

# OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION  
TONY MASTIN, DIRECTOR

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September 14, 2001

Re: Our file Number LR-01-140; Sales Tax on sales of carbon dioxide and associated equipment and services.

Dear

This is in response to your inquiry concerning the subject referenced above. I have copied your fact situation and question into this letter, followed by our response.

## **Your fact situation**

We are an industrial gas manufacturer who operates in your state. We provide bulk carbon dioxide and associated equipment to our customers in the Oklahoma oil and natural gas fields.

Specifically, we deliver bulk carbon dioxide in our transports and transfer the product into our storage tanks at the oil or natural gas well site. On a specific date and time, the CO<sub>2</sub>, is pumped from our storage through our "booster pump" to a point where an oil field service company takes the CO<sub>2</sub> mixes it with other products like sand, acids, etc. and pumps them down a well bore. The purpose of this process is to fracture the formation and to increase the flow of oil or natural gas. The bulk CO<sub>2</sub>, serves several purposes, but chiefly it produces the pressure to cause the fracture in the formation.

We sell the CO<sub>2</sub>, charge a rental fee for the associated equipment (storage tanks, booster pumps, etc.), charge a setup fee for the labor hours required to setup the equipment, and charge for the transportation of the product and equipment. The invoice is normally sent to the owner of the oil/natural gas well. Occasionally, if there is a question about the owner's credit status, we will bill the oil field service company and they, in turn, will invoice the owner.

**Your question**

We have been collecting sales taxes on all the above unless the owner of the property gives us a direct pay certificate. Our question is should we be collecting sales taxes for the CO<sub>2</sub>, and/or the equipment and/or the setup charges and/or the transportation.

**Our Response**

You are correct in charging sales tax on all sales to taxable consumers of both the charges for the CO<sub>2</sub> and the rental charges for the associated equipment. However, if they are separately agreed to and separately stated on the invoice, the charges for set up are not subject to sales tax. In a similar manner, if separately stated, the charges for transportation are not subject to sales tax. This response is based on Oklahoma Tax Commission Rules 710:65-19-70 and 710:65-19-158. Copies are enclosed.

This response applies only to the circumstances set out in your request of September 4, 2001. Pursuant to Commission Rule 710:1-3-73(e), this Letter Ruling may be generally relied upon **only** by the entity to whom it is issued, assuming that all pertinent facts have been accurately and completely stated, and that there has been no change in applicable law.

If I can be of further assistance, please feel free to contact me.

Sincerely,

*OKLAHOMA TAX COMMISSION*



Michael G. Pillow  
Tax Policy Analyst