



NATURE BETTER BY NATURE

**Understanding the Federal Tax Incentives
for Residential Geothermal Heatpumps**

GE  **FINITY**
M A N U F A C T U R I N G
www.geofinitymanufacturing.com

Residential Federal Tax Credit:

- 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

In October 2008, geothermal heat pumps were added to section 25D of the Internal Revenue Code, creating a 30% tax credit for costs associated with qualified geothermal equipment placed in service through the end of 2016.

Eligible

The tax credit may be claimed for geothermal equipment that utilizes the stored thermal energy from the Earth for heating and cooling, and meets the requirements of the Energy Star program at the time of equipment installation. The qualified equipment must be installed in a dwelling located in the United States and used as a residence by the taxpayer. The residence does not have to be the primary residence and there is no limitation on the number of credits which may be claimed.

Covered costs include labor for the installation of the geothermal heat pump property and for any associated piping or wiring to connect a system to the dwelling.

Excluded

The tax credit may not be claimed for costs for equipment used solely for hot tub or pool conditioning, or on previously used equipment.

Placed in Service Requirement

The credit may only be claimed on equipment that is "placed in service" between 2008 and 2016. In general, property is considered to be placed in service when installation is complete. However, if the geothermal equipment is part of construction or renovation of a house, it is considered to be placed in service when the taxpayer takes up residence of the house.

Claiming the Credit

IRS form 5695 (2008, 2009) is used to claim the Residential Energy Efficiency Property Credit. For qualified geothermal heat pump property placed in service in 2008, the maximum tax credit is capped at \$2,000. For property placed in service after January 1, 2009, there is no limit to 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 remaining balance can be carried forward into future years.

Spending on geothermal property adds to the house's tax basis, but must be reduced by the amount of tax credit received.

Home Business

If a dwelling is utilized for both residential and business purposes, spending may need to be allocated between the two functions. If the portion considered residential spending is 80%, then all spending qualifies for the residential credit. There is a 10% tax credit available for commercial spending, and a 5-year MACRS accelerated depreciation.

Additional Tax Incentives Available

Non-Business Energy Property Credit

A 30% tax credit, capped at \$1,500, is available for spending on qualified energy efficiency improvements made to an existing home during 2009 and 2010. The improvements include qualified insulation, doors, windows, and solar reflective roofing materials and may be claimed in addition to the Energy Efficiency credit for geothermal property. The improvements must be made on a dwelling within the United States that is owned by the taxpayer and used as the principal residence.

To claim the credit use IRS form 5695.

State and Utility Incentives

Many States and Utilities offer incentives, rebates and low interest loans or financing to encourage the use of geothermal systems.



www.geofinitymanufacturing.com

The information contained in this publication is solely for general information only. Redistribution and copying of any portion of this guide is prohibited without the prior written consent of Geofinity Manufacturing Inc. While we have made every attempt to ensure that the information contained in this publication has been obtained from reliable sources, Geofinity Manufacturing Inc. is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information is provided "as is", with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, merchantability and fitness for a particular purpose. In no event will Geofinity Manufacturing Inc., its related partnerships or corporations, or its shareholders, agents, distributors or employees thereof be liable to you or anyone else for any decision made or action taken in reliance on the information in this publication or for any consequential, special or similar damages, even if advised of the possibility of such damages. Geofinity Manufacturing Inc is continually modifying its products through research and development and reserves the right to change design and specifications without notice.

Please also note that, by providing this guide, Geofinity Manufacturing Inc., is not providing, nor intending to provide, you or any other reader of this guide with legal or tax advice. To the extent you have questions concerning any legal or tax issues, you should consult a lawyer. This guide is not an authority that can be cited in response to an enforcement action or in litigation. The Internal Revenue Service (IRS) may or may not provide additional or different clarification on the subject of this guide. Readers are strongly urged to obtain specific advice from a taxation specialist, as the US tax code is complex. Interpretations of tax law are frequently established based on the merits of individual cases that come before the IRS, as opposed to pre-conceived rules.