



Residential Energy-Efficient Property Credit

The American Recovery & Reinvestment Act of 2009 and the Emergency Economic Stabilization Act of 2008 contain tax incentives until the year 2016 to encourage the installation of renewable energy technologies in homes, including geothermal heat pumps.

For qualifying geothermal installations placed into service between Jan. 1, 2009 and Dec. 31, 2016, eligible homeowners may qualify for a one time tax credit of 30% of the total investment (with no maximum) for residential ground loop or ground water geothermal heat pump installations.

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 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 expenditure for such equipment is made.

Spending for labor costs properly allocable to the installation of the geothermal heat pump property and for associated piping and wiring are 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 credit can only be claimed on spending for property that is "placed in service" during the period from 2009 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.

Tax Credit Amount and Maximum Cap

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. If the tax credit exceeds the income tax liability, the remaining balance can be carried forward into future years.

Guide to Federal Tax Incentives Residential Geothermal Systems



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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.

Effect on the Tax Basis on a House

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 qualified geothermal heat pump property adds to the tax basis, but the basis must then be reduced by the amount of the tax credit received.

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. See a qualified tax professional for further advice.

Claiming the Credit

IRS Form 5695 (2008) was used to claim the Residential Energy Efficient Property Credit for 2008. Form 5695 for 2009 has not been published as of the publication date of this document.

Additional Tax Incentive Available to Building Contractors

New Energy Efficient Home Credit

Section 45L of the Internal Revenue Code provides building contractors a \$2,000 tax credit for the construction or substantial renovation of a new home that achieves a 50% heating and cooling energy cost saving relative to a comparable dwelling that meets the minimum requirements of 2004 IECC energy code. The home must be sold prior to the end of 2009 for the builder to receive the credit. The energy consumption reduction must be verified by an independent accredited certifier, such as a RESNET home energy rater. IRS Form 8908 is used to claim the credit. IRS Notice 2008-35 provides detailed guidance.

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