
FISCAL TOPICS

Fiscal Services Division

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Tax Credit: Geothermal Heat Pump Tax Credit

The Geothermal Heat Pump Tax Credit is available for qualified installations on residential property located in Iowa. The State credit equals 20.0% of the federal [Residential Energy Efficient Property Credit](#). The federal credit available through 2020 was equal to 30.0% of installation costs. The federal credit is currently set to phase down to 22.0% by calendar year (CY) 2024 and then expire for installations after December 31, 2023. The State credit was repealed in the 2018 Legislative Session, effective January 1, 2018. The 2019 Legislature enacted the same tax credit, effective for geothermal property placed in service on or after January 1, 2019.

For the original State credit, the total amount of tax credits available in a year for a single taxpayer and for all taxpayers combined was not limited. Under the Geothermal Heat Pump Tax Credit that became available January 1, 2019, no more than \$1.0 million per calendar year may be awarded in aggregate, with any valid credit applications beyond that amount placed on a wait list for the next year's allocation.

Oversight of this tax credit is a function of Department of Revenue tax return auditing.

Tax Credit Background

- Enabling Legislation: 2012 Iowa Acts, chapter [1121](#) (Tax Credits and Exemptions Act), and 2019 Iowa Acts, chapter [152](#) (Miscellaneous Tax Changes Act)
- Code Citations: Iowa Code sections [422.11I](#) (repealed) and [422.12N](#)
- Administrative State Agency: None
- Sunset Date: December 31, 2023 (federal tax credit sunset date)
- Transferable: No
- Refundable: No
- Carryforward: Up to 10 years
- Legislative Tax Expenditure Committee Review Years: None

Legislative History

The Geothermal Heat Pump Tax Credit was originally enacted in 2012, was repealed for CY 2018, and was reinstated beginning with CY 2019. The State credit is based on a percentage of the federal credit available for geothermal installations. The Iowa credit is available for any year that the federal credit is available. The federal credit ended at the close of CY 2016, but was later reauthorized through CY 2021. Through the end of CY 2019, the federal credit was equal to 30.0% of qualified installation costs. For CY 2020 through CY 2022, the federal credit is 26.0%, and for CY 2023, 22.0%. There is no federal credit for geothermal property placed in service after December 31, 2023.

Tax Credit Review, Usage, and Future Liability

The Geothermal Heat Pump Tax Credit is not included on the list of tax credits to be reviewed by the Tax Expenditure Committee, so the Department of Revenue has not completed a thorough review of the tax credit usage and benefits. Based on factors used for the fiscal estimate when the tax credit was created, residential geothermal installations earn an average of \$1,050 in State tax credits. From FY 2013 through FY 2021, an estimated \$11.5 million in tax credits was redeemed. While this translates to about 10,917 residential geothermal installations, the actual number of installations is higher because as a nonrefundable tax credit, a portion of the tax redemptions for existing installations will occur in future tax years.

More Information

Department of Revenue Contingent Liabilities Report: tax.iowa.gov/report-category/contingent-liabilities

Department of Revenue Tax Credits Users' Manual:

tax.iowa.gov/sites/default/files/2020-11/TaxCreditsUsersManual2020.pdf

Legislative Services Agency Individual Income Tax Guide: www.legis.iowa.gov/docs/publications/LG/711304.pdf

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Geothermal Heat Pump Tax Credit History

*Projected

Fiscal Year	Tax Credit Redemptions	Fiscal Year	Tax Credit Redemptions
FY 2007	\$ 0	FY 2017	\$ 2,185,938
FY 2008	0	FY 2018	495,540
FY 2009	0	FY 2019	121,364
FY 2010	0	FY 2020	536,376
FY 2011	0	FY 2021	658,083
FY 2012	0	*FY 2022	1,183,082
FY 2013	1,510,935	*FY 2023	1,291,276
FY 2014	1,858,211	*FY 2024	492,292
FY 2015	2,200,336	*FY 2025	99,813
FY 2016	1,895,682	*FY 2026	73,209

Geothermal Heat Pump Tax Credit Redemptions

*Projected

