

October 28, 2002

Re: LR-02-192; Sales tax on the sale of nitrogen.

Dear

This is in response to your inquiry concerning the sales tax status of various charges made by your client in connection with the pumping of nitrogen and other chemicals into a customer's well bore. I have copied your fact situation and information below. It is followed by our response.

Description of Services/Products provided:

My client's company will be providing services/products to the oilfield industry. The services consist of pumping nitrogen into a customers' well bore in order to:

- a) displace fluids.
- b) generate foam for washing tubing.
- c) jet with coiled tubing or workstring for production enhancement.
- d) remove scale from well bore or tubing.
- e) Increase formation production through stimulation or drilling

Our customers will be Invoiced for the following:

- a) quantity of nitrogen pumped downhole
- b) equipment (with operator) used to pump the nitrogen downhole.
- c) mileage charge for the nitrogen transport unit.
- d) Personnel based on type of experienced employee
- e) Mileage charged based on miles to and from location

Equipment utilized by our company (not sold to customers):

Nitrogen Unit (consists of tractor, nitrogen tank, and Pump.

Products (to be sold to customers in conjunction with our services):

Nitrogen Liquid (becomes gaseous when not under pressure/refrigeration) and other fluids used in conjunction with nitrogen. These products are marked up and sold to the customer. Depending upon the type of job, we could mix several chemicals together to obtain certain results.

Proforma Invoice:

Date of Service: 10/02/02

Customer:

Location where services performed: Oklahoma

Nitrogen Liquid (charged based on gallons pumped into well bore)	\$5,000.
Foaming Agent (charged based on gallons pumped into well bore)	\$1,000.
Pump Unit (to pump nitrogen; charge is based on hours utilized)	\$3,000.
Nitrogen Unit (tank to transport nitrogen to well site- Charge based on mileage)	\$1,000.
Supervisor per 12 hours	\$1,700
Mileage 500 miles @ \$1/mile	\$ 500
Total Amount of Invoice	\$12,200

Our Response

Based on the information given, your client is in the business of selling nitrogen and other products and should charge sales tax on such sales. In the example provided, sales tax should be charged on the nitrogen and the foaming agent.

Your client is also in the business of providing certain services in connection with the sale of the nitrogen and other products. Provided these services are separately stated on the invoice, no sales tax is due on the sale of these services. As shown on the Proforma invoice, these services consist of the charges for the pump unit, the nitrogen unit, the supervisor and the charges for the mileage. If possession of the pump and the nitrogen units had transferred to your client's customer, the charges for the units would have been subject to sales tax.

This response applies only to the circumstances set out in your request of October 16, 2002. 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