***Newborn v. Commissioner, 94 T. C. 610 (1990)***

A groundwater heat pump system does not qualify for a residential energy credit as it does not use solar energy or energy from geothermal deposits under the statutory definitions.

**Summary**

The Newborns installed a Solargy System, a water-to-air heat pump using groundwater, in their home and claimed a residential energy credit under IRC Sec. 44C for using renewable energy sources. The IRS denied the credit, asserting the system did not qualify as using solar energy or energy derived from geothermal deposits. The Tax Court upheld the denial, reasoning that the system's heat source did not meet the regulatory definitions of solar or geothermal energy under Sec. 44C. The decision clarified that the system's use of groundwater heat, which was not directly derived from sunlight or sufficiently hot to be considered geothermal, disqualified it from the credit.

**Facts**

In 1980, Barry and Michele Newborn installed a Solargy Energy Conservation Module (Solargy System) in their new home in Hollidaysburg, Pennsylvania. The Solargy System used groundwater from a well as a heat source, which was stored in underground tanks. The system operated by extracting heat from this water to heat their home and, conversely, used the water to cool it. The Newborns paid $15,500 for the system and claimed a $4,000 residential energy credit on their 1980 tax return under IRC Sec. 44C, classifying the expenditure as for geothermal renewable energy property. The IRS denied the credit, and the Newborns challenged this denial in the U. S. Tax Court.

**Procedural History**

The IRS determined a $4,000 deficiency in the Newborns' 1980 federal income tax due to the disallowed energy credit. The Newborns filed a petition with the U. S. Tax Court to contest this deficiency. The Tax Court heard the case, focusing on whether the Solargy System qualified for the residential energy credit under IRC Sec. 44C. On April 19, 1990, the Tax Court issued its opinion, siding with the Commissioner and denying the credit.

**Issue(s)**

1. Whether the Solargy System qualifies as "renewable energy source property" under IRC Sec. 44C(c)(5)(A)(i) by using "solar energy"?
2. Whether the Solargy System qualifies as "renewable energy source property" under IRC Sec. 44C(c)(5)(A)(i) by using "energy derived from geothermal deposits"?

**Holding**

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1. No, because the Solargy System's use of groundwater heat does not meet the regulatory definition of solar energy as it is not directly derived from sunlight.
2. No, because the groundwater used by the Solargy System does not meet the regulatory definition of energy from geothermal deposits, which requires a temperature exceeding 50 degrees Celsius at the wellhead.

**Court's Reasoning**

The court analyzed the statutory language and legislative history of IRC Sec. 44C and the relevant regulations. For solar energy, the court found that the regulation defining solar energy as energy directly derived from sunlight was valid and consistent with legislative intent, excluding the Solargy System's use of groundwater heat. For geothermal deposits, the court upheld the regulation requiring a minimum temperature of 50 degrees Celsius, determining that the groundwater used by the Solargy System, at around 13-14 degrees Celsius, did not qualify. The court emphasized that the legislative history supported the regulations and that the system did not fit within the statutory categories of solar or geothermal energy, despite its energy-saving capabilities. The court noted the absence of any regulatory specification by the Secretary of the Treasury to include the Solargy System under other forms of renewable energy.

**Practical Implications**

This decision clarifies the narrow scope of the residential energy credit under IRC Sec. 44C, particularly for systems using groundwater as a heat source. Legal practitioners must ensure that systems claimed under this credit strictly adhere to the definitions of solar energy and geothermal deposits. The ruling implies that future tax credit legislation or regulations may need to explicitly include or exclude similar systems to provide clarity for taxpayers and professionals. Businesses and homeowners considering installing alternative energy systems should consult with tax professionals to understand the eligibility of their systems for tax incentives. Subsequent cases, such as *Peach v. Commissioner*, have upheld the temperature requirement for geothermal energy, reinforcing the impact of *Newborn* on similar disputes.

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