



WATER ENERGY DISTRIBUTORS, INC.

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Stimulus Bill Increases Homeowner Tax Credit



The Stimulus Bill signed by the President on February 17th **eliminates the \$2,000 limit on the 30% tax credit for homeowners who install geothermal heat pump systems in 2009 and later years.** For systems placed in service in 2008, the \$2,000 limit still applies. So, for example, if a homeowner pays \$15,000 for a geothermal heat pump system installed in 2009, a tax credit of \$4,500 could apply.

For systems placed in service in 2008, use IRS 2008 Form 5695 for the Residential Energy Efficient Property Credit to claim the \$2,000 tax credit for Energy Star geothermal heat pumps. You can view and download the form at the following link: <http://www.irs.gov/pub/irs-pdf/f5695.pdf> Line 18 on the form is where you enter "Qualified geothermal heat pump property costs", Line 19 is where you multiply costs by 30%, and Line 20 displays the \$2,000 "Maximum credit amount" for 2008.

If you use *TurboTax*, look for the "**Home Energy Credits**" topic under Personal Deductions and Credits for Your Home. *TurboTax* provides an input box to enter the amount you paid for Geothermal heat pump property in 2008. As usual, contact your tax professional for applicability to your specific situation.

IRS Form 5695 Instructions provide additional information, including "costs are treated as being paid when the original installation of the item is completed, or in the case of costs connected with the construction or reconstruction of your home, when your original use of the constructed or reconstructed home begins." The Instructions also say "To qualify for the credit, the geothermal heat pump property must meet the requirements of the Energy Star program that are in effect at the time of purchase. The home does not have to be your main home."

Commercial Buildings. The Stimulus Bill also establishes grants in lieu of tax credits for geothermal heat pumps installed in commercial buildings. H.R. 1424 previously established the new 10% investment tax credit for geothermal systems, extended these credits through 2016 and allowed them to be used to offset the alternative minimum tax (AMT). By including geothermal heat pumps within the definition of "energy property" in the Energy Credit language, geothermal heat pump systems placed in service after October 3, 2008 will now also be subject to a 5-year depreciation period.

More Detail The "Emergency Economic Stabilization Act of 2008" created new Federal tax credits for homeowners and businesses who install geothermal heat pump systems. While the Residential credit is retroactive to January 1, 2008, the new tax credit for commercial properties starts October 3, 2008 (the day the new credits became law).

The Emergency Economic Stabilization Act of 2008, H.R. 1424 contains long-term tax incentives to encourage the use of renewable energy technologies in homes and businesses, **including geothermal heat pumps.** Homeowners may qualify for an income tax credit of 30 percent of the expenditure for an Energy Star geothermal heat pump system. The tax credit applies to expenditures made in 2008 and each year thereafter up until 2016. As usual, check with your tax professional to see how this credit may apply to your specific situation.

By classifying geothermal heat pumps under federal renewable energy provisions with solar and wind, Congress has recognized the crucial role this 50-state technology can play in reshaping our energy future. The provision of long-term installation incentives will raise public awareness, improve the economics for purchasers, and create a foundation for investment in the job-creating infrastructure of this renewable energy industry.



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The new tax incentives for geothermal heat pumps are the culmination of an “all-out” federal legislative affairs effort unilaterally initiated by LSB Industries (Amex LXU) subsidiary, ClimateMaster, in April, 2007. Dan Ellis, president, with the support of a coalition of top-tier legislative consultants, embarked on a mission to educate Congress on the benefits of geothermal heat pumps and the role they could play in meeting our nation’s energy-efficiency and climate change goals. Ultimately, there were direct meetings with 34 members of Congress, including Majority Leader Reid, and with hundreds of staff members and other government and administration employees. This effort received vital support from:

- Alliance to Save Energy
- American Council for an Energy Efficient Economy
- International Ground Source Heat Pump Association
- Geothermal Heat Pump Consortium
- Geothermal National & International Initiative Inc.
- National Ground Water Association
- Geothermal Energy Association
- National Rural Electric Cooperative Association

Additional provisions of the bill that directly or indirectly support geothermal heat pumps are:

Extension of Credit for Energy-Efficiency Improvements to New Homes. Under current law, contractors receive a credit for the construction of energy-efficient new homes that achieve a 30% or 50% reduction in heating and cooling energy consumption relative to a comparable dwelling. The credit equals \$1,000 for homes meeting a 30% efficiency standard, \$2,000 for homes meeting a 50% standard. H.R. 1424 extended the new energy efficient home tax credit through 2009.

Extension of Energy-Efficient Commercial Buildings Deduction. Current law allows taxpayers to deduct the cost of some energy-efficient property installed in commercial buildings. The amount deductible is up to \$1.80 per square foot of building floor area for buildings achieving a 50% energy savings target. The energy savings must be accomplished through energy and power cost reductions for the building’s envelope (60 ¢/sf), interior lighting systems (60 ¢/sf) and heating, cooling, ventilation and hot water systems (60 ¢/sf) including geothermal heat pump systems. This bill extends the energy efficient commercial buildings deduction for five years, through December 31, 2013.