



UNDERSTANDING THE
**SOUTH CAROLINA &
FEDERAL TAX INCENTIVES**
FOR RESIDENTIAL GEOTHERMAL
HEAT PUMP SYSTEMS

WaterFurnace
Smarter from the Ground Up



South Carolina Tax Credit

In early 2016, South Carolina signed into law a 25% state tax credit to any individual or business that purchases and installs geothermal machinery and equipment. The law takes effect retroactively to Jan. 1, 2016 and defines eligible equipment as “any machinery and equipment for use at a taxpayer’s residence that:

- Is a heat pump that uses the ground or groundwater as a thermal energy source to heat a structure or as a thermal energy sink to cool a structure; or
- Uses the internal heat of the earth as a substitute for traditional energy for water heating or active space heating or cooling; and
- On the date of installation, meets or exceeds applicable federal ENERGY STAR requirements.”

The law allows a tax credit against the income tax liability of a taxpayer equal to 25% of the costs incurred by the taxpayer in the purchase and installation of geothermal machinery in or on a facility in South Carolina and owned by the taxpayer. The amount of the credit in any year may not exceed \$3500 for each facility or 50% of the taxpayer’s tax liability for that taxable year, whichever is less. If the credit amount exceeds \$3500, the taxpayer may carry forward the excess for up to 10 years.

This state tax credit is available in addition to the 30% uncapped federal tax credit that’s available through Dec. 31, 2016.

Federal Energy Credit

In October 2008, geothermal heat pumps were added to section 25D of the Internal Revenue Code. This created a 30% tax credit for costs associated with qualified geothermal equipment “placed in service” through the end of 2016. 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.

- 30% of total system cost
- No limit to credit amount for 2009 and beyond
- Can be used to offset AMT tax
- 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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