

OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION
TONY MASTIN, DIRECTOR

PHONE (405) 521-3133
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June 19, 2003

Re: Our File Number LR-03-060; Sales tax on oilfield rental tools

Dear

This is in response to your inquiry concerning the sales taxability of various transactions involving the rental of oilfield tools. Your questions are set out below and each is followed by our response.

1. Are lost in hole charges for rental tools taxable?

Response: Yes, if the title to the lost tool transfers as a result of the terms of the rental agreement.

2. Are charges for damages to rental tools taxable?

Response: Yes. Charges for damages are taxable since they are part of the total gross receipts of the rental of the tool.

3. Does the taxability change if we have a contract stating that if tools are lost or destroyed, our customer must purchase the tool?

Response: If you have a contract that says that if the tools are lost or destroyed then the customer must purchase the tool, the charge for the purchase is subject to sales tax.

4. Does the taxability change if we have a contract stating that if tools are damaged, our customer must purchase the tool?

Response: If you have a contract that states that your customer must purchase the tool if it is damaged, the charge for the purchase of the tools is subject to sales tax.

5. Does the taxability change if we provide our operator with the rental tool?

Response: If you provide an operator with a rental tool, the charge for the operator and tool is not subject to sales tax since possession of the tools does not change. Instead, you would owe sales tax on the tool when it is purchased, or if the tool is taken from an inventory of tools held for the purpose of being rented, you are required to accrue and pay sales tax on the "sales value" of the tool. "Sales value" is defined as the value of the rental that would otherwise have been made. Please see Oklahoma Tax Commission Rule 710:65-1-2.

6. If lost or damage charges are taxable in this state, will these transactions still be taxable if we have already accrued tax on the rental tools we either purchased or manufactured?

Response: Yes. The rental charges for the tools would still be taxable even if you had paid sales tax on the tools when you purchased them or when you manufactured them. Since as a vendor, you are required to hold an Oklahoma Sales Tax Permit, and since the permit allows you to make purchases of the rental tools for resale, you may purchase them exempt from sales tax.

7. Does the taxability change if our customer purchases insurance coverage for the tools?

Response: No.

These responses are based on Oklahoma Tax Commission Rules 710:65-1-1 and 710:65-1-11. Copies are enclosed.

This response applies only to the circumstances set out in your request of March 26, 2003. 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