Disparity Reduction Credit

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The disparity reduction credit (DRC) is a state-paid property tax credit that reduces property taxes for apartment and business properties in certain border areas of the state.

The purpose of the DRC is to make apartment and business property taxes in certain border cities more competitive with similar properties in the neighboring state. The credit was established by the legislature in 1988 and is codified under Minnesota Statutes, section 273.1398, subdivision 4.

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.

Cost and administration

Each eligible 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. 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 the credit issued to the state, and the state then reimburses the affected taxing jurisdictions for the credit amounts deducted from the taxes.

The estimated cost of the credit to the state for taxes payable in 2024 (FY 2025) is $12.5 million.

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. Both programs are codified under Minnesota Statutes, chapter 469. The programs are designed to (partially) offset Minnesota's higher business taxes compared with those in North Dakota and South Dakota and allow each city considerable flexibility in designing the tax benefits for new and existing businesses. 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 to existing businesses.

The border city development 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).

A total of $750,000 is annually appropriated to fund both programs. This amount is allocated among the five designated border cities on a per capita basis.

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