



## IRA Tax Credit Frequently Asked Questions

### Residential tax credit.

**What is the base tax credit %?** The IRA restored the credit rate to 30% through 2032, ramping down to 26% in 2033 and 22% in 2034.

**Is there a cap or limit on the credit?** No, there is no upper limit on tax credit amounts.

**When does the tax credit take effect? Is it retroactive?** The tax credit takes effect immediately and is retroactive to Jan 1, 2022.

**How many years is it in effect?** Because the credit is retroactive to Jan 1, 2022, geothermal will enjoy an 11-year window at 30% with a 2-year ramp down in 2033 and 2034.

**Do the prevailing wage and/or apprenticeship requirements apply in the same manner as commercial incentives?** There are no Prevailing Wage or Apprenticeship requirements for residential projects.

**Does the system have to meet an efficiency requirement?** Systems must be Energy Star rated to qualify for the tax credit. This remains unchanged from the previous requirements.

**Is the percentage of credit based on the entire cost of the system?** The tax credit can be applied to the unit and loop field. Ductwork, hydronic distribution, and accessories were ruled ineligible in the previous tax credit and remains unchanged.

**What is needed for filing for the credit on the tax prep side?** Use IRS Form 5695 to claim the Residential Energy Efficient Property Credit. Receipts and payments should be kept for your records.

**How is the credit paid to the homeowner?** 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.

**Can a homeowner receive a tax credit for multiple properties for systems they do in the same year? Will they receive the credit if they do different systems over a several year span?** Homeowners can receive a credit for multiple dwellings upgraded in the same, or in multiple years. Our understanding is the IRS has interpreted this to mean a “second home” not simply “multiple properties.”

### Commercial tax credit.

**What size or type of projects require prevailing wage and/or apprenticeship?** Projects over 1MW (estimated at 284 tons - but this needs official clarification) are subject to apprenticeship and prevailing wage requirements. Projects below this size are exempt from requirements.

**What is the base tax credit % for projects that aren't subject to the above requirements?** Projects below 1MW (284 tons) are exempt from requirements and are eligible for a 30% tax credit.

**When does the tax credit take effect? Is it retroactive?** Due to a drafting error in the legislation, it is unclear if the revised incentives for commercial projects are in effect immediately or if changes begin on Jan 1, 2023. It will take guidance from Treasury Secretary, Janet Yellen to settle the matter.



**How many years is it in effect?** The commercial tax credit is in effect for 10 years (through 2032) at 6% base/30% bonus. Incentives ramp down to 5.2% base/25% bonus in 2033, and 4.4% base/22% bonus in 2034.

**Does the system have to meet an efficiency requirement?** The equipment must meet ASHRAE 90.1 efficiencies to qualify for the incentives.

**Is the percentage of credit based on the entire cost of the system?** The credit can be applied to the unit and loop field - along with any equipment and accessories if at least 75% of the energy used by the equipment comes from the geothermal source. This may include Ductwork, heating exchangers, diffusers, etc.

**What type of entities are eligible?** All business types are eligible. Tax-exempt businesses are now eligible for direct-pay benefits - allowing them to receive the 30% incentive without having a tax burden. These tax-exempt businesses cannot sell or transfer the credit.

**What is needed for filing for the credit on the tax prep side?** Use IRS Form 3468 to claim the Energy Credit.

**How is the credit paid to the entity based on the type of entity?** The tax credit can be used to offset both regular income taxes and individual alternative minimum taxes (AMT). If the tax credit exceeds the income tax liability, the loss can be carried back one taxable year and the remaining balance can be carried into future years. Tax exempt businesses are now eligible for direct-pay benefits - allowing them to receive the 30% incentive without having a tax burden. These tax-exempt businesses cannot sell or transfer the credit.

**Can a single entity receive credit for multiple different systems in multiple years?** For example, if Company A has 50 different systems that take care of one or more of their facilities can they choose to replace 5 systems per year over a 10-year span and receive credit for those 5 systems in the given year they do them? Yes.

**Is there a cap on the \$ amount of credit which one entity can receive?** There is no cap or upper limit on the tax credit.

**Are there any other tax benefits available for geothermal projects?**

- There is an additional 10% Domestic Content adder for products that are substantively made in the US.
- 5-year MACRS and 100% Bonus Depreciation projects placed in service September through December 31, 2022. This phases down to in 80% 2023, 60% in 2024, 40% in 2025, 20% in 2026 and 0% after
- Section 179D offers tax deductions up to \$2.50-\$5.00 per square foot for designers who specify geothermal on tax-exempt, new commercial projects, and retrofit projects. Overall building energy efficiency must be 25%-50% more efficient than standard
- 48a Credits are now transferable, meaning they can be sold to a third-party purchaser. This may be attractive to businesses with a low tax burden because they are able to use part of the credit and sell the remainder to a business facing a larger tax liability.

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