

Federal Income Tax Credit:

- Tax credit equal to 30% of total system cost
- No limit to the maximum credit amount for 2009 and beyond
- Can be used to offset AMT tax
- Can be used in more than one year
- 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 houses, apartments, condos, mobile homes
- Geothermal heat pump must be Energy Star qualified
- Installed between 1/1/2008 and 12/31/2016

Highlights

In October 2008, geothermal heat pumps were added to section 25D of the Internal Revenue Code, which provides a 30% tax credit for spending on qualified property placed in service through the end of 2016. The credit was made retroactive to the beginning of 2008, and was capped at \$2,000. In February 2009, the \$2,000 cap was removed for geothermal heat pump property placed in service after December 31, 2008.

The tax credit may be claimed for spending on “qualified geothermal heat pump property” installed in connection with a new or existing dwelling unit 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 unit, and
- (ii) meets the requirements of the Energy Star program which are in effect at the time that the equipment is installed.

Spending for labor costs properly allocable to the installation of the geothermal heat pump property and for any associated piping, wiring, and interconnecting ducting are included.

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

The credit can only be claimed on spending for property that is “placed in service” during the period from 2008 to 2016. In general, property is considered to be placed in service when the original installation is completed. However, if the geothermal heat pump property is part of the construction or reconstruction of a house, it is considered to be placed in service when the taxpayer takes up residence in the new or renovated house.

An individual can claim a tax credit equal to 30% of spending on qualified geothermal heat pump property.

For property placed in service after January 1, 2009, there is no limit on the amount of the tax credit that can be claimed. The tax credit can be used to offset both regular income taxes and alternative minimum taxes (AMT). If the tax credit exceeds the income tax liability, the remaining balance can be carried forward into future years.



For More Information or
To Answer Any of your Questions Call

610-228-4279

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.

Amounts that are spent on improvements are added to the tax basis of the house. A higher tax basis generally means there is a smaller taxable gain when a house is later sold. Spending on geothermal heat pump property adds to the tax basis, but must be reduced by the amount of the tax credit received.

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 spending 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.

IRS Form 5695 (2008) is used to claim the Residential Energy Efficient Property Credit that is available in your area.