FEDERAL TAX INCENTIVES
For Commercial Geothermal Heat Pumps

Benefits of Tax Credit:
10% of total system cost with no limit
10% grant available in lieu of tax credit
Combine with solar and wind tax credits
(5/2013 to 12/31/2016)

Eligibility:
Building located in U.S.
Original use begins with taxpayer
(Installed between 10/3/2010 and 12/31/2016)
Ten Percent Energy Credit

In October 2008, geothermal heat pumps were included to the definition of “energy property” under section 48(a) of the Internal Revenue Code. This created a 10% tax credit for costs associated with geothermal equipment constructed through the end of 2016.

Who’s Eligible

Equipment that uses the ground or ground water as an energy source for heating and cooling a building is eligible for the tax credit. The structure must be located in the United States and only its owner can claim tax credits or depreciation deductions. After equipment is installed the taxpayer must take legal title of the equipment and have all necessary licenses and permits needed for its operation. If an owner can’t use the tax credits, other options exist such as sale-leasebacks, partnership “flip” structures, or energy purchase contracts.

Who’s Not

The credit can’t be claimed for spending on equipment used for a purpose other than space conditioning, on previously used equipment, or on equipment that’s used by tax exempt organizations like schools, government agencies, or charities. This also precludes tax-exempt entities from leasing energy property.

How to claim the Credit

Use IRS Form 3468 to claim the Energy Credit. 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 loss can be carried back one taxable year and the remaining balance can be carried into future years.

Grant money as an alternative

All commercial and private buildings are eligible for a 10% grant in lieu of tax credit for geothermal projects started between 2009 and the end of 2016. A check is written from the government to the building owner within 60 days of completion. This option is provided as an alternative in order to improve cash flow. Eligibility requirements for the grant are the same as requirements for the credit.