



# Understanding the Federal Tax Incentives for Geothermal Heat Pumps



Time is running out, the 30% federal tax credit will expire December 31, 2025, so act now for the most savings!

**30%**  
THROUGH  
**2025**

## The Energy Credit

The 30% tax credit for geothermal heat pump installations is valid through the end of 2025 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 expire on December 31, 2025.

- 30% of total system cost in 2025
- 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). 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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