - containers and packaging materials (except reusable containers) you obtain solely for packaging goods for sale or lease, or if you provide them to your customers with their purchases
 - Other minor revisions
-

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.

Extraction or Processing of Qualifying Petroleum or Natural Gas

If you are an oil and gas producer, you may obtain PM&E exempt from PST if the PM&E is for use in BC:

- primarily at the well site or the qualifying part of the processing plant or refinery, and
- primarily and directly in the extraction or processing of qualifying petroleum or natural gas.

The following are examples of PM&E that qualify for this exemption.

- Absorption towers (absorbers)
- Alternators (stationary) – when used at a well site or processing plant or refinery up to the point where the natural gas is a marketable product – may qualify under PSTERR 95(1)(b)(i)
- Amine skids – used to remove CO₂ and other impurities from the raw natural gas stream at a processing plant or refinery
- Batteries for exempt PM&E
- Dehydrators and gas dehydration equipment, including mole sieve dehydrators and mole sieve pellets and glycol recovery equipment
- Filters (including coalescing filters) and filter bags
- Flow, pressure and temperature controllers and metering instrumentation; includes the piping or tubing to tie instrumentation and metering into the equipment for process control
- Gas chromatographs and composite samplers to measure gas composition at the plant
- Gas lift lines – located at a production well site to encourage the flow or transport of gas from the reservoir to the surface
- Generators (stationary) – when used at a well site or processing plant or refinery up to the point where the natural gas is a marketable product (see below for an additional general exemption for generators) – may qualify under PSTERR 95(1)(b)(i)
- Heat exchangers
- Lab testing equipment
- Line heaters – located at the well site to preheat gas (does not include line heaters on the pipeline); includes electric heat tracing used to prevent processing lines from freezing
- Machinery and equipment used to inject substances into a reservoir to aid, assist, enhance or maintain production of petroleum or natural gas from the reservoir
- Meter provers and components to maintain accurate meter readings
- Methanol recovery equipment including tower, storage, preheater, reboilers, condenser, cooler and pumps
- Packers used during well stimulation
- Plunger lifts
- Pumpjacks
- Safety valves
- Storage tanks – used at a processing plant to store natural gas before it is a marketable product
- Sulphur recovery equipment
- Valves to control pressure and flow of gas and liquids
- Vessels used at a processing plant to receive or process natural gas and liquids
- Wellhead

Appendix 1 – Examples of Exempt Items

- Well meter skids – as protective coverings that are so closely integrated with the equipment they protect that they are a part of that equipment

As an oil and gas producer, you may also obtain generators (portable, mobile) exempt from PST if the generator is:

- to be located substantially at a well site, and
- obtained for use in the extraction or processing of qualifying petroleum or natural gas.

Other Exemptions

- Gas detection monitors that monitor for gas on a continuous basis (exempt as safety equipment; see [Bulletin PST 100, Safety Equipment and Protective Clothing](#))
- Gas shut-off devices (emergency; exempt as safety equipment; see [Bulletin PST 100, Safety Equipment and Protective Clothing](#)), if:
 - designed for manually shutting off the gas supply of a building, or
 - attached to a gas line and designed to automatically shut off the gas supply to a building in response to significant movement
- Scaffolding, walkways, catwalks and similar items that are an integral part of exempt PM&E, only if obtained as part of that PM&E
- Water in liquid or frozen form
- Welding rods and solder – when used in the manufacture of a product for resale as they become a component of the finished product

Examples of Taxable Items

This is a list of taxable items commonly used by the oil and gas industry. The items are taxable regardless of whether they are new or used. This is not a complete list.

- Absorbent mats - used on walkways
- Acetylene gas
- Acids (stimulation) - chemicals used downhole or injected in oil/gas formations
- Administrative equipment and supplies
- All terrain vehicles (ATVs)
- Anti-foamers - used to prevent build-up of foam in production equipment
- Anti-freeze
- Argon gas - as an inert welding gas or used in repair jobs
- Asphaltene control chemicals (these prevent scale build-up in downhole and surface pipes and equipment)
- ATVs (all terrain vehicles)
- Backhoes
- Bags (cloth) with printed tags - used in well testing
- Bales (straw) - used for pipeline erosion control
- Barite - drilling mud or fluid
- Batteries - unless for exempt equipment
- Bentonite - drilling mud or fluid; quick viscosifying
- Biopolymer powder
- Bit baskets - that hold drill bits in preparation for drilling the well
- Boxes - shipping (used in well testing), core
- Buildings - includes buildings that provide office or dwelling space; geologist lab trailers; skid-mounted living trailers
- Bulldozers
- Burlap gunny sacks - used in well testing
- Calibration gas - for H₂S monitors and H₂S analyzers
- Casing cement
- Caustic soda - drilling mud or fluid
- Cell phones
- Cellophane
- Cement pads for supporting or securing exempt equipment (except cement pads that are a part of a drilling rig or derrick)
- Cheater bars (maintenance tools)
- Chemicals - for weed control (e.g. glyphosate, dehydration, fracturing)
- Cleaners/degreasers - includes oilfield equipment
- Cleaning supplies
- Cloth bags with printed tags - used in well testing
- Communication equipment - includes satellite communications equipment

Appendix 2 – Examples of Taxable Items

- Compressors - includes compressors used in the transportation and distribution system (e.g. located between processing plants; on gathering lines)
Note: compressors may be affixed machinery or an improvement to real property
- Computers - except computers used to operate, control or monitor exempt PM&E
- Concentrated viscosifiers
- Connecting lines between tank battery and well site
- Core boxes
- Corrosion inhibitors - added to upstream installations for preventative maintenance
- Culverts - includes culverts used for access roads
- Deflocculants - used in fresh water mud systems
- Detergents - drilling
- Dispersants
- Disposal lines - salt water from tank batteries to disposal wells
- Dope - pipe
- Drilling - detergent; muds; surfactants
- Dry polymer viscosifiers
- Electric generators and alternators - portable, mobile, stand-by - includes drive motors, generator and alternator sets (see the Extraction or Processing of Qualifying Petroleum or Natural Gas exempt list)
- Engine oils
- Enviro shacks - such as those consisting of three compartments for hazardous waste, domestic waste and a heated toilet room
- Equipment that is supplementary or auxiliary to any machinery or equipment used in the transportation and distribution system (e.g. gathering lines)
- Equipment and supplies - office, administrative, camp equipment
- Excavators
- Explosives - includes explosives used in road construction or for seismic surveys
- Fence - including at well head location
- Fittings - includes fittings used in the transportation and distribution system (e.g. on gathering lines)
- Flame detectors - when used on gathering lines or other transportation lines
- Flange spreaders
- Forklifts - unless they qualify for the PM&E exemption for transmission or distribution of goods
- Fluids - fracturing, stimulating, well servicing
- Foamers - used downhole to enhance production
- Fracturing chemicals
- Fuel gas lines - for oil and gas production machinery
- Furnishings
- Gas - welding, acetylene, argon - when used as an inert welding gas or in repair jobs; calibration gas for H₂S monitors and H₂S analyzers

Appendix 2 – Examples of Taxable Items

- Gas lift lines - when located at a storage well site (these are exempt if located at a production well site to encourage the flow or transport of gas from the reservoir to the surface)
- Graders
- Gravel - for well pads, processing plant on-site roads
- Grease
- Gunny sacks
- Hammer wrenches
- Heaters, line - used on pipelines (except line heaters located at the well head for preheating gas)
- Heating fuel - used or consumed in the drilling and well-servicing process
- Inhibitors - corrosion added to upstream installations for preventative maintenance
- KCL fluid - additive to drilling mud to control pressure
- Lab testing equipment - unless it is used at a manufacturing site where the testing is one step in or occurs immediately after the processing/manufacturing is completed
- Labels - for vials used in well testing
- Light towers or light plants
- Lignite - drilling mud or fluid
- Line heaters - used on pipelines (except line heaters located at the well head for preheating gas)
- Liners used on the ground
- Lines - salt water disposal lines from tank batteries to disposal wells; connecting lines between tank battery and well head; gas lift lines located at a storage well site; fuel gas lines for oil and gas production machinery; well flow lines transporting raw product from a well to a satellite, battery, line pipe, or processing plant
- Liquid viscosifiers
- Loaders - includes loaders used to move drill pipe to and from the drilling rig
- Lubricants
- MDS radio antenna
- Maintenance tools - includes cheater bars
- Manufactured proppant
- Mat - absorbent, rig matting used on access roads to prevent shrinkage, mats used on the ground
- Mobile radios
- Motor vehicles - used to transport equipment or on which equipment is mounted except truck-mounted service rigs (see Vehicles below)
- Mud - drilling
- Nitrogen - used to stimulate production
- Office equipment and supplies
- Oil, heating - includes oil used to heat a drilling rig, engine
- Oxygen
- Packers - used to plug abandoned well holes
- Paint supplies

Appendix 2 – Examples of Taxable Items

- Paraffin solvents - used to dissolve and disperse paraffin deposits that build up in well casings, well head equipment and pipelines
- Pick-up trucks
- Pilings - for supporting or securing exempt PM&E
- Pipe - includes pipe used in the transportation and distribution system (e.g. gathering lines),
- Pipe dope
- Portable buildings
- Portable toilets - includes rentals if the agreement is for rental only
- Potable water storage tanks
- Power washers
- Proppant, manufactured
- Pumps - when used in the transportation and distribution system (e.g. gathering lines), vacuum and wash pump used to clean up around rig and wash equipment
- Radio - phone, mobile, VHF, two-way
- Radio antenna - MDS
- Reactive welding gases - when used in a repair service
- Regulators - when used in the transportation and distribution system (e.g. gathering lines)
- Salt water disposal lines - from tank batteries to disposal wells
- Sample bags
- Sand - includes sand used to stimulate well production
- Satellite communications equipment
- Sawdust - includes use on ice/snow access roads
- Scaffolding, walkways, catwalks and similar items unless they are an integral part of exempt PM&E and are included as part of that PM&E when it is purchased or leased
- Scrapers
- Seismic explosives
- Shipping boxes - used in well testing
- Sidebooms
- Skid-mounted trailer - used as a geologist's lab at well site
- Skidders
- Snowmobiles
- Soda ash
- Soda, caustic - drilling fluid or mud
- Software – except software used to operate, control or monitor exempt PM&E
- Stimulating fluids
- Stimulation acids - chemicals used downhole or injected in oil/gas formations
- Storage tanks - (see Tanks below)
- Straw bales - used for pipeline erosion control
- Supplies - cleaning, painting, administrative, drafting
- Support buildings - includes office or dwelling space
- Surfactants - includes those used in drilling

Appendix 2 – Examples of Taxable Items

- Tank battery
- Tanks - stand alone including those used for fuel or frac fluids; bulk storage tanks; stand alone tanks (e.g. fuel, water) that are not part of a truck-mounted service rig; fuel storage; general purpose storage; tank battery; water storage tank (potable water)
- Telecommunication services
- Toilets, portable - includes rentals without any services included
- Tools – maintenance (e.g. wrenches, hammers, welders' tools)
- Topsoil - includes topsoil used to restore the land back to its natural state
- Towers - light
- Trailers - used to transport equipment; used as living quarters for staff, food preparation/diners, offices or other non-production activities; skid-mounted used to transport exempted equipment such as a trailer-mounted vacuum
- Trucks - includes cementing, fracturing, laydown, pick-up, tong, tandem water, transport, vacuum, line trucks designed and used specifically for seismic prospecting
- Two-way radios
- Vacuum and wash pump – used to clean up around rig and wash equipment
- Valves used in the transportation and distribution system (e.g. gathering lines)
- Vehicles - designed to be used on a public road (e.g. motor vehicles used to transport equipment, loaders, logging trucks, well servicing trucks, ATVs - see Trucks above)
- Vials - used in well testing
- Viscosifiers - liquid; dry polymer; concentrated
- Waste management bins - includes rentals without services
- Water clarifiers - used to remove residual oil in produced water prior to disposal or re-use
- Water disposal lines and associated machinery and equipment - that are located outside of a processing plant
- Weed control chemicals (e.g. glyphosate)
- Welding gas
- Well flow lines transporting raw product from a well to a satellite, battery, line pipe or processing plant
- Well head fence
- Wood shavings - includes use on ice/snow access roads