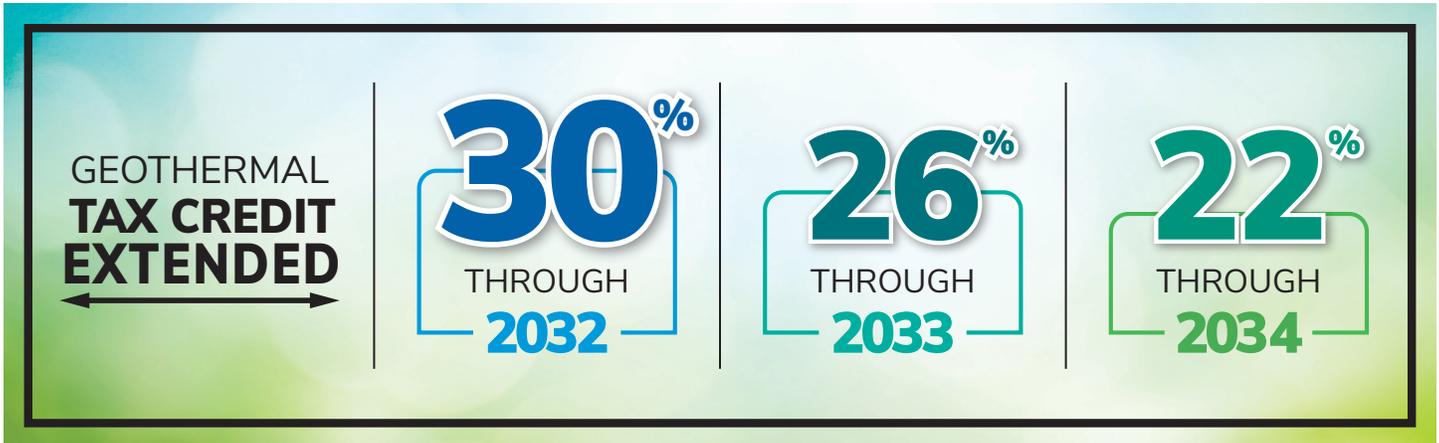




GUIDE TO FEDERAL TAX INCENTIVES FOR RESIDENTIAL GEOTHERMAL HEAT PUMPS



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DECLARE YOUR PERSONAL ENERGY INDEPENDENCE



RESIDENTIAL CLEAN ENERGY PROPERTY CREDIT

The Residential Clean Energy Property Credit is a 30-percent tax credit for certain qualified expenditures made by a taxpayer for residential energy efficient property eligible under the Inflation Reduction Act of 2022's investment in clean energy solutions. The IRA extends the residential clean energy property credit through 2034 and modified the applicable credit percentage rates. The credit applies for property placed in service after December 31, 2021, and before January 1, 2033. The credit percentage rate phases down to 26 percent for property placed in service in 2033, 22 percent for property placed in service in 2034, and no credit is available for property placed in service after December 31, 2034. Qualified geothermal heat pump property is any equipment that uses the ground or ground water as a thermal energy source to heat your home.

EFFICIENCY REQUIREMENTS

The geothermal heat pump property must meet the requirements of the ENERGY STAR program which are in effect at the time that the expenditure for such equipment is made.

USE OF THE CREDIT

- A taxpayer can claim the credit for qualifying expenditures incurred for either an existing home or a newly constructed home.
- The home must be located in the United States and used as a residence by the taxpayer (includes renters).
- Retroactive at 30% to January 1, 2022.
- Credits are non-refundable, cannot be traded, but can be carried forward for up to ten years.
- Used property is not eligible for the Residential Clean Energy Property Credit.
- Please consult your own accountant and/or tax professional for guidance on claiming incentives.

ALTERNATIVE MINIMUM TAX

A taxpayer who is subject to the AMT is eligible to claim both the Energy Efficient Home Improvement Credit and the Residential Clean Energy Property Credit, and may offset the AMT with those credits.

BUSINESS USE

If a taxpayer uses property solely for business purposes, the property will not qualify for the credit. A taxpayer who qualifies for the credits, and whose use of the qualified property for business purposes is not more than 20 percent, may claim the full credit. For a taxpayer who otherwise qualifies for the credits, but whose use of the qualified property for business purposes exceeds 20 percent, the taxpayer must calculate the amount of credit by including only that portion of the expenditures for the property that are properly allocable to use for nonbusiness purposes.

CLAIMING THE CREDIT

IRS Form 5695 is used to claim the Residential Energy Credit. Please note, a taxpayer may not claim the credits until the year the property is installed. The tax credits are available through federal tax deduction. Consult your tax advisor for guidance. Download the tax form at: <https://www.irs.gov/forms-pubs/about-form-5695>.

FEDERAL RESIDENTIAL CREDIT EXAMPLES

NEW HOME EXAMPLE

The taxpayer contracted to build a new home in 2021. Their builder spent \$26,000 to install a geothermal heat pump system. They move into the home in March, 2022.

2022 Tax Credit: $\$26,000 \times 30\% = \$7,800$

NEW CONDOMINIUM EXAMPLE

The taxpayer moved into a new condominium in 2022. The condominium developer spent \$450,000 to install a geothermal heat pump system in the 30 unit structure.

2022 Tax Credit: $(\$450,000 / 30) \times 30\% = \$4,500$ per condominium

REPLACEMENT UNIT EXAMPLE

The taxpayer spends \$12,000 to install a new geothermal heat pump property in 2022. The geothermal heat pump is replacing a prior geothermal heat pump previously installed in 1995.

2022 Tax Credit: $\$12,000 \times 30\% = \$3,600$

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](https://energystar.gov) and 26 U.S.C § 25D Residential Energy Efficient Property



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