**Private Letter Ruling**

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| **Ruling Number:** | **P-2004-024** |

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| **Tax Type:** | **Kansas Retailers' Sales Tax** |
| **Brief Description:** | **Services related to oil pipelines.** |
| **Keywords:** |  |
| **Approval Date:** | **06/18/2004** |

**Body:**

Office of Policy & Research  
  
  
June 18, 2004

XXXXXXXXXX  
XXXXXXXXXX  
XXXXXXXXXX  
  
Dear XXXXXXXXXX,  
  
This is a formal response to your letter, dated May 5, 2004. In it you asked several questions regarding the application of the Kansas retailer’s sales tax to various services and products. Below is a response to each of these questions in turn.  
  
*1. Provide the service of calibrating the meters in the oil pipelines. The calibration certifies the volume measurements within the pipeline. Is this service taxable within the state? What is the taxability of service out of state?*  
  
Sales tax is imposed on “the gross receipts received for the service of repairing, servicing, altering or maintaining tangible personal property which when such services are rendered is not being held for sale in the regular course of business, and whether or not any tangible personal property is transferred in connection therewith. The tax imposed by this subsection shall be applicable to the services of repairing, servicing, altering or maintaining an item of tangible personal property which has been and is fastened to, connected with or built into real property.” K.S.A. 79-3603(q). Thus, the calibration of meters in the oil pipelines is a taxable service.  
  
Kansas applies “destination-based” sourcing rules to all retail sales of taxable services, as well as sales of tangible personal property. This means that the sale of a taxable service is sourced to the location where the purchaser of the services makes first use of those services. In many situations, this is the location where the taxable services are performed.  
  
Thus, if the calibration takes place in Kansas, it is subject to Kansas retailer’s sales tax. If the calibration takes place outside the state, it is not.  
  
2. Provide repair services to meters, which consist of labor and repair parts. The meters are in the oil pipeline. Please clarify in state and out of state taxability.  
  
See above. The service of repairing the meters is a taxable service. And pursuant to K.S.A. 79-3603(l)(1), the sale of the parts used in these repairs would be taxable at the time they are purchased. Once again, the sourcing rules stated above would apply.  
  
*3. Provide a service referred to as “Water Draw” the pipeline. Which is the process of tapping into the oil pipeline, at a point where there is not a meter, and draw a sample flow through a draw unit, which certifies the volume of flow through the prover loop made in the pipeline. The “water draw” truck is driven to the pipeline and the technician runs the test on the pipeline. Service is provided in state and out.*  
  
This service is taxable for the same reasons stated after #1. The service would not be subject to Kansas retailer’s tax if done outside the state.  
  
*4. Build contracted fabrication of meter proving units for pipeline companies for the installation within the pipeline. The fabricated provers become part of the pipeline. The majority of this work is provided to out of state locations. Occasionally fabrication is for overseas. The company is classified as the Original Equipment Manufacturer (OEM) of the meter provers.*  
  
The sale of these provers is taxable if delivery occurs in Kansas.  
  
*5. Manufacture detector switches for two purposes.*  
*a. The manufacture of the detector switches for use in the OEM products. The switches are component parts of a larger product.*  
  
*b. They are used as replacement parts for provers. The switches are sold to energy companies for pipeline maintenance.*  
  
K.S.A. 79-3606(m) states that “all sales of tangible personal property which become an ingredient or component part of tangible personal property or services produced, manufactured or compounded for ultimate sale at retail within or without the state of Kansas; and any such producer, manufacturer or compounder may obtain from the director of taxation and furnish to the supplier an exemption certificate number for tangible personal property for use as an ingredient or component part of the property or services produced, manufactured or compounded.  
  
As a component part of a larger product to be sold at retail, the sale of detector switches at wholesale is exempt. Their sale as a replacement part to an end purchaser is not exempt.  
  
*6. Manufacture spheres for two purposes.*  
*a. The manufacture of the spheres for use in the OEM products. The sphere is a component parts of a larger product.*  
*b. The spheres are also produced to be sold to energy companies for pipeline maintenance.*  
  
As a component part of a larger product to be sold at retail, the sale of these spheres at wholesale is exempt. Their sale as a replacement part to an end purchaser is not exempt.  
  
*7. Manufacture and sale of sphere accessories. These are specialty tools required to make the replacements in the pipeline.*  
  
The sale of these tools is taxable.  
  
*8. Finally, occasionally they are requested to do specialty parts for other manufacturers for use in their products.*  
  
If these specialty parts are components of a larger product, then their sale at wholesale is exempt. Of course, a proper exemption certificate must be provided by the purchaser.  
  
This is a private letter ruling pursuant to K.A.R. 92-19-59. It is based solely on the facts provided in your request. If it is determined that undisclosed facts were material or necessary to an accurate determination by the department, this ruling is null and void. This ruling will be revoked in the future by the operation of law without further department action if there is a change in the statutes, administrative regulations, or case law, or published revenue ruling, that materially effects this private letter ruling. If I may be of further assistance to you, please contact me at your earliest convenience at (785) 296-5330.  
  
  
Sincerely,  
  
  
Mark Ciardullo  
Tax Specialist  
  
  
**Date Composed: 06/28/2004 Date Modified: 06/29/2004**