Legislative Services Agency
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Fiscal Services Division

Fiscal Topic

Tax Credit: Geothermal Tax Credit

November 9, 2026

Purpose and History

The Geothermal Tax Credit equaled 10.0% of qualified residential geothermal system installation costs. The credit was available during calendar year (CY) 2017 and CY 2018 and was repealed January 1, 2019. The Department of Revenue administers the tax credit program and audits tax returns.

Tax Credit Background

- Enabling Legislation: 2016 Iowa Acts, chapter 1128 (Miscellaneous Tax Changes Act), and 2018 Iowa Acts, chapter 1161 (State and Local Taxation Act)
- Iowa Code Citations: Section 422.10A (repealed)
- Administrative State Agency: None
- Sunset Date: Repealed
- Transferable: No
- Refundable: No
- Carryforward: Up to 10 years
- Tax Review Committee Review Year: None

Legislative History

When the Geothermal Tax Credit was enacted in 2016, an Iowa income tax credit for residential geothermal installations already existed (the Geothermal Heat Pump Tax Credit). However, the existing credit was based on a federal tax credit, and the federal credit was allowed to sunset. The Geothermal Tax Credit did not require a federal credit and therefore was available during years when there was no federal geothermal credit. The federal credit was later reinstated, and the Geothermal Heat Pump Tax Credit was available to Iowa taxpayers again beginning with tax year 2019. The Geothermal Tax Credit was repealed in 2018 Iowa Acts, chapter 1161 (Income and Sales Tax Modification Act).

Tax Credit Review, Usage, and Future Liability

The Geothermal 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 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 earned an average of $1,750 in State tax credits. From FY 2018 through FY 2026, an estimated $1.9 million in tax credits was redeemed. While this translates to 1,085 residential geothermal installations, the actual number of installations is higher because this is a nonrefundable tax credit where unused credits may carry forward to the next tax year, so a portion of the tax redemptions for existing installations will therefore occur in future tax years.

With the introduction of the federal credit associated with the Geothermal Heat Pump Tax Credit, first available to Iowa taxpayers in tax year 2019, redemptions for the Geothermal Tax Credit have declined

since peaking at $1.2 million in FY 2019 (encompassing tax year 2018, the final year the Geothermal Heat Pump Tax Credit was not available to Iowa taxpayers).

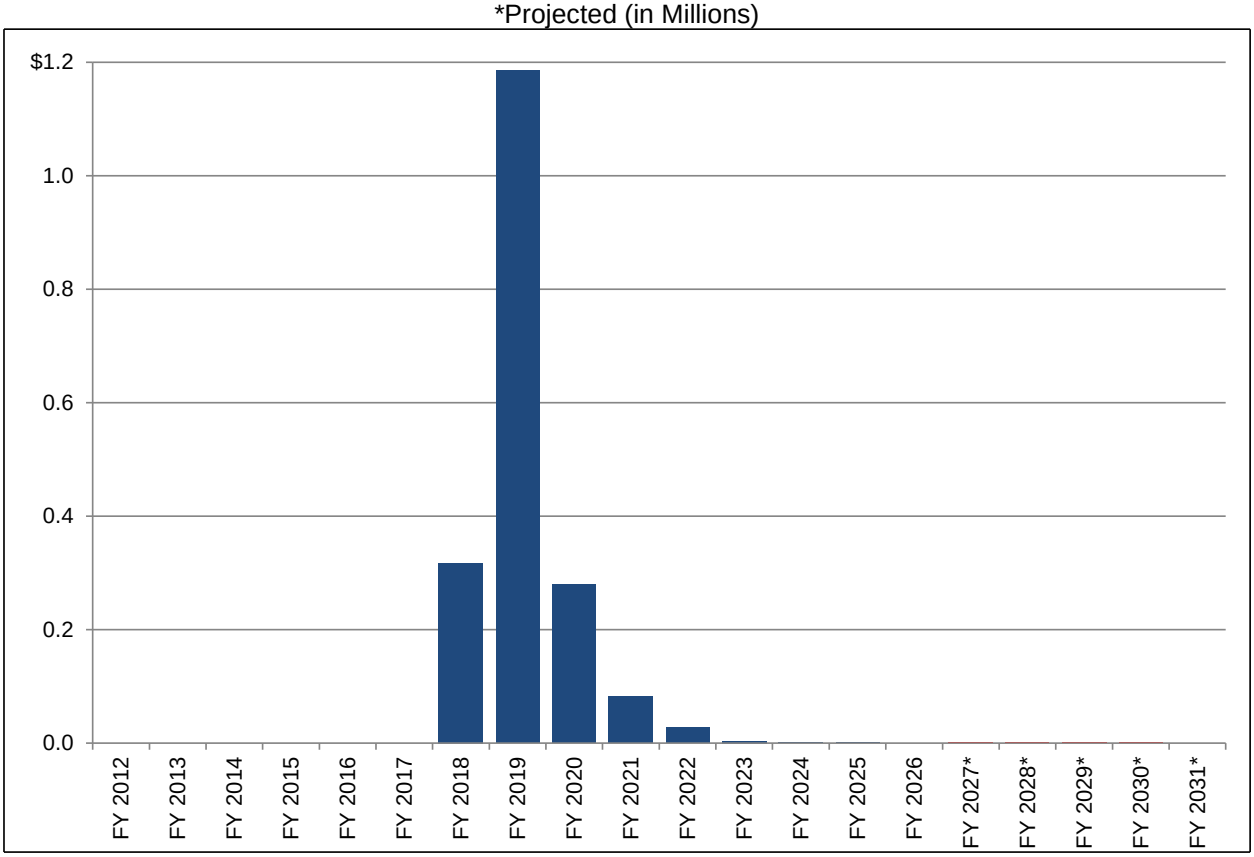
Figure 1 — Geothermal Tax Credit History

*Projected

Fiscal Year	Tax Credit Redemptions	Fiscal Year	Tax Credit Redemptions
FY 2012	$ 0	FY 2022	$ 27,776
FY 2013	0	FY 2023	3,653
FY 2014	0	FY 2024	476
FY 2015	0	FY 2025	1,296
FY 2016	0	FY 2026	0
FY 2017	0	FY 2027*	863
FY 2018	0	FY 2028*	863
FY 2019	1,184,972	FY 2029*	863
FY 2020	280,040	FY 2030*	648
FY 2021	82,982	FY 2031*	0

Figure 2 — Geothermal Tax Credit Redemptions

*Projected (in Millions)



Additional Information

For additional information, visit:

- Iowa Department of Revenue Contingent Liabilities Report
- Iowa Department of Revenue Tax Credit Users' Manual
- Legislative Services Agency Individual Income Tax Guide

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