

Information Bulletin

PST-14

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THE PROVINCIAL SALES TAX ACT

OIL AND NATURAL GAS PRODUCERS

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 (I) in the left margin.

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

- A. Taxable Goods
- B. Taxable Services
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- D. Sales and Transfers of Business Assets
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- G. Environmental Fees
- H. Tax Tips Line
- I. Saskatchewan eTax Services (SETS)

A. TAXABLE GOODS

1. Equipment, Tools, Materials, Supplies and Repair Parts

Equipment, tools, materials, supplies and repair parts that are purchased for use in Saskatchewan, whether new or used, are subject to tax.

If the goods are purchased from a licensed supplier, the tax must be paid to the supplier. If the goods are purchased from an unlicensed supplier such as one located outside Saskatchewan, the tax must be submitted with your return on the purchase price, including currency exchange, transportation charges, customs and excise duties and importation charges, but not the GST. To assist businesses in determining whether a supplier is licensed for PST, an online PST registry has been established that allows a business to verify that a supplier is registered. The online registry is available 24/7 and may be accessed at the following link: <https://sets.saskatchewan.ca/rptp/portal/footer/pst-registry/>.

Transportation charges for the shipment of a taxable commodity to the Saskatchewan destination are subject to tax if the supply point originates outside Saskatchewan. If the supply point originates in Saskatchewan, including Lloydminster, the transportation charges are not taxable if they are shown separately.

A number of oilfield suppliers located in other provinces are licensed to collect Saskatchewan's tax. Indicating a Saskatchewan land location when placing an order with a licensed supplier will help ensure that the supplier properly collects the tax. Saskatchewan land locations include land west of the 2nd and 3rd Meridian and Ranges 30-34, west of the 1st Meridian.

2. Equipment and Material Transfers

All new or used equipment and materials transferred into Saskatchewan from outside the province are subject to tax. Equipment transferred into Saskatchewan is subject to tax on its value. Tax applies even if the equipment will subsequently become real property.

Equipment and materials assigned to inventory depots or storage yards in Saskatchewan are subject to tax at the time of purchase or upon entry into Saskatchewan.

3. Tubular Goods

Tubular goods purchased from outside Saskatchewan are subject to tax on the total costs incurred prior to delivering the goods into the province, and on the transportation charges to Saskatchewan.

Total costs include the purchase price of the pipe, belling, bending, bevelling, flanging, grooving, slotting, threading, protective coating, lining, manufacturer's inspection fees, handling, transportation and other charges.

4. Equipment Rentals

The following examples are provided as guidelines for the taxation of equipment rentals:

- (a) Businesses renting tanks, centrifuges and similar equipment may invoice their customers separately for equipment, delivery, rig up, tear out, cleaning and repairs. All these charges are subject to tax.
- (b) A rental company may provide personnel to supervise, install or maintain equipment, such as a rotating blowout preventer or top drive. The rental charge, installation and maintenance charges are subject to tax. Charges for site supervision, employee vehicles and subsistence are exempt if shown separately.

For further information regarding drilling and service contracts, please refer to Information Bulletin [PST-13, Petroleum Drilling and Well Servicing Contractors](#).

5. Vehicles

- (a) Producers who bring vehicles into Saskatchewan for temporary use may elect to pay the tax by the following methods:

- (i) **Tax on depreciated value**

Tax is payable on the original purchase price less straight line depreciation of 1.5 per cent per month or part month, to a maximum of 60 per cent, calculated from the date of purchase to the original date of entry into Saskatchewan. Where a trade-in is involved with the original purchase price,

tax is applied on the cash difference, provided the Saskatchewan tax was previously paid in full on the trade-in.

(ii) **Tax on temporary use**

If a retail sales tax has been paid in full to another jurisdiction, remit tax on 1/36 of the original purchase price (no trade-in allowed) for each month or part month the vehicles remain in Saskatchewan until full tax (36/36) has been paid.

If a retail sales tax has not been paid in full to another jurisdiction, remit tax on 1/3 of the original purchase price (no trade-in allowed) for each year or part year the vehicles remain in Saskatchewan until full tax (3/3) has been paid.

- (b) When vehicles are licensed in Saskatchewan, the tax must be paid to the motor licence issuer on the value.
- (c) Lease or rental vehicles brought into Saskatchewan are subject to tax on the total lease charge.

6. Formation Fracturing

Producers are required to pay tax on treatment fluids, including distillate, crude oil, dilute hydrochloric acid, kerosene and other materials, such as propping agents used to stimulate reservoirs.

7. Treatment Chemicals

Tax applies to:

- chemicals used for acidizing, corrosion inhibition, paraffin removal, scale removal and chemicals used for similar purposes;
- chemicals used to improve the quality of or to remove contaminants from oil and gas, such as demulsifiers, desulfurizers, dehydrators, dispersants and antifoamers; and,
- conditioners used to treat water for water floods, steam floods and Steam Assisted Gravity Draining (SAGD) projects.

8. Enhanced Oil Recovery

PST and Fuel Tax do not apply to substances used in approved Enhanced Oil Recovery (EOR) projects. This includes chemicals and agents such as natural gas, hydrogen chloride, liquid nitrogen, potassium chloride, liquid oxygen, carbon dioxide, propane and butane, that are injected directly into the formation.

In order to qualify for this exemption the substance must be:

- used in a new or existing EOR project that has been approved pursuant to *The Oil and Gas Conservation Act*;
- injected directly into an oil-bearing formation as part of the enhanced oil recovery process; and,

- primarily intended to directly enhance the recovery of oil (substances injected into a well for maintenance purposes are not eligible for the exemption).

9. Lost-In-Hole Charges

When equipment is lost down the hole or damaged beyond repair and billed to the oil producer no tax is payable by the oil producer, whether or not the equipment was invoiced as a sale, a third-party charge or as a reimbursement charge. The drilling or service contractor is responsible for PST on the equipment.

When a contractor provides equipment rentals, and the equipment is lost or damaged and billed to the oil producer, the charge to the oil producer is taxable.

10. Exchange Units

New, rebuilt or remanufactured equipment, including pumps, motors, retipped drill bits, clutches and similar items purchased on an exchange basis are subject to tax on the exchange price.

If the customer's equipment is rebuilt and no exchange takes place, the repair labour, parts, materials and shop supplies are subject to tax.

11. Gas Used by Producers

PST applies to natural gas consumed in stationary internal combustion engines used in the compression of natural gas for the purposes of gathering, processing, storage, transmission and injection. Natural gas consumed by producers on site is commonly referred to as Lease Fuel.

PST does not apply to natural gas consumed by the producer in the operation of stationary engines at the well site unless the gas is consumed for any of the purposes outlined above. The exempt portion of natural gas typically includes Lease Fuel used for heating purposes in dehydrators or heaters. All producers that consume Lease Fuel at their compression facilities may deduct a 10 per cent allowance when calculating the tax due on the total volume of metered Lease Fuel that is consumed at the facility.

Valuation of Taxable Natural Gas

For PST purposes, the value of taxable natural gas (Lease Fuel) consumed by a producer is determined as follows:

1. Where natural gas is purchased, the value is the purchase price.
2. Where natural gas is produced and consumed by a producer, the value for tax purposes shall be:
 - a) the deemed average production cost that is calculated for a given month by applying Quantity (in GJ), multiplied by The Provincial Average Field Gate Price (PGP) value (in \$ per GJ); or,
 - b) the actual cost of the natural gas as determined from the producer's records, which value shall include operating expenditures, Crown and Freehold royalties, depreciation, depletion and amortization.

The monthly PGP is published no later than the 15th of the following month and may be found in the table located at <https://publications.saskatchewan.ca/#/products/75617>.

12. Oil Used by Producers

Tax applies to the value of oil used for purposes such as:

- Fracturing (load oil)
- Circulating or completion fluids (drilling mud)
- Reducing viscosity for transportation (diluent/condensate)
- Dewaxing

When the oil is purchased for the above purposes, tax applies to the laid-down cost.

When oil is self-produced for the above purposes, tax applies on the production cost which may be calculated as follows:

Taxable costs:

Mineral taxes
Lifting costs
Depreciation
Depletion
Amortization

Non-taxable costs:

Royalties
Local transportation costs
Non-relevant allocations from head office
Line usage charges

PST does not apply to oil used for the following purposes:

- Priming the well bore to initiate production
- Workoversand flush-byon horizontal wells to flush sand from the well casing and restore production
- Hot oil used in surface holding tanks for transportation purposes

B. TAXABLE SERVICES

1. Labour Services

Tangible Personal Property - Services provided to repair, install, assemble, dismantle, adjust, restore, recondition, examine, refinish or maintain tangible personal property are subject to tax. PST must be collected on the amount invoiced to the customer for the parts, labour and service call charges related to the provision of the service. Tax does not apply to mileage and travel charges related to these labour services providing the charges are segregated on the customer's invoice.

Real Property - PST applies to services performed by a contractor relating to the construction, alteration, repair, erection, demolition, remodeling, improvement, or any other service in relation to real property or a building or other structure on real property. PST must be collected on the total charge invoiced to the customer, including parts, labour,

service call charges, mileage, subsistence and any other charges related to the provision of the service.

Exempt Labour Services

Exempt labour services include:

- Repair services provided by a person to that person's employer in the course of employment;
- Internal labour supplied by the operator of a joint venture and charged to the joint venture partners; and,
- Well service operator fees to check oil and natural gas wells.

For further information on repair and installation labour, please refer to Information Bulletin [PST-57, Repair and Installation Services](#).

2. Other Taxable Services

PST applies to the following services:

- Engineering, Geoscience and Architectural Services ([PST-65](#));
- Accounting Services ([PST-62](#));
- Legal Services ([PST-64](#));
- Employment Placement Services ([PST-66](#));
- Computer Services ([PST-7](#));
- Commercial Building Cleaning Services ([PST-61](#)); and,
- Advertising Services ([PST-67](#)).

Where taxable services are provided in relation to more than one jurisdiction, only the fees related to Saskatchewan are subject to tax. If a breakdown of charges by jurisdiction is not available, a reasonable allocation for the Saskatchewan portion of the services must be made.

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

C. CONTRACTORS

1. Supply and Install Contractors

PST applies to services performed by a contractor relating to the construction, alteration, repair, erection, demolition, remodeling, improvement, or any other service in relation to real property or a building or other structure on real property.

A contractor engaged in services to real property is required to collect PST on the total charge to the customer for the services, including all related charges and fees such as charges for labour, materials, transportation, insurance, service fees, and any tax, levy or

duty, other than the GST. PST must be shown as a separate line item on the invoice to the customer.

For further information, please refer to Information Bulletin [PST-12, Services to Real Property](#).

2. Service Contractors

For further information on services provided in the oil and gas industry please refer to Information Bulletin [PST-13, Petroleum Drilling and Well Servicing Contractors](#).

3. Bonding for Supply and Install and Service Contractors

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

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

Non-resident contractors providing exempt or non-taxable services must also comply with this provision, as these contractors are required to remit PST on their consumables, tools and equipment used in the performance of their contract.

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

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

4. Clearance on Final Payment

Before the final payment is made on a contract, the sub-contractor must obtain a clearance letter from the Revenue Division and provide a copy of the letter to the general contractor or principal. To obtain a clearance letter, please call 1-800-667-6102, extension 0956. If the contractor's account is not in good standing, the general contractor or principal will be requested to withhold from any hold back an amount equal to the tax due and remit this amount to the Revenue Division.

Non-resident contractors, please see [PST-38, Non-Resident Real Property and Service Contractors](#).

D. SALES AND TRANSFERS OF BUSINESS ASSETS

1. Sale of Used Equipment

Tax must be collected on the full selling price of used equipment. If an item is received in trade and tax has been paid on the trade-in, tax is collected on the cash difference.

Tax only applies on the sale of items that are tangible personal property, such as vehicles and office equipment. Sales of real property, such as buildings, gas plants, pump jacks and compressor stations, are not subject to tax provided the property remains in place when sold.

Note: For further reference please see Information Bulletin [PST-58, Used Goods](#).

2. Sale of Oil and Gas Properties

Tax will apply to the sale of tangible personal property associated with oil and gas properties when a change of ownership takes place.

A change in the percentage of a working interest ownership would not in itself be considered a sale of an oil and gas property in situations where the operator remains the same.

Tax does not apply to real property involved with the sale of oil and gas properties. Normally, such sales involve real property only.

3. Equipment Transfers Between Properties

Transfers of equipment between company-operated properties within Saskatchewan may not be subject to tax. As long as the properties are operated by the same company, equipment transfers will not be considered a change in ownership whether or not a joint venture participation is affected.

Equipment transferred from outside Saskatchewan is subject to tax in all cases, unless it can be shown that the tax has been previously paid by the owner or operator.

4. Property Transfers Between Closely Related Parties

An exemption from tax is provided on transfers of tangible personal property where, in effect, financial control and ownership of the property does not change.

Eligible transfers to corporations includes where an election is filed under subsection 85(1) of the *Income Tax Act* (Canada) for the disposition of property, usually in exchange for shares. In order to qualify for the exemption, *Form T2057* must be filed for income tax purposes and PST must have been previously paid on the tangible personal property. The transfer of assets to a partnership where an election is filed under subsection 97(2) of the *Income Tax Act* (Canada) would also qualify for a tax exemption.

There is no provision for a tax exemption on transfers of tangible personal property between unrelated corporations.

5. Amalgamations

When companies amalgamate through a formal amalgamation, within the meaning of subsection 87(1) of the *Income Tax Act* (Canada), the transfer of assets to the newly amalgamated company is not considered to be a sale of tangible personal property. Therefore, PST does not apply.

6. Winding Up of a Company

When assets are transferred to a shareholder as part of a winding up, dissolution, or liquidation of a corporation, and the shares of the shareholder are reduced in value or cancelled as a result of the transfer, consideration has been paid for the assets. Therefore, a sale has occurred and the shareholder is required to pay tax on the value of the assets at the time of transfer.

Where there is no change in beneficial ownership, such as the winding up of a wholly owned corporation, tax will not apply on the transfer of business assets.

For further information on transfers of business assets between closely related parties, please refer to Information Bulletin [PST-60, *Transfers of Business Assets Between Closely Related Parties*](#).

E. RECORDS REQUIRED

Oil and natural gas producers operating in Saskatchewan are required to maintain the following records:

- a list of Saskatchewan properties, including wells and other facilities;
- detailed approval for expenditure (A.F.E.) listings for Saskatchewan properties;
- accounts payable information relating to the above;
- material transfers into Saskatchewan;
- assets assigned to Saskatchewan properties or activity in Saskatchewan; and,
- Detailed records of natural gas and oil being used for taxable purposes.

F. REGISTRATION AND REPORTING REQUIREMENTS

Producers are required to become registered with the Revenue Division and report tax payable on vehicles, equipment, tools, repair parts, materials and supplies brought into Saskatchewan. There are no fees for registration and tax return forms will be forwarded to registrants on a regular basis. For further information, please refer to Information Bulletin [PST-5, *General Information*](#).

G. ENVIRONMENTAL FEES

Environmental handling fees imposed by the Government of Saskatchewan are not subject to PST when they are segregated on the customer's invoice. For further details regarding the environmental handling fees imposed by the Government of Saskatchewan, please visit saskatchewan.ca/residents/environment-public-health-and-safety/saskatchewan-waste-management.

Environmental handling charges imposed by industry or other government agencies are subject to tax even when segregated on the customer's invoice.

H. 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-licensing-and-reporting/provincial-taxes-policies-and-bulletins/tax-tips-line 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](#)

I. SASKATCHEWAN eTAX SERVICES (SETS)

Finance has made it possible to report and remit tax electronically through a secure, fast, easy and convenient online self-service portal. Several services are currently available to businesses through SETS (sets.saskatchewan.ca):

- Register for secure, self-managed access to all your tax accounts.
- Apply for a new tax account.
- File and pay returns and amend previously filed returns.

- Make payments on account, including post-dated payments.
- View account balance and statement information.
- Authorize employees or accountants to file on your behalf.
- Receive notifications by email when a tax return should be filed. This replaces the paper forms usually sent in the mail.
- Submit a service request to update the mailing address or add a new business location.
- Submit a service request to receive tax information, interpretations or rulings related to your specific business activities.
- View and download up-to-date tax information promptly.
- Subscribe to receive email notifications when new and revised tax publications are available.

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

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

To receive automatic email notifications when this or any other bulletin is revised, go to sets.saskatchewan.ca/subscribe.

To provide feedback or suggest changes to this bulletin, please complete a [Bulletin Survey](#).

Government website: Saskatchewan.ca