



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 26% 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 12/31/2023

## RESIDENTIAL ENERGY CREDIT

The Consolidated Appropriations Act, 2021, signed into law on December 27, 2020, extends the federal tax credit for geothermal heat pump installations through 2023. Residential credits will remain at 26% of the total installation cost through 2022, stepping down to 22% in 2023. The credits will expire on January 1, 2024.

## 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.

## TAX CREDIT AMOUNT AND MAXIMUM CAP

An individual can claim a tax credit equal to 26% for 2020 through 2022 and 22% for 2023 on the total installed cost of qualified geothermal heat pump property.

## 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.

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## FEDERAL RESIDENTIAL CREDIT EXAMPLES

### NEW HOME EXAMPLE

The taxpayer contracted to build a new home in 2020. Their builder spent \$26,000 to install a geothermal heat pump system. They move into the home in March, 2021.

2021 Tax Credit:  $\$26,000 \times 26\% = \$6,760$

### NEW CONDOMINIUM EXAMPLE

The taxpayer moved into a new condominium in 2021. The condominium developer spent \$450,000 to install a geothermal heat pump system in the 30 unit structure.

2021 Tax Credit:  $(\$450,000/30)$  or  $\$15,000 \times 26\% = \$3,900$  per condominium

### REPLACEMENT UNIT EXAMPLE

The taxpayer spends \$12,000 to install a new geothermal heat pump property in 2021. The geothermal heat pump is replacing a prior geothermal heat pump installed in 1995.

2021 Tax Credit:  $\$12,000 \times 26\% = \$3,120$

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



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