

Article Reprint from July 2022 IGSHPA News ...

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NOTE: This document was updated on August 17, 2022, after the bill passed both houses of Congress and was signed by President Biden.

Revival of Reconciliation Holds Huge Potential for Geothermal Industry

By a vote of 220-207, the United State House of Representatives passed H.R. 5376, the Inflation Reduction Act (IRA) of 2022 on Friday, August 12, 2022. We had previously covered the extraordinary path this historic legislation has taken and its importance to the geothermal heat pump industry. Having already passed the Senate, it was signed into law on Tuesday, August 16, 2022, by President Biden, providing long-term stability to the industry with a plan through 2034 (more details below).

As has been widely reported, the IRA is the most impactful and transformative climate legislation in U.S. history. Thanks to the efforts of GeoExchange and our partners, the bill includes geothermal heat pumps as a central technology in the mission of building a clean economy. There are billions of dollars available to Americans to decarbonize their homes and businesses.

The next chapter in the history of the geothermal industry starts now! We have so much work to do. GeoExchange and IGSHPA will be leading the charge to broaden our industry's reach so that the many benefits of geothermal heating and cooling can be delivered to as people as possible. Stay tuned to our social media channels for more information

From the beginning of the Biden Administration, the Geothermal Exchange Organization sought to ensure that the current Congress understood the importance of including geothermal heat pumps as a core component in any clean energy legislation. Dozens of meetings with key Congressmembers and their staff over the past 18 months were critical to ensuring proper treatment for geo technology. That hard work has paid off and the current bill contains strong support for our industry.

Below is a summary of the provisions affecting geothermal heat pumps and a brief outlook on where things will go from here. You can read the full text of the bill [here](#).

- **Section 25D residential tax credit –**
 - Under current law, the credit is at 26% in 2022, 22% in 2023, and expires at the end of 2023.
 - The bill extends the credit for all Section 25D technologies at the following rates:
 - 26% (2021)
 - 30% (2022-2032)
 - 26% (2033)
 - 22% (2034)
 - 0% (2035)

- The House-passed version of the bill made the credit fully refundable, subject to extensive verification requirements on installers to guard against fraud. These refundability and verification requirements have been removed.
- **Section 48 commercial tax credit –**
 - Section 48 is extended under a two tier structure:
 - A “base rate” of 6% (or 1/5 of the bonus rate)
 - A “bonus rate” of 30%
 - In order to receive the bonus rate, projects will have to either: (1) meet prevailing wage and apprenticeship requirements; or (2) be “a project with a maximum net output of less than 1 megawatt (as measured in alternating current) of electrical or thermal energy.”
 - Section 48 technologies will transition to a technology-neutral clean electricity production investment tax credit (*i.e.*, the Wyden Tech Neutral bill), starting in 2025. However, geothermal heat pumps will continue to be eligible for the Section 48 credit through 2034 at the following rates:
 - 26% (2021) (base/bonus rate structure not applicable)
 - 30% bonus/6% base (2022-2032)
 - 26% bonus/5.2% (2033)
 - 22% bonus rate/4.4% (2034)
 - The House-passed version of the bill provides for direct pay/refundability of the credit. In this version, direct pay/refundability is only available under Section 48 for the following entities:
 - tax-exempt organizations;
 - state or local government (or political subdivision thereof);
 - Tennessee Valley Authority;
 - Indian tribal government; and
 - Alaskan Native Corporations.
 - The bill includes a domestic content bonus credit for facilities that use domestic steel, iron, and manufactured products. The bonus credit is two-tiered:
 - 10% (projects that either meet prevailing wage/apprenticeship requirements or are under 1MW of electrical or thermal energy)
 - 2% (projects over 1MW that don’t meet prevailing wage/apprenticeship requirements)