



Understanding the Federal Tax Incentives for Geothermal Heat Pumps



The 30% federal tax credit was extended through 2032 and will drop to 26% in 2033 and to 22% in 2034 before expiring altogether, so act now for the most savings!

30%
THROUGH
2032

26%
THROUGH
2033

22%
THROUGH
2034

The Energy Credit

In August 2022, the 30% tax credit for geothermal heat pump installations was extended through 2032 and can be retroactively applied to installations “placed in service” on January 1, 2022 or later. 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 26% in 2033 and 22% in 2034 before expiring altogether.

- 30% of total system cost in 2022 through 2032
- 26% of total system cost in 2033
- 22% of total system cost in 2034
- 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

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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, and 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.

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