

Disparity Reduction Credit

DRC is a credit that reduces property taxes in border cities

The disparity reduction credit (DRC) is a state-paid property tax credit that reduces property taxes for business properties in certain border areas of the state. The purpose of the credit is to make business property taxes in those cities more competitive with similar properties in the neighboring state. The credit was established by the 1988 Legislature and first effective for taxes payable in 1989. The credit is codified under [Minnesota Statutes, section 273.1398](#), subdivision 4.

The credit is available in five cities

The credit is available in cities that lie along the border of a neighboring state where there is a city of significant size across the border. The cities that currently meet the criteria are Breckenridge, Dilworth, East Grand Forks, Moorhead, and Ortonville.

Commercial-industrial properties and apartments are eligible

Most of the credit is paid to commercial-industrial properties. Apartment properties are also eligible for the credit, but for the most part their taxes do not exceed, or barely exceed, the threshold to receive the credit. Properties in tax increment financing districts are not eligible for the credit.

DRC reduces property taxes to 1.6 percent of taxable market value

Each property receives the amount of credit necessary to reduce its net tax capacity-based property tax to 1.6 percent of the taxable market value of the property. The credit reduces both the local property tax levy and, in the case of commercial-industrial property, the state general levy; however, the credit does not apply to any referendum market value-based levies (primarily school district operating referendum levies).

The county auditor reduces the property taxes otherwise due upon the property by the amount of the credit. The county auditor reports the amount of credit issued to the state, and the state then reimburses the affected taxing jurisdictions for the credit amounts deducted from the taxes.

Credit cost

The estimated cost of the credit to the state is \$12.3 million for taxes payable in 2018 (FY 2019).

There are additional tax benefits for border city businesses

In addition to the DRC program, Minnesota law authorizes the five designated border cities to provide tax benefits to businesses under the border city enterprise zone and the border city development zone programs. These two programs allow the border cities to offer state-funded reductions in property taxes, sales taxes, and income or corporate franchise taxes. Under the enterprise zone program, the cities can use the benefits either to attract new business investment or to retain existing businesses. The development zone program is limited to new businesses or expansions. The law allows each city considerable flexibility in designing the parameters of the tax benefits and in deciding whether they should be targeted to

new or existing businesses. The programs are designed to (partially) offset Minnesota's higher business taxes compared with those in North Dakota and South Dakota.

The state-funded tax reductions are limited to specific dollar amounts of allocations that the legislature periodically enacts for the programs. In 2017, the legislature authorized \$3 million for the two programs; the allocations are typically apportioned among the five cities on a per capita basis. The border city development zone program also authorizes border cities to provide locally borne property tax reductions to newly constructed business and residential properties. See [Minnesota Statutes, section 272.0212](#) (limited property tax exemption).

For more information: Contact legislative analyst Jared Swanson at Jared.Swason@house.mn.