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Stingray Pressure Pumping, L.L.C. v. Harris

Supreme Court of Ohio - August 2, 2023 - N.E.3d - 2023 WL 4913160 - 2023-Ohio-2598

Taxpayer challenged decision of Ohio Board of Tax Appeals (BTA) concluding that some of taxpayer's equipment used in its fracking operations did not qualify for exemption from Ohio's sales and use tax for equipment used directly in the production of crude oil and natural gas.

The Supreme Court held that:

- Blender was exempt from sales and use tax;
- Hydration unit was exempt from sales and use tax;
- Chemical-additive unit was exempt from sales and use tax;
- Sand king was exempt from sales and use tax;
- T-belt was exempt from sales and use tax;
- Data van was not exempt from sales and use tax; and
- Equipment, aside from data van, was used directly in production of oil and gas.

Primary use of taxpayer's blender equipment was to mix together water, chemicals, and sand, notwithstanding blender's holding function, and thus blender was directly used in performing taxpayer's hydraulic fracking services for the production of crude oil and natural gas, and therefore blender qualified as a "thing transferred" directly in production of crude oil and natural gas for sale, such that blender was exempt from Ohio's sales and use tax; blender mixed critical ingredients in fracking recipe seconds before mixture was inserted into well.

Primary use of hydration unit was in mixing water and various chemicals, not storage, and thus hydration unit was directly used in performing hydraulic fracking services for the production of crude oil and natural gas, and therefore hydration unit qualified as a "thing transferred" directly in production of crude oil and natural gas for sale, and thus taxpayer's hydration unit equipment was exempt from Ohio's sales and use tax.

Taxpayer's chemical-additive unit was not primarily used for holding, but rather, primary function of unit was to provide chemicals to hydration unit and blender by way of hoses, and therefore chemical-additive unit was tangible personal property directly used in hydraulic fracking services, such that chemical-additive unit qualified as a "thing transferred" directly in production of crude oil and natural gas for sale, and thus chemical-additive unit was exempt from Ohio's sales and use tax.

Primary use of taxpayer's sand king equipment, which holds sand for a brief period before it is injected into pressurized mixture that is immediately injected into well, was to feed sand into blender, and thus sand king was tangible personal property directly used in hydraulic fracking services, such that sand king qualified as a "thing transferred" directly in production of crude oil and natural gas for sale, and therefore sand king was exempt from Ohio's sales and use tax.

Taxpayer's data van equipment, a motor vehicle containing various screens and monitoring devices did not act directly on fluid and material and did not control production equipment, and thus data

van did not qualify as a “thing transferred” directly in production of crude oil and natural gas for sale, and therefore data van was not exempt from Ohio’s sales and use tax.

Taxpayer’s equipment used in taxpayer’s fracking operations, including blenders, hydration units, chemical-additive units, sand kings, and t-belts, which was used in unison with manifold and pumps to create injection of mixture that was sent downhole to free oil and gas was used directly in production of oil and gas, and thus equipment qualified for exemption from Ohio’s sales and use tax, even if equipment’s use was preliminary and preparatory to production.