

REVENUE DEPARTMENT[701]

Adopted and Filed

Rule making related to geothermal heat pump tax credit

The Revenue Department hereby amends Chapter 304, “Adjustments to Computed Tax and Tax Credits,” Iowa Administrative Code.

Legal Authority for Rule Making

This rule making is adopted under the authority provided in Iowa Code sections 421.14, 422.12N and 422.68.

State or Federal Law Implemented

This rule making implements, in whole or in part, Iowa Code section 422.12N, and 2022 Iowa Acts, House File 2317.

Purpose and Summary

The primary purpose of this rule making is to implement 2022 Iowa Acts, House File 2317, section 51, which repealed the Iowa geothermal heat pump tax credit for installations occurring after December 31, 2023.

This rule making also updates the Iowa geothermal heat pump tax credit rates described in paragraph 304.47(2)“a” in response to Federal Public Law No. 117-169, Title 1, Subtitle D, Part 3, Section 13302, also known as the Inflation Reduction Act of 2022, which was enacted into law on August 16, 2022. That federal legislation, in part, increased the rate used in the calculation of the federal residential energy efficient property tax credit for geothermal heat pumps from 26 percent to 30 percent of qualifying expenditures for installations in 2022, and from 22 percent to 30 percent of qualifying expenditures for installations in 2023. The Iowa geothermal heat pump tax credit is equal to 20 percent of that federal residential energy efficient property tax credit allowed for geothermal heat pumps. By operation of Iowa’s automatic rolling conformity to the Internal Revenue Code, the Iowa geothermal heat pump tax credit rate increases automatically when the corresponding federal tax credit is increased. Thus, the Iowa geothermal heat pump tax credit has increased from 5.2 percent to 6 percent of qualifying expenditures for installations in 2022, and from 4.4 percent to 6 percent of qualifying expenditures for installations in 2023.

Public Comment and Changes to Rule Making

Notice of Intended Action for this rule making was published in the Iowa Administrative Bulletin on November 30, 2022, as **ARC 6698C**. No public comments were received. One change from the Notice has been made. One reference to 2019 Iowa Acts, House File 779, and one reference to 2022 Iowa Acts, House File 2317, have been removed from the implementation sentence of rule 701—304.47(422) since both House Files have been codified.

Adoption of Rule Making

This rule making was adopted by the Department on January 31, 2023.

Fiscal Impact

This rule making has no known fiscal impact to the State of Iowa beyond that of the legislation it is intended to implement. The Fiscal Note for 2022 Iowa Acts, House File 2317, stated that the repeal of the Iowa geothermal heat pump tax credit on January 1, 2024, was not projected to have an identifiable fiscal

impact. The Iowa geothermal heat pump tax credit rate increase for installations in 2022 and 2023 that has occurred because of Iowa's automatic rolling conformity to the Internal Revenue Code is projected to decrease General Fund revenue by \$103,000 in fiscal year 2023, by \$143,000 in fiscal year 2024, by \$52,000 in fiscal year 2025, and by less than \$10,000 in fiscal year 2026 and fiscal year 2027.

Jobs Impact

After analysis and review of this rule making, no impact on jobs has been found.

Waivers

Any person who believes that the application of the discretionary provisions of this rule making would result in hardship or injustice to that person may petition the Department for a waiver of the discretionary provisions, if any, pursuant to rule 701—7.28(17A).

Review by Administrative Rules Review Committee

The Administrative Rules Review Committee, a bipartisan legislative committee which oversees rule making by executive branch agencies, may, on its own motion or on written request by any individual or group, review this rule making at its [regular monthly meeting](#) or at a special meeting. The Committee's meetings are open to the public, and interested persons may be heard as provided in Iowa Code section 17A.8(6).

Effective Date

This rule making will become effective on March 29, 2023.

The following rule-making action is adopted:

Amend rule 701—304.47(422) as follows:

701—304.47(422) Geothermal heat pump tax credit. For tax years beginning on or after January 1, 2019, but before January 1, 2024, a geothermal heat pump tax credit is available for residential property located in Iowa as provided in Iowa Code section 422.12N and this rule. Information relating to Iowa geothermal tax credits available for tax years prior to January 1, 2019, can be found in prior versions of this rule. Prior versions of the Iowa Administrative Code are located here: www.legis.iowa.gov/law/administrativeRules/agencies.

304.47(1) Eligibility for the credit. To be eligible for the credit described in this rule, all of the following requirements must be met:

a. The geothermal heat pump must be eligible for the federal residential energy efficient property tax credit provided in Section 25D(a)(5) of the Internal Revenue Code.

b. The taxpayer must claim the federal residential energy efficient property tax credit provided in Section 25D(a)(5) of the Internal Revenue Code.

c. The geothermal heat pump must be installed on residential property located in Iowa and placed in service on or after January 1, 2019, but before January 1, 2024. In determining whether this requirement is met, the term “placed in service” has the same meaning as used in Section 25D of the Internal Revenue Code.

d. The taxpayer must submit a timely and complete application to the department in accordance with subrule 42.47(4) [304.47\(4\)](#).

304.47(2) Calculation of the credit.

a. The credit is equal to 20 percent of the federal residential energy efficient property tax credit allowed for geothermal heat pumps provided in Section 25D(a)(5) of the Internal Revenue Code. Thus, the Iowa credit rate equals the following percentage of the qualified geothermal heat pump property expenditures:

- (1) For property placed in service during calendar year 2019, 6 percent.

(2) For property placed in service during calendar years year 2020 through 2022 or 2021, 5.2 percent.

(3) For property placed in service during calendar year 2022 or 2023, 4.4 6 percent.

b. This credit ~~is set to expire~~ expires on January 1, 2024, ~~in accordance with Public Law No. 116-260, Div. EE, Title I, Subtitle C, §148. If the federal residential energy efficient property tax credit for geothermal heat pumps provided in Section 25D(a)(5) of the Internal Revenue Code is extended by federal legislation into additional tax years, the Iowa credit will continue to be available for each year in which the corresponding federal credit is available, absent action by the Iowa general assembly.~~

304.47(3) *Tax credit award program limitations.* No more than \$1 million in geothermal heat pump tax credits will be issued per calendar year. If the annual tax credit allocation cap is not reached, the remaining amount below the cap shall be made available for the following tax year in addition to, and cumulated with, the cap for that year. The credit will not be available for installations on or after January 1, 2024, even if the previous year's cap was not met.

304.47(4) and **304.47(5)** No change.

This rule is intended to implement Iowa Code section 422.12N and ~~2019 Iowa Acts, House File 779.~~

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EDITOR'S NOTE: For replacement pages for IAC, see IAC Supplement 2/22/23.