

GUIDE TO FEDERAL TAX INCENTIVES FOR RESIDENTIAL GEOTHERMAL HEAT PUMPS



CLIMATEMASTER® GEOTHERMAL HEATING AND COOLING
DECLARE YOUR PERSONAL ENERGY INDEPENDENCE

HIGHLIGHTS

FEDERAL INCOME TAX CREDIT

- Tax credit equal to 30% of total system cost (exceptions apply - see IRS guidelines for more details)
- If “dwelling unit” is used as a daycare, rental, certain storage or business use, there is a limit on deductions
- No limit to the maximum credit amount
- Can be combined with solar and wind tax credits
- Can be combined with energy efficiency upgrade credits

ELIGIBILITY

- Home must be located in the U.S.
- Does not have to be your main home
- Includes “dwelling unit” defined as a house, apartment, condominium, mobile home, boat or similar property, and all structures or other property appurtenant to such dwelling unit
- Geothermal heat pump must be Energy Star® qualified
- Installed between 1/1/2017 and 12/31/2021

RESIDENTIAL ENERGY CREDIT

The Bipartisan Budget Act of 2018, signed in February 2018, reinstated the tax credit of geothermal heat pumps to § 25D of the Internal Revenue Code. The property credit provides 30% for systems placed in service by 12/31/2019, 26% between 12/31/19 and 1/1/2020 and 22% between 12/31/2020 and 1/1/2022. Significantly, The American Recovery and Reinvestment of 2009 repealed a previous limitation on the use of the credit for eligible projects are also supported by “subsidized energy financing.” For projects placed in service after December 31, 2008, this limitation no longer applies.

ELIGIBLE GEOTHERMAL HEAT PUMP PROPERTY

The tax credit may be claimed for spending on “qualified geothermal heat pump property” installed in connection with a new or existing dwelling located in the United States and used as a residence by the taxpayer. It does not have to be the primary residence.

The term “qualified geothermal heat pump property” means any equipment which –

- (i) Uses the ground or ground water as a thermal energy source to heat the dwelling unit or as a thermal energy sink to cool the dwelling, and
- (ii) Meets the requirements of the Energy Star® program which are in effect at the time the expenditure for such equipment is made.

Note: Labor costs properly allocated to the installation of the geothermal heat pump property and for any associated piping, wiring, and interconnecting ducting are also included.

EXCLUDED PROPERTY

The credit cannot be claimed on spending for equipment used solely to heat a swimming pool or hot tub, or on previously used equipment.

PLACED IN SERVICE REQUIREMENT

The IRS defines “placed in service” as when the property is ready and available for use. It’s not when you purchase product, but the day the installation is complete, and you are able to use your new product. For example:

EXISTING HOME – 2016 DEPOSIT WITH 2017 COMPLETION

The taxpayer spent \$12,000 to install a geothermal heat pump system in their existing home. They paid an initial deposit of \$5,000 in 2016 and the balance in 2017 when the system was completed.

2017 Tax Credit: $\$12,000 \times 30\% = \$3,600$

The deposit had no effect on the residential credit, which is entirely determined on the basis of the placed in service date.

MAJOR RENOVATION EXAMPLE – 2016 SYSTEM COMPLETION WITH 2017 OCCUPANCY

The taxpayer spent \$30,000 to install a geothermal heat pump system in a home they are renovating. They paid for the geothermal heat pump system upon its completion in 2016, but did not move into the home until 2017.

2017 Tax Credit: $\$30,000 \times 30\% = \$9,000$

Even though the geothermal system was completed and paid for in 2016, it is considered to have been placed in service when the taxpayers moved into their home in 2017.

TAX CREDIT AMOUNT AND MAXIMUM CAP

An individual can claim a tax credit equal to 30% for 2018—2019, 26% for 2020 and 22% for 2021 on qualified geothermal heat pump property and applicable installation labor.

COOPERATIVES AND CONDOMINIUMS

A corporation usually owns cooperative apartment buildings, and the residents are shareholders in the corporation. If the corporation spends money on installing qualified geothermal heat pump property, each shareholder is allowed to claim a tax credit on his or her share of the spending.

Owners of condominiums contribute to the upkeep of the condominiums by paying money to a condominium management association. Where such a management association spends money on installing qualified geothermal heat pump property, each member of the association can claim a tax credit on his or her share of that spending. However, the association must qualify as a "homeowners' association" under section 528(c)(1) of the tax code, and "substantially all" of the units in the condominium project must be used as residences.

BUSINESS USE

If a dwelling unit serves a dual purpose, such as for a home office in the dwelling, the spending may have to be allocated between residential and business use. If the portion considered residential is at least 80%, then all the spending qualifies for the residential credit. There is a 10% tax credit available for business use of geothermal heat pump property, and 5-year MACRS accelerated depreciation.

CLAIMING THE CREDIT

IRS Form 5695 is used to claim the Residential Energy Credit.

FEDERAL RESIDENTIAL CREDIT EXAMPLES

NEW HOME EXAMPLE

The taxpayer contracted to build a new home in 2017. Their builder spent \$18,000 to install a geothermal heat pump system. They move into the home in March, 2018.

2018 Tax Credit: $\$18,000 \times 30\% = \$5,400$

NEW CONDOMINIUM EXAMPLE

The taxpayer moved into a new condominium in 2017. The condominium developer spent \$450,000 to install a geothermal heat pump system in the 30 unit structure.

2018 Tax Credit: $(\$450,000/30)$ or $\$15,000 \times 30\% = \$4,500$ per condominium

REPLACEMENT UNIT EXAMPLE

The taxpayer spends \$7,000 to install a new geothermal heat pump property in 2018. The geothermal heat pump is replacing a prior geothermal heat pump installed in 1995.

2018 Tax Credit: $\$7,000 \times 30\% = \$2,100$

Qualified geothermal heat pump property expenditures include replacement units as long as they meet the eligibility requirements.

STATE AND LOCAL INCENTIVES MAY ALSO BE AVAILABLE TO GEOTHERMAL HEAT PUMP PURCHASES

STATE INCENTIVES

In addition to the federal tax credits outlined above, many states offer tax incentives, or low interest loans to encourage the installation of geothermal heat pumps. Please check with your tax advisor or installing dealer to find out what is available in your area.

UTILITY INCENTIVES

Many utilities offer incentives such as rebates or financing programs to encourage the installation of geothermal heat pumps. Please check with your electric utility or installing dealer to find out what is available in your area.

Reference: Energystar.gov and 26 U.S.C § 25D Residential Energy Efficient Property



ClimateMaster, Inc.
7300 S.W. 44th Street
Oklahoma City, OK 73179
800-299-9747
Fax 405-745-6058
climatemaster.com



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