

## Important IRS Clarification on the 30% Federal Geothermal Tax Credit

The IRS has published Internal Revenue Bulletin 2013-47 changing the IRS' interpretation of the federal tax credit for geothermal heating/cooling systems. According to Internal Revenue Bulletin 2013-47, the distribution system and emergency heat portions of the geothermal system ARE NOT covered as part of the federal tax credit. Piping and wiring remain eligible under the current guidelines as stated in the Bulletin. The Bulletin states:

*Only the cost of the heat exchange equipment in the ground outside the house can be eligible for the § 25D credit. The costs for the distribution system for the home and a back-up emergency heating or cooling system are not eligible for the credit because they are not incurred for qualified geothermal heat pump property.*

Geothermal installers can assist homeowners filing for the credit by providing homeowners with an itemized invoice listing those charges that are eligible for the tax credit and those that are excluded. Installers are strongly encouraged to have the homeowner consult with their tax professional for accurate information on this issue and the tax code as it relates to the installation.

Below is Question 31 in the Bulletin as posed by the IRS and the IRS's answer to the question:

Q-31: A taxpayer contacts a seller to inquire about the installation of a geothermal heat pump to heat his home. The seller/installer informs the taxpayer that the following items must be installed in addition to the geothermal heat pump: heat exchange equipment in the ground outside of the house, a distribution system for the home, and a back-up emergency heating or cooling system. Which of these costs, if any, are eligible for the § 25D credit?

A-31: Only the cost of the heat exchange equipment in the ground outside the house can be eligible for the § 25D credit. The costs for the distribution system for the home and a back-up emergency heating or cooling system are not eligible for the credit because they are not incurred for qualified geothermal heat pump property. Section 25D(d)(5)(B) defines qualified geothermal heat pump property as any equipment that (1) uses the ground or ground water as a thermal energy source to heat the dwelling unit or as a thermal energy sink to cool such dwelling unit, and (2) meets the requirements of the Energy Star program in effect at the time that the expenditure for such equipment is made. Section 25D(e)(1) provides that expenditures for piping and wiring to interconnect qualified property to a dwelling unit are eligible for the § 25D credit. However, nothing in § 25D extends the credit to other auxiliary equipment such as distribution systems within the dwelling unit or backup emergency heating and cooling systems.

Section 25D(d)(5)(B) defines qualified geothermal heat pump property as any equipment that (1) uses the ground or ground water as a thermal energy source to heat the dwelling unit or as a thermal energy sink to cool such dwelling unit, and (2) meets the requirements of the Energy Star program in effect at the time that the expenditure for such equipment is made. Section 25D(e)(1) provides that expenditures for piping and wiring to interconnect qualified property to a dwelling unit are eligible for the §25(D) credit. However, nothing in §25D extends the credit to other auxiliary equipment such as distribution systems within the dwelling unit or backup emergency heating and cooling systems.