



WYOMING LEGISLATIVE SERVICE OFFICE

Research Memo

04 RM 039

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Re: Excise (Sales) Taxes on Oilfield Services in Other States

PURPOSE

How do other states (particularly states with significant oil production) treat oilfield services for purposes of excise taxation?

RESULTS IN BRIEF

According to a 1997 study conducted by the Federation of Tax Administrators (FTA), 11 states impose an excise (sales) tax on oilfield services.¹ States imposing a sales tax on oilfield services according to the report include Arizona, Delaware, Hawaii, Kansas, Mississippi, New Mexico, South Dakota, Texas, Utah, Washington, and Wyoming. Based upon a limited LSO review of a selected number of oil producing states, it appears that the imposition of excise taxes on oilfield services falls into three general categories:

- ✓ Oil field services exemption derived from general exemption of sales taxes on all services;
- ✓ Oil field services taxed due to general imposition of sales taxes on all services; or
- ✓ Special statutory tax treatment of oilfield services.

Wyoming would fall into the latter category, since it imposes a sales tax on oilfield services but not most other services.

WYOMING'S TAXATION OF OILFIELD SERVICES

W.S. 39-15-103(a)(i)(K) imposes a sales tax on oilfield services. It states,

- (a) Taxable event. The following shall apply:
 - (i) Except as provided by W.S. 39-15-105, there is levied an excise tax upon:
 - (K) The sales price paid for all services rendered to real or tangible personal property within an oil or gas well site beginning with and including the setting and cementing of production casing, or if production casing is not set as in the case of an open hole completion, after the completion of the underreaming or the attainment of total depth of the oil or gas well and continuing with all activities sequentially required for the production of any oil or gas well regardless of the chronological occurrence of the activity. All services required during the entire productive life of the well, including recompletion, all the way through abandonment shall be subject to this subparagraph.

Wyoming's sales tax on oilfield services is limited to a geographic boundary since W.S. 39-15-102(a)(xviii) defines "well site" as the "area within a two hundred fifty (250) foot radius of an oil or gas wellbore." The Legislature adopted this geographic limitation and revised the imposition of sales tax to oilfield services in 2002. ('02 Laws, Ch. 37)

SELECTED OTHER STATES EXCISE TAXATION OF OILFIELD SERVICES

LSO research staff reviewed four other oil producing states to explore the variety of tax

¹ The FTA has not thoroughly updated the 1997 report and currently has no intention of doing so. Aside from the states specifically explained in the balance of this memo, LSO has not verified the accuracy of FTA's conclusions.

treatments of oilfield services. The reviewed states included Louisiana, New Mexico, Oklahoma, and Texas, and a summary of each follows. In sum, and consistent with the FTA report, Louisiana and Oklahoma do not tax oilfield services while New Mexico and Texas do.

Louisiana - no excise tax on oilfield services.

Louisiana imposes a sales tax on many services, but only those specifically articulated in statute. Taxed services include laundry, cleaning, intrastate telecommunications, printing, repairs of personal property, etc. Oil field services are not specifically included in the definition of "sales of services;" therefore, are not taxed. (LA. Rev. Stat. Ann. 47:301(14))

New Mexico - five percent gross receipts tax on oilfield services (state rate)).

New Mexico imposes a gross receipts tax, not strictly a "sales tax" on most services. Services are generally taxed unless specifically exempt in statute. Since there is no specific exemption provision for oilfield services, New Mexico imposes its standard gross receipts tax on those services. (N.M. Stat. Ann. 7-9-3.5 A)

Oklahoma – no excise tax on oilfield services.

Oklahoma imposes an excise tax on the sale of goods and statutorily specified services. If the service is not specified, the Oklahoma Department of Revenue does not collect an excise tax on those services. Oilfield services, thus, are not taxed. (Okla. Stat. Ann. 68-1354)

Texas – 2.42% percent miscellaneous

occupations tax on oilfield services. Texas statutes impose a special tax on oilfield services, distinct from the state's general sales tax, which is set at six percent statewide and up to two additional percent imposed locally. The 2.42 percent oil services tax is imposed on the "gross amount received for service after deduction for the reasonable value at the well of material used, consumed, or expended in or incorporated into the well." (Tex. Tax Code Ann. 191.081 et seq) See Attachment A for a copy of the full Texas Statutes related to the taxation of oilfield services.

reviewed: it is contingent upon a geographic distance from the wellhead. The clear majority of states do not impose a sales tax on oilfield services. Based upon the states' reviewed, in the event a state does impose an excise tax on oilfield services, other services are also regularly taxed. Texas provides yet another alternative tax mechanism by imposing a special rate on oilfield services.

SUMMARY

As illustrated, Wyoming's taxation of oilfield services is unique among the oil producing states