

PROPERTY TAX CASE STUDY REAL STEEL

MQM's Challenge

MQM Manufacturer Qualité Itée was no stranger to adversity. They successfully operated a job shop employing 125 people in Tracadie-Sheila on the Acadian Peninsula in North-eastern New Brunswick, producing custom fabrication products, half of which were destined for export to the United States. MQM's newly constructed plant had been erected by the company, they were after all in the business of steel fabrication. But they faced a problem: this was a region still recovering from a prolonged downturn and many other businesses were located in older premises purchased on the open market at prices that reflected the challenges of the local economy. MQM's Realty Assessment was based on its construction cost: the Realty Assessments of other properties reflected their value in a depressed market. MQM turned to Turner Drake for advice.

Turner Drake's Approach

The New Brunswick Assessment Act does not contain a "uniformity" clause: the provincial assessment authority, Service New Brunswick (SNB), is supposed to assess all property at its current market value. Properties may be assessed unevenly but so long as their assessments do not exceed market value there are no statutory grounds for appeal. The system begets abuse: accountability is notable by its absence; it is a civil servant's dream. The problem was further compounded by the impact of earlier government subsidies: they had encouraged overbuilding and depressed sale prices. The property sales that took place reflected the fact that the buildings erected thereon, had been funded with 65¢ dollars. SNB based the assessments of these properties on their sale prices but insisted on assessing buildings newly constructed for owner occupation on their actual construction cost. Turner Drake therefore set out to demonstrate that the MQM property's market value was determined by the sales of substitute properties, even though the latter benefited from the earlier government subsidies. They completed a detailed statistical analysis which compared sale prices to the reproduction cost (depreciated for physical obsolescence) and demonstrated that the market sale prices factored in the benefit of 65¢ dollar construction costs and discounted the present value accordingly.

Winning Results

Turner Drake was able to negotiate a 20% reduction in the assessment with Service New Brunswick. The \$17,000 annual tax savings were achieved without the necessity for costly litigation.

