OKLAHOMA TAX COMMISSION

TAX POLICY DIVISION
RICK MILLER, DIRECTOR

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September 25, 2015

Re: LR-15-17 (Sales Tax Inquiry)

Dear

This is in response to your request for a determination of whether redress charges on rental equipment are subject to sales tax. Set forth verbatim are the facts presented in your correspondence of May 19, 2015, along with the question posed and our response thereto.

Facts

rents oilfield equipment used to drill for oil & natural gas. One of the items we rent is called a jar. Certain maintenance has to be performed on these jars after they have been used a number of times. This maintenance involves both parts and labor.

To recover these maintenance costs will charge the customer what we refer to as a Redress charge. This Redress charge is based on the estimated costs to maintain the jar. For example, if estimates that after 5 rentals the maintenance that has to be done and the parts that have to be replaced will cost $2,000 will charge each of those 5 customers where the jar was rented a $400 (5*400=2000) Redress charge to recover those estimated costs.

In addition we do not do the repairs in Oklahoma. We ship the jars back to our jar facility here in as that is where the personnel with the experience to maintain the jars work. In we may be paying tax on the purchase of the replacement parts depending on which of our divisions rented out the jar. One division is subject to tax and one is not in Louisiana on parts used to maintain our inventory of rental equipment.

We are not sure if any or all of a redress charge is taxable in Oklahoma. I know Oklahoma does not charge tax or repair labor, but will on parts. This redress charge covers both estimated labor and parts. I have been speaking with our operations department to see how much of the redress

charge is related labor and how much is related to parts to see if we may come up with a good faith estimate of the cost of the parts if needed.

Question:

So first would any of these Redressing charges be taxable in OK? Also does the fact that the maintenance of the jar is done in and if there was payment of tax on the purchase of repair parts make any difference?

Response:

Gross receipts, gross proceeds, or sales price is the base upon which sales tax is calculated. The terms are synonymous and are defined as "the total amount of consideration . . . for which personal property or services are sold . . . whether received in money or otherwise. . . ." 68 O.S. § 1352(12)(a). Sales tax associated with the rental or lease of tangible personal property shall be computed on the gross amount without any allowance for service, laundering, cleaning, maintenance, insurance, property taxes, etc., whether paid by the lessor or lessee. 68 O.S. § 1354(18). Therefore, because the redress charges are a component of the amount paid to rent the tangible personal property in Oklahoma, they are subject to sales tax regardless of whether these charges are separately stated or where the maintenance occurs.

Attached are copies of the above-referenced Oklahoma Tax Commission administrative rule provisions.

This response applies only to the circumstances discussed in your request of May 19, 2015. Pursuant to Oklahoma Administrative Code 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 there has been no change in applicable law.

Sincerely,

OKLAHOMA TAX COMMISSION

Morgan E. Lankford

Morgan E. Lankford
Tax Policy Analyst