OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION
TONY MASTIN, DIRECTOR

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August 25, 2006

Re: Our File Number LR-06-083; Sales Tax on Compression Services

Dear

This is in response to your inquiry concerning the sales tax consequences of the reorganizing of the business of one of your clients which will result in the client changing from being in the business of renting or leasing compressors to being engaged in the business of performing compression services for a fee. You have provided a copy of an agreement and have asked the following questions. Our response follows each question:

1. Will the Oklahoma Tax Commission treat the attached agreement ("Master Services Agreement") as a service agreement rather than a rental of Oklahoma sales and use tax purposes?

Our Response: Yes.

2. Will there be any Oklahoma sales or use taxes due as the result of transferring the existing compressors from the Parent Company to Lease Company? Will the resale exemption apply to the transfer?

Our Response: If Lease Company obtains an Oklahoma Sales Tax Permit before it purchases the compressors, it may purchase the compressors exempt from sales tax as purchases for resale pursuant to 68 O.S. Section 1357(3). Parent company should obtain the information from Lease Company set out in Oklahoma Tax Commission Rule 710:65-7-8 in order to have properly completed documentation showing that the sales of the compressors to Lease Company are exempt.

3. If the Master Services Agreement is treated as a service for Oklahoma sales and use tax purposes, will Parent Company be responsible for use tax on the

compressors it retains to use in performing compression services under the new contract? If use tax applies, what is the tax base that is used to compute the tax?

Our Response: Yes, Parent Company is responsible for sales tax on the "sales value" of the compressors it retains to use in performing compression services under the new contract pursuant to Oklahoma Tax Commission Rule 710:65-1-10. "Sales Value" is defined in Oklahoma Tax Commission Rule 710:65-1-2. In the case of an item withdrawn from an inventory of goods held for rental or leasing, where the goods are not to be returned to inventory, it is the lesser of the original purchase price of the goods or the current market price.

4. If the Master Services Agreement is treated as a service for Oklahoma sales and use tax purposes, will the compression services provided be subject to Oklahoma sales or use tax?

Our Response: No.

This response applies only to the circumstances set out in your request of July 24, 2006. 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