



Understanding the Federal Tax Incentives for Geothermal Heat Pumps



The 26% federal tax credit was extended through 2022 and will drop to 22% in 2023 before expiring altogether, so act now for the most savings!

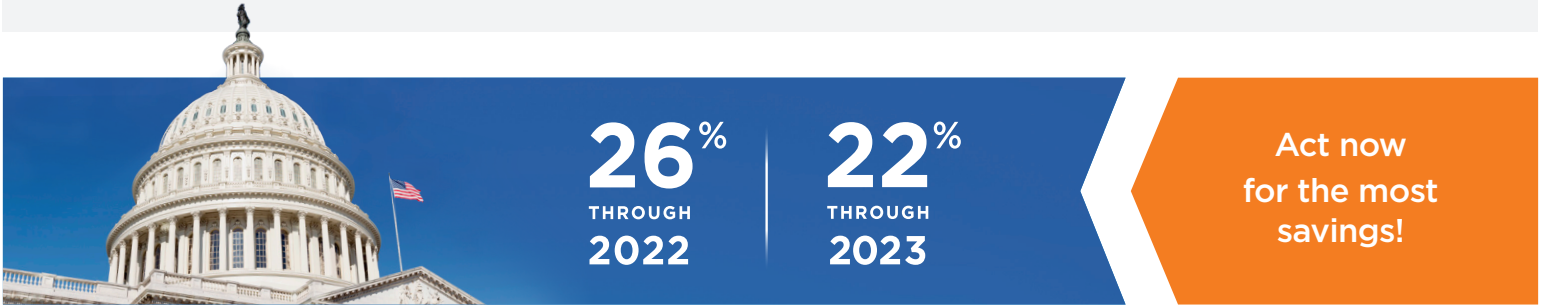
26%
THROUGH
2022

22%
THROUGH
2023

The Energy Credit

In December 2020, the tax credit for geothermal heat pump installations was extended through 2023. Property is usually considered to be placed in service when installation is complete and equipment is ready for use. However, if the system is part of the construction or renovation of a house, it's considered placed in service when the taxpayer takes residence in the house. To save the most on your installation, you'll want to act quickly—this credit will drop to 22% in 2023 before expiring altogether.

- 26% of total system cost in 2021 and 2022
- 22% of total system cost in 2023
- No limit to credit amount
- Can be used to offset alternative minimum tax (AMT)
- 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



What's Eligible

Geothermal equipment that uses the stored solar energy from the ground for heating and cooling **and** that meets ENERGY STAR requirements at the time of installation is eligible for the tax credit. Covered expenditures include labor for onsite preparation, assembly, or original system installation and for piping or wiring to connect a system to the home. The structure must be located in the United States and used as a residence by the taxpayer, although primary residency isn't required. In fact, if geothermal is installed in more than one home, there's no limitation on the number of times the credit can be claimed.

What's Not

The credit can't be claimed for spending on equipment used solely for hot tub or pool conditioning, nor on previously used equipment. Rental home installations also cannot be claimed. As of November 2013, electric strip heat and ductwork distribution systems are no longer included in the tax credit calculation.

How to Claim the Credit

Use IRS Form 5695 to claim the Residential Energy Efficient Property Credit. For property placed in service after 2009, there's no limit on the credit amount. The tax credit can be used to offset both regular income taxes and alternative minimum taxes (AMT). If the federal tax credit exceeds tax liability, the excess amount may be carried forward into future years. Spending on geothermal heat pump property adds to your home's cost basis but also must be reduced by the amount of the tax credit received.

BR1507MW 01/21



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