



DEPARTMENT OF THE TREASURY
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The Honorable Chris Van Hollen
Member, U.S. House of Representatives
51 Monroe Street, Suite 507
Rockville, MD 20850

Attention:

Dear Congressman Van Hollen:

I am responding to your April 1, 2010, inquiry on behalf of your constituent, . He asked if individuals must include in gross income grants they receive from the Maryland Energy Administration (MEA) to subsidize the installation of geothermal heat pumps.

The MEA offers grant payments of up to \$3,000 for residential geothermal heat pump systems that meet the safety and performance standards of a nationally recognized testing laboratory. The MEA website explains that it awards the geothermal heat pump grants under the "Geothermal Heat Pump Grant Program." The Maryland Strategic Energy Investment Fund annually funds the program and, for fiscal year 2010, is expected to include federal economic stimulus funds under the American Recovery and Reinvestment Act (the Act).

Gross income is income from whatever source derived, except as otherwise provided by law [§ 61 of the Internal Revenue Code (the Code)]. The Act does not expressly exclude geothermal heat pump grants from gross income, and the Code does not contain an exclusion for geothermal heat pump grants.

Certain state payments made primarily to low and moderate-income individuals to assist in energy expense management may qualify for exclusion from gross income under general welfare principles. However, if the MEA payments are made to residents without regard to income levels, the general welfare principles would not apply to the payments, and recipients must include the MEA payments in gross income.

Although recipients of the MEA payments must include the payments in gross income, they may be eligible for a personal tax credit of 30 percent of their qualified expenditures for geothermal heat pump property (section 25D of the Code). If a product qualifies for the credit, a manufacturer has the option of providing a statement certifying that its product meets the requirement of the law. See Notice 2009-41, 2009-19 I.R.B. 933. Qualified expenditures include, in addition to the qualifying equipment costs, the expenditures for labor costs for onsite preparation, assembly, or original installation of the qualifying property, and for piping or wiring to interconnect the qualifying property to the residence.

Some sources refer to the Geothermal Heat Pump Grant Program as a state rebate program. Despite that reference, MEA *grants* are not *rebates* for federal income tax purposes. Rebates generally represent a purchase-price adjustment (cost reduction) to acquired property. Therefore, an individual who receives a rebate does not include it in gross income but reduces the cost basis of acquired property. Because MEA grants for geothermal heat pumps are not rebates, taxpayers are not required to reduce the cost-basis of the geothermal heat pumps.

I hope this information is helpful. If you have any questions, please call me or
at .

Sincerely,

George J. Blaine
Associate Chief Counsel
(Income Tax and Accounting)