WEST VIRGINIA LEGISLATURE
REGULAR SESSION, 1994

ENROLLED
Committee Substitute for
SENATE BILL NO. 328

(By Senator Ross, et al)

PASSED March 12, 1994
In Effect from Passage
AN ACT to amend and reenact section two, article fifteen, chapter eleven of the code of West Virginia, one thousand nine hundred thirty-one, as amended, relating to the state consumers sales tax; and providing a definition of the phrase “production of natural resources”.

Be it enacted by the Legislature of West Virginia:

That section two, article fifteen, chapter eleven of the code of West Virginia, one thousand nine hundred thirty-one, as amended, be amended and reenacted to read as follows:

ARTICLE 15. CONSUMERS SALES TAX.


1 For the purpose of this article:

2 (a) “Business” includes all activities engaged in or caused to be engaged in with the object of gain or economic benefit, direct or indirect, and all activities of
the state and its political subdivisions which involve
sales of tangible personal property or the rendering of
services when those service activities compete with or
may compete with the activities of other persons.

(b) "Communication" means all telephone, radio, light,
light wave, radio telephone, telegraph and other
communication or means of communication, whether
used for voice communication, computer data transmis-
sion or other encoded symbolic information transfers
and shall include commercial broadcast radio, commer-
cial broadcast television and cable television.

(c) "Contracting":

(1) In general. — "Contracting" means and includes the
furnishing of work, or both materials and work, for
another (by a sole contractor, general contractor, prime
contractor or subcontractor) in fulfillment of a contract
for the construction, alteration, repair, decoration or
improvement of a new or existing building or structure,
or any part thereof, or for removal or demolition of a
building or structure, or any part thereof, or for the
alteration, improvement or development of real property.

(2) Form of contract not controlling. — An activity that
falls within the scope of the definition of contracting
shall constitute contracting regardless of whether such
contract governing the activity is written or verbal and
regardless of whether it is in substance or form a lump
sum contract, a cost-plus contract, a time and materials
contract, whether or not open-ended, or any other kind
of construction contract.

(3) Special rules. — For purposes of this definition:

(A) The term "structure" includes, but is not limited to,
everything built up or composed of parts joined together
in some definite manner and attached or affixed to real
property, or which adds utility to real property or any
part thereof, or which adds utility to a particular parcel
of property and is intended to remain there for an
indefinite period of time.
(B) The term "alteration" means, and is limited to, alterations which are capital improvements to a building or structure or to real property.

(C) The term "repair" means, and is limited to, repairs which are capital improvements to a building or structure or to real property.

(D) The term "decoration" means, and is limited to, decorations which are capital improvements to a building or structure or to real property.

(E) The term "improvement" means, and is limited to, improvements which are capital improvements to a building or structure or to real property.

(F) The term "capital improvement" means improvements that are affixed to or attached to and become a part of a building or structure or the real property or which add utility to real property or any part thereof and that last, or are intended to be relatively permanent. As used herein, "relatively permanent" means lasting at least a year or longer in duration without the necessity for regularly scheduled recurring service to maintain such capital improvement. "Regular recurring service" means regularly scheduled service intervals of less than one year.

(G) Contracting does not include the furnishing of work, or both materials and work in the nature of hookup, connection, installation or other services if such service is incidental to the retail sale of tangible personal property from the service provider's inventory: Provided, That such hookup, connection or installation of the foregoing is incidental to the sale of the same and performed by the seller thereof or performed in accordance with arrangements made by the seller thereof. Examples of transactions that are excluded from the definition of contracting pursuant hereto include, but are not limited to, the sale of wall-to-wall carpeting and the installation of wall-to-wall carpeting, the sale, hookup and connection of mobile homes, window air
conditioning units, dishwashers, clothing washing machines or dryers, other household appliances, drapery rods, window shades, venetian blinds, canvas awnings, free standing industrial or commercial equipment and other similar items of tangible personal property. Repairs made to the foregoing are within the definition of contracting if such repairs involve permanently affixing to or improving real property or something attached thereto which extends the life of the real property or something affixed thereto or allows or is intended to allow such real property or thing permanently attached thereto to remain in service for a year or longer.

(d) (1) “Directly used or consumed” in the activities of manufacturing, transportation, transmission, communication or the production of natural resources means used or consumed in those activities or operations which constitute an integral and essential part of such activities, as contrasted with and distinguished from those activities or operations which are simply incidental, convenient or remote to such activities.

(2) Uses of property or consumption of services which constitute direct use or consumption in the activities of manufacturing, transportation, transmission, communication or the production of natural resources includes only:

(A) In the case of tangible personal property, physical incorporation of property into a finished product resulting from manufacturing production or the production of natural resources;

(B) Causing a direct physical, chemical or other change upon property undergoing manufacturing production or production of natural resources;

(C) Transporting or storing property undergoing transportation, communication, transmission, manufacturing production or production of natural resources;

(D) Measuring or verifying a change in property
directly used in transportation, communication, transmission, manufacturing production or production of natural resources;

(E) Physically controlling or directing the physical movement or operation of property directly used in transportation, communication, transmission, manufacturing production or production of natural resources;

(F) Directly and physically recording the flow of property undergoing transportation, communication, transmission, manufacturing production or production of natural resources;

(G) Producing energy for property directly used in transportation, communication, transmission, manufacturing production or production of natural resources;

(H) Facilitating the transmission of gas, water, steam or electricity from the point of their diversion to property directly used in transportation, communication, transmission, manufacturing production or production of natural resources;

(I) Controlling or otherwise regulating atmospheric conditions required for transportation, communication, transmission, manufacturing production or production of natural resources;

(J) Serving as an operating supply for property undergoing transmission, manufacturing production or production of natural resources, or for property directly used in transportation, communication, transmission, manufacturing production or production of natural resources;

(K) Maintenance or repair of property, including maintenance equipment, directly used in transportation, communication, transmission, manufacturing production or production of natural resources;

(L) Storage, removal or transportation of economic waste resulting from the activities of manufacturing, transportation, communication, transmission or the
production of natural resources;

(M) Pollution control or environmental quality or protection activity directly relating to the activities of manufacturing, transportation, communication, transmission or the production of natural resources and personnel, plant, product or community safety or security activity directly relating to the activities of manufacturing, transportation, communication, transmission or the production of natural resources; or

(N) Otherwise be used as an integral and essential part of transportation, communication, transmission, manufacturing production or production of natural resources.

(3) Uses of property or services which would not constitute direct use or consumption in the activities of manufacturing, transportation, transmission, communication or the production of natural resources include, but are not limited to:

(A) Heating and illumination of office buildings;

(B) Janitorial or general cleaning activities;

(C) Personal comfort of personnel;

(D) Production planning, scheduling of work or inventory control;

(E) Marketing, general management, supervision, finance, training, accounting and administration; or

(F) An activity or function incidental or convenient to transportation, communication, transmission, manufacturing production or production of natural resources, rather than an integral and essential part of such activities.

(e) (1) “Directly used or consumed” in the activities of gas storage, the generation or production or sale of electric power, the provision of a public utility service or the operation of a utility business, means used or consumed in those activities or operations which constitute an integral and essential part of such
activities or operation, as contrasted with and distin-
guished from activities or operations which are simply
incidental, convenient or remote to such activities.

(2) Uses of property or consumption of services which
constitute direct use or consumption in the activities of
gas storage, the generation or production of sale of
electric power, the provision of a public utility service,
or the operation of a utility business include only:

(A) Tangible personal property or services, including
equipment, machinery, apparatus, supplies, fuel and
power and appliances, which are used immediately in
production or generation activities and equipment,
machinery, supplies, tools and repair parts used to keep
in operation exempt production or generation devices.

For purposes of this subsection, production or generation
activities shall commence from the intake, receipt or
storage of raw materials at the production plant site;

(B) Tangible personal property or services, including
equipment, machinery, apparatus, supplies, fuel and
power, appliances, pipes, wires and mains which are
used immediately in the transmission or distribution of
gas, water and electricity to the public, and equipment,
machinery, tools, repair parts and supplies used to keep
in operation exempt transmission or distribution devices,
and such vehicles and their equipment as are specifically
designed and equipped for such purposes are exempt
from the tax when used to keep a transmission or
distribution system in operation or repair. For purposes
of this subsection, transmission or distribution activities
shall commence from the close of production at a
production plant or wellhead when a product is ready for
transmission or distribution to the public and shall
conclude at the point where the product is received by
the public;

(C) Tangible personal property or services, including
equipment, machinery, apparatus, supplies, fuel and
power, appliance, pipes, wires and mains, which are used
immediately in the storage of gas or water, and equip-
ment, machinery, tools, supplies and repair parts used to keep in operation exempt storage devices;

(D) Tangible personal property or services used immediately in the storage, removal or transportation of economic waste resulting from the activities of gas storage, the generation or production or sale of electric power, the provision of a public utility service, or the operation of a utility business;

(E) Tangible personal property or services used immediately in pollution control or environmental quality or protection activity or community safety or security directly relating to the activities of gas storage, generation or production or sale of electric power, the provision of a public utility service or the operation of a utility business.

(3) Uses of property or services which would not constitute direct use or consumption in the activities of gas storage, generation or production or sale of electric power, the provision of a public utility service or the operation of a utility business include, but are not limited to:

(A) Heating and illumination of office buildings;
(B) Janitorial or general cleaning activities;
(C) Personal comfort of personnel;
(D) Production planning, scheduling of work or inventory control;
(E) Marketing, general management, supervision, finance, training, accounting and administration; or
(F) An activity or function incidental or convenient to the activities of gas storage, generation or production or sale of electric power, the provision of public utility service or the operation of a utility business.

(f) "Drugs" includes all sales of drugs or appliances to a purchaser, upon prescription of a physician or dentist and any other professional person licensed to prescribe.
(g) "Gas storage" means the injection of gas into a storage reservoir, or the storage of gas for any period of time in a storage reservoir, or the withdrawal of gas from a storage reservoir, engaged in by businesses subject to the business and occupation tax imposed by sections two and two-e, article thirteen of this chapter.

(h) "Generating or producing or selling of electric power" means the generation, production or sale of electric power engaged in by businesses subject to the business and occupation tax imposed by section two, two-d, two-m or two-n, article thirteen of this chapter.

(i) "Gross proceeds" means the amount received in money, credits, property or other consideration from sales and services within this state, without deduction on account of the cost of property sold, amounts paid for interest or discounts or other expenses whatsoever. Losses shall not be deducted, but any credit or refund made for goods returned may be deducted.

(j) "Management information services" means, and is limited to, data processing, data storage, data recovery and backup, telecommunications, computation and computer processing, computer programming, electronic information and data management activities, or any combination of such activities, when such activity, or activities, is not subject to regulation by the West Virginia public service commission and such activity, or activities, is for the purpose of managing, planning for, organizing or operating, any industrial or commercial business, or any enterprise, facility or facilities of an industrial or commercial business, whether such industrial or commercial business or enterprise, facility or facilities of an industrial or commercial business is located within or without this state and without regard to whether such industrial or commercial business, or enterprise, facility or facilities of an industrial or commercial business is owned by the provider of the management information services or by a "related person", as defined in Section
(k) "Management information services facility" means a building, or any part thereof, or a complex of buildings, or any part thereof, including the machinery and equipment located therein, that is exclusively dedicated to providing management information services to the owner or operator thereof or to another person.

(l) "Manufacturing" means a systematic operation or integrated series of systematic operations engaged in as a business or segment of a business which transforms or converts tangible personal property by physical, chemical or other means into a different form, composition or character from that in which it originally existed.

(m) "Personal service" includes those:

(1) Compensated by the payment of wages in the ordinary course of employment; and

(2) Rendered to the person of an individual without, at the same time, selling tangible personal property, such as nursing, barbering, shoe shining, manicuring and similar services.

(n) "Persons" means any individual, partnership, association, corporation, state or its political subdivisions or agency of either, guardian, trustee, committee, executor or administrator.

(o) "Production of natural resources" means, except for oil and gas, the performance, by either the owner of the natural resources or another, of the act or process of exploring, developing, severing, extracting, reducing to possession and loading for shipment and shipment for sale, profit or commercial use of any natural resource products and any reclamation, waste disposal or environmental activities associated therewith. For the natural resources oil and gas, "production of natural resources" means the performance, by either the owner of the natural resources, a contractor, or a subcontractor, of the act or process of exploring, developing, drilling,
well stimulation activities such as logging, perforating or fracturing, well completion activities such as the installation of the casing, tubing and other machinery and equipment, and any reclamation, waste disposal or environmental activities associated therewith, including the installation of the gathering system or other pipeline to transport the oil and gas produced or environmental activities associated therewith and any service work performed on the well or well site after production of the well has initially commenced. All work performed to install or maintain facilities up to the point of sale for severance tax purposes would be included in the “production of natural resources” and subject to the direct use concept. “Production of natural resources” does not include the performance or furnishing of work, or materials or work, in fulfillment of a contract for the construction, alteration, repair, decoration or improvement of a new or existing building or structure, or any part thereof, or for the alteration, improvement or development of real property, by persons other than those otherwise directly engaged in the activities specifically set forth in this subsection as “production of natural resources”.

(p) “Providing a public service or the operating of a utility business” means the providing of a public service or the operating of a utility by businesses subject to the business and occupation tax imposed by sections two and two-d, article thirteen of this chapter.

(q) “Purchaser” means a person who purchases tangible personal property or a service taxed by this article.

(r) “Sale”, “sales” or “selling” includes any transfer of the possession or ownership of tangible personal property for a consideration, including a lease or rental, when the transfer or delivery is made in the ordinary course of the transferor’s business and is made to the transferee or his agent for consumption or use or any other purpose.
(s) "Service" or "selected service" includes all nonprofessional activities engaged in for other persons for a consideration, which involve the rendering of a service as distinguished from the sale of tangible personal property, but shall not include contracting, personal services or the services rendered by an employee to his employer or any service rendered for resale.

(t) "Tax" includes all taxes, interest and penalties levied hereunder.

(u) "Tax commissioner" means the state tax commissioner.

(v) "Taxpayer" means any person liable for the tax imposed by this article.

(w) "Transmission" means the act or process of causing liquid, natural gas or electricity to pass or be conveyed from one place or geographical location to another place or geographical location through a pipeline or other medium for commercial purposes.

(x) "Transportation" means the act or process of conveying, as a commercial enterprise, passengers or goods from one place or geographical location to another place or geographical location.

(y) "Ultimate consumer" or "consumer" means a person who uses or consumes services or personal property.

(z) "Vendor" means any person engaged in this state in furnishing services taxed by this article or making sales of tangible personal property.
That Joint Committee on Enrolled Bills hereby certifies that the foregoing bill is correctly enrolled.

Chairman Senate Committee

Ernest C. Moore
Chairman House Committee

Originated in the Senate.

In effect from passage.

Clerk of the Senate

Clerk of the House of Delegates

President of the Senate

Speaker House of Delegates

The within is approved this the 25th day of March, 1994.

Governor