# OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION
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September 17, 2004

Re: Our File Number LR-04-171; Sales tax on transactions of a directional drilling company ("DDC").

Dear

This is in response to your inquiry concerning the subject referenced above. I have reproduced below, certain of the statements you make in your letter or in your examples and each is followed by our response.

1. **Your Statement::** "The DDC pays TX sales tax of 8.25% on all taxable items purchased and/or rented."

**Our Response:** Companies involved in drilling wells in Oklahoma are the consumer/users of the items purchased and/or rented which are used to complete the well in Oklahoma. If the item is purchased in Oklahoma, Oklahoma state and any city and county tax is due at the location the DDC takes possession of the item. Please note that special rules apply for rentals. Please refer to Oklahoma Tax Commission Rules 710:65-15-1; 710:65-18-2; 710:65-18-3; and 710:65-18-4 which deal with this subject.

2. **Your Statements:** "Sometimes or rarely, equipment is rented without a man, on an hourly basis. This charge is for equipment rental and all invoices to clients for these services are fully taxable at 8.25% , the applicable tax rate for DDC's office in Texas."

**Our Response:** If the DDC is renting a piece of equipment to a customer, without an operator, and the equipment is received by the customer in Oklahoma, or the equipment is received by the customer in Texas and the equipment is in Oklahoma for any time periods for which a future payment becomes due, Oklahoma state and any local sales taxes are due. Please refer to the definition of the word "lease" in rule 710:65-01-02 and to rules 710:65-1-11 and 710:65-18-4. If the DDC is going to be regularly engaged in the lease or rental of tangible personal property, it must register and obtain an Oklahoma Sales Tax Permit for the leasing and rental portion of its business.

3. **Your Statements:** "'DDC" will pay Texas sales tax on all taxable items purchased from vendors for job-site expense. If charges are from an out-of-state vendor, Texas taxes will be paid on those purchases at a rate of 8.25%, the applicable tax rate for DDC's office location in Texas.'

**Our Response:** If you make purchases of tangible personal property or of taxable services, from vendors in Oklahoma and you receive possession of the goods in Oklahoma or if the services are first used in Oklahoma, the tax that is due is the Oklahoma state and any local sales tax due at the location you receive the goods or at which the services are first used. Note that special rules apply for mobile telecommunications services. Further, if you purchase goods outside of Oklahoma and bring them into Oklahoma or have them shipped to your location in Oklahoma, Oklahoma State and any local use taxes are due at the location that the goods are to be used. If the vendor is required to collect, or has voluntarily registered to collect, Oklahoma and local use taxes, you should pay the vendor the use taxes due. If the vendor is not required to or has not voluntarily registered to collect Oklahoma use taxes, it is the responsibility of the DDC to remit the Oklahoma use taxes due. Forms may be downloaded from our website and the DDC should register to be assigned a use tax account number. Please refer to rules 710:65-21-2; 710:65-21-3; 710:65-21-4; 710:65-21-5; and 710:65-21-6.

**Our comments on your "Quote" example:** The DDC, as a contractor, should not charge sales tax on any of the included or additional charges listed on the example. However, as a contractor, the DDC is responsible for the payment of sales tax, based on the tax in effect at the location the tangible personal property is received or where the service is first provided for the charges for the following purchases made by the DDC;

1. **"Accommodations for Personnel"** Sales tax would be payable to the person supplying the accommodations
2. **"Transportation of personnel"** Sales tax would be payable to the person supplying the transportation of personnel from their accommodations to the drilling site. If this is a charge for the reimbursement of the workers travel expenses, it is not subject to sales tax.
3. **"Repairs of tools beyond normal wear and tear"** If parts are purchased, sales tax would be due when the parts are purchased.
4. **"Stabilizers if required"** If this represents a lease by the DDC of equipment, without an operator, that is used to drill the well, the DDC will owe sales tax to the lessor on the total of the lease charges.
5. **"Stator Reline"** and **"Rotor Rechrome"** If the work is done in Oklahoma, the DDC will owe sales tax on the portions of the jobs that are charges for the sale of any repair parts used, including the charges for re-chroming the rotor.

**Our comments on your example invoice** Since the item listed as "Motor Service and Inspection" is separately stated, and if it is based on the retail value of the property and on the property's life expectancy, it is properly not subject to sales tax as a part of the gross proceeds of the rental. Furthermore, since it is stated that the charge includes 8.25% sales tax, it is presumed that the service and inspection was performed in Texas, not Oklahoma.

**Our comments on your example invoice** The tax rate noted on the invoice is the rate that is in effect for most of Oklahoma City. If the company that did the "Motor Inspection/Stator Reline" had separately stated the repair parts used from the charges for the labor services performed in completing the jobs, they would not be required to charge sales tax on the labor service portion.

**Our comments on your example invoice** If the mileage represents a reimbursement to your company for payment to the personnel for their expenses, it is not subject to sale tax in Oklahoma. If the charge labeled "Float Valve 4R Model "F" (includes sales tax 8.25%) represents the sale of the item, it is subject to sales tax at the location the item is received by the purchaser, which would appear to be in Oklahoma in Latimer County. If instead, it is the billing for an item that has experienced more than normal wear and tear, no Oklahoma tax consequence results unless title to or possession of the item transfers from the DDC to its customer.

**We have no comments on your example invoice**

Copies of the rules noted are enclosed.

This response applies only to the circumstances set out in your request of August 11, 2004. 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

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