

OIL AND GAS WELL SERVICES

The taxability of purchases of tangible personal property and labor services by Oil and Gas Well Service providers is summarized below. Sales tax should be paid to the vendor or accrued and paid directly to the State of Kansas. This applies to purchases from both in-state and out-of-state vendors. A properly completed exemption certificate should be provided to your vendor for all purchases made without tax.

Sales & Use Tax on Purchases by Oil and Gas Well Service Providers:

Purchase of drilling equipment such as cable, derricks, pumping units, including hoisting and lowering equipment and drilling controls, drill pipe, elevators, fishing tools, kellys, portable derricks, pipe racks, plugs, rotary tables, safety wires, scratchers and turbodrills.	Taxable
Rental of drilling equipment such as cable, derricks, including hoisting and lowering equipment and drilling controls, drill pipe, elevators, fishing tools, kellys, portable derricks, pipe racks, plugs, rotary tables, safety wires, scratchers and turbodrills. <i>(If the equipment is rented out-of-state and brought to Kansas for use and is in Kansas more than 30 days, Kansas tax would be due on the rental charges after the thirtieth day)</i>	Taxable
Oil & gas well equipment including but not limited to waling beam pumps and associated equipment such as electric motors, belts, gear boxes, bearings, pressure gauges, polished rods, down-hole sucker rods, underground pumps, leak sensors, leak catchers, rod lubrications, stuffing boxes, well heads, production blowout preventers, feeder lines and gas meters	Taxable
Compressors used for severing or distributing natural gas	Taxable
Drill bits including turbodrill bits	Exempt
Repair of equipment used in drilling or servicing a well	Taxable
Services for refurbishing a drill bit	Exempt
Materials that make up an oil, gas or disposal well structure such as casing, plugs, rods, cement and well heads	Taxable
Materials consumed including drilling mud, chemicals, acids reagents and solvents that are placed in the well bore	Exempt
Consumables including lubricants for drilling equipment along with the electricity, diesel fuels, gasoline or gas used to power drilling equipment.	Exempt
Explosives used in petroleum exploration along with caps, fuses and shaped charges	Exempt
Propping agents or proppants used in fracture treatment	Exempt
Electricity used to light the work site	Taxable
Oil and gas processing equipment such as separators, heater treaters, storage tanks, in-tank monitors and detectors, gun barrels, desalters, demulsifiers, dehydrators, salt water disposal tanks	Exempt
Purchases of safety equipment and apparel such as hard hats, gloves, shoes, glasses, goggles, hearing protectors, coveralls, aprons, masks, air filters, belts, harnesses and holsters.	Taxable
Tools including wrenches, screwdrivers, hammers and saws even though such tools must be replaced frequently because of loss, breakage or theft.	Taxable
Safety and fire fighting equipment.	Taxable

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Freight charges for items purchased for resale	Exempt
Freight charges for items purchased not for resale unless billed directly by freight company	Taxable
Parts and labor services for repairing, servicing, altering or maintaining tangible personal property, such as computers, printers, copiers, security equipment, etc.	Taxable
Office utilities, shop utilities	Taxable
Security cameras and other security equipment	Taxable
Snow removal/lawn mowing services, trimming, edging, or tree removal, etc.	Exempt
Furniture and fixtures, including but not limited to: desks, lamps, tables, chairs, shelving, plants, planters, artwork, signs	Taxable
Laptop and desktop computers, copiers, printers, fax machines, calculators, label makers, and other similar equipment	Taxable
Customized software, software upgrades and labor services to modify, alter, update or maintain customized software - "customized" software = software developed for a single end user	Exempt
Software and software upgrades and labor services to modify, alter, update or maintain software	Taxable
Professional services such as accounting, engineering or legal services	Exempt
Promotional items including but not limited to: calendars, mugs and articles of clothing	Taxable
Lawn services for mowing, trimming, edging, or tree removal, etc. (does NOT include seeding, lawn fertilization, or application of chemicals)	Exempt
Lease or rental of any tangible personal property - copier, fax, vehicle (for own use)	Taxable
Purchase or lease of real estate, insurance	Exempt

The taxability of sales of tangible personal property and labor services by Oil and Gas Well Service providers is summarized below. The applicable sales tax must be collected unless the purchaser provides a proper exemption certificate. As a general rule, well drilling contractors and service providers must collect sales tax from their customers for services performed on existing wells. Taxable services do not include services performed when a new well is being drilled, or when the services otherwise qualify as "original construction."

Sales Tax on Sales made by Oil and Gas Well Service Providers:

Services performed on a new well such as but not limited to acidizing, casing installation, cementing or pipe setting, drilling out a plug, fishing, gravel packing, jetting, killing a well, perforating, pulling or resetting casing liner, installing artificial lift system, squeeze cement, swabbing and whipstock placement	Exempt
Drilling and well services on an existing well to extend the bottom of the well into a deeper production zone or repair damage done by a fire, flood, tornado, lightning, explosion or earthquake	Exempt
On and after 7-1-07, repair services to existing oil and gas well equipment for damage caused by an 80 mph or greater windstorm, ice loading or terrorism	Exempt

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Services performed to an existing well , except for extending a well to reach new production zone, such as fracturing, jetting, plug back, acidizing, fishing, pump change, pulling rods, recompletions or workovers	Taxable
Services to install or repair permanent oil and gas processing equipment such as separators, heater treaters, gun barrels, dehydrators and salt water disposal tanks	Exempt
Payments for taxable services made on a per diem basis to nonemployees	Taxable
Installation or repair to feeder lines	Taxable
Charges for excavation services and other dirt work which are separately broken out on the seller's invoice	Exempt
Cathodic protection performed as original construction of well or within 6 months of installation of first well head	Exempt
Replacement, repair or installation after 6 months	Taxable
Services to cap and plug a well, removal of casing and plugging a dry hole	Taxable
Sales of equipment, materials, oil or gas to the final consumer	Taxable
Oil field exploration services. Seismic studies, surveying and well logging	Exempt

Withholding by Oil and Gas Well Service Providers:

Wages earned while performing services in Kansas by residents and nonresidents are subject to Kansas withholding tax. Wages paid for services associated with Kansas wells, such as, engineering, excavating, installing, drilling, acidizing, cementing, pumping, repairing, compressing, testing, tank and meter reading, disposing, hauling, cleaning, marketing, plugging etc., should have Kansas taxes withheld from them if they are performed in Kansas. Wages paid for services performed outside the state, such as repairs to Kansas well equipment, or payments to independent contractors, are not subject to Kansas withholding tax. When employees perform services in more than one state, the employer must keep track of hours worked within each state so that withholding tax on wages can be properly computed. If an employer proves that their employee properly paid Kansas income taxes on unreported wages, penalties may still be owed. For more information on Kansas withholding tax, see [Guide to Kansas Withholding Tax \(KW-100\)](#), found at <http://www.ksrevenue.org/forms-btwh.htm>.

Income Tax Filing by Oil and Gas Well Service Providers:

Income from services performed in Kansas are subject to Kansas income tax. The method of filing income taxes in Kansas depends on the company's business structure. Corporations, Subchapter S corporations, partnerships and LLC's with more than one member should be registered in Kansas to report Kansas income tax on the appropriate income tax forms. If services are performed in more than one state, net income is apportioned between the states using the three factor apportionment formula. Sole proprietorships and LLC's with one member do not have to register their business to report income tax but should report Kansas income on their Kansas individual income tax return. If a nonresident individual earns income in Kansas and outside the state, federal taxable income plus modifications is allocated to Kansas using part B of Schedule S, form K40. For more information, see the Kansas Department of Revenue's website at <http://www.ksrevenue.org>.