

2009 -10 Tax Credit Information – Important New Details

FEDERAL ISSUES

On February 17, 2009 President Obama signed into law, H.R. 1, the American Recovery and Reinvestment Act (ARRA). The Hearth, Patio & Barbecue Association (HPBA) and the Pellet Fuels Institute (PFI) succeeded in getting included in that critical legislation a tax credit for the purchase of a biomass-burning stove to help consumers fight rising home heating costs.

The tax credit is a 30% tax credit of up to \$1500 total over a two year period (2009-2010) for the purchase of a 75% efficient biomass-burning appliance. (The “\$1500 over two-years” is new!) The tax credit provisions are extended improvements on the legislation that passed in October 2008. The major changes are: 1) an extension of the credit to include 2010; 2) the increase on the credit from \$300 to 30% of the total cost; and 3) the lower heating value (LHV) will be used for the efficiency rating rather than the higher heating value (HHV)

In a letter to the IRS in February 2009, the HPBA asked the IRS to issue specific guidance on a number of issues on the tax credit. On June 1, 2009, the Internal Revenue Service (IRS) issued its guidance for this consumer tax credit. While not addressing many of the specific issues raised by the HPBA, this minimal guidance should be sufficient. We understand that the IRS is not expected to issue any further guidance on this tax credit, although HPBA staff will continue to ask for clarifications as needed.

Tax Credit FAQs

Q: What is a federal consumer tax credit?

A: Consumers claim the credit on their federal income tax form at the end of the year. This new credit reduces the amount of tax you owe. The new credit is a reduction of total income tax at the bottom of your return, up to \$1500. This tax credit is a non-refundable tax credit available for individuals who pay taxes and who make energy-conscious purchases to improve the energy efficiency of their home.

Note: With regard to tax credits vs. tax deductions, in general, a tax credit is more valuable than a similar tax deduction. A tax credit reduces the tax you pay, dollar-for-dollar. Tax deductions – such as those for home mortgages and charitable giving – lower your taxable income.

Q: When does this tax credit go into effect and how long will it last?

A: The tax credit went into effect January 1, 2009 and is valid only for the purchase of a qualifying biomass stove during 2009 and 2010. The maximum tax credit for the two-year period is \$1500. The sales receipt must indicate that the purchase was made between January 1, 2009 and December 31, 2010.

Q: Who determined the tax credit guidelines for the qualifying units?

A: The Department of the Treasury, and specifically, the IRS.

Q: Will other wood and solid-fuel appliances (like inserts, EPA-certified wood-burning fireplaces and hydronic heaters) qualify for the tax credit?

A: The IRS did not state that inserts are covered, or are not covered. However, based on EPA's practice of treating inserts and freestanding biomass stoves in a similar fashion, manufacturers may choose to include inserts. At this time (June 2009) it is not clear whether EPA-certified wood-burning fireplaces or hydronic heaters will qualify.

Q: Do all pellet stoves qualify for the tax credit?

A: Any pellet stove that meets the 75% efficiency rating and has the qualifying documentation does qualify for the tax credit.

Q: Are the installation costs, both labor and venting (chimney), covered?

A: Installation is covered as long as it is required for proper and safe operation of the stove. The IRS is silent on the possible need to replace a chimney when upgrading an existing biomass stove; however, the EPA has a section on its website titled, Installation Affects Efficiency, which retailers and consumers should consult when deciding if a chimney replacement is warranted when installing a biomass stove.

Q. Are biomass stoves installed in new homes, or vacation homes, covered by this tax credit?

A. No. The IRS is very clear that this credit applies only to existing principal residences, thus new homes and vacation homes would not qualify, nor would homes owned as rental units.

Q. If a consumer purchases other products, such as solar collectors or window upgrades, does this mean a biomass stove tax credit can't be taken?

A. The tax credit is an aggregate, meaning the 2-year \$1500 total credit can be used for items other than biomass stoves, such as windows and doors, HVAC and non-solar water heater upgrades, and roof upgrades, all of which are in the same tax credit category as biomass stoves. The tax credit for all of these upgrades is capped at \$1500 for the two year period. For example, if a taxpayer uses the entire \$1500 for a product in 2009, then they cannot use it in 2010 for any other product in that same tax credit category.

Q: Are prior purchases covered?

A: Prior purchases made between January 1, 2009, and June 1, 2009 are covered if the manufacturer offers a certification statement for the product.

Q: Do stoves that are not newly tested for efficiency qualify under the tax credit?

A: If a manufacturer has documentation that a stove has already achieved the required efficiency rating and issues a certification statement for the product, no further testing is required.

Q: Why was 75% efficiency selected?

A: The 75% efficiency was designated by the U.S. Congress in 2005 as part of the Energy Policy Act and was used again for this tax credit.

Q: How is the 75% efficiency requirement determined?

A: The manufacturer of the stove must provide certification that the product tests for at least a 75% efficiency rating using the lower heating value, i.e., the heat value of a combustion process assuming that none of the water vapor resulting from the process is condensed out, so that its latent heat is not available.

Q: What must a manufacturer provide to a consumer to prove that a product is certified?

A: The manufacturer must certify that its product meets or exceeds the IRS efficiency requirement. To do so, the manufacturer of a stove that qualifies for the tax credit may certify to a taxpayer that the component is a “qualified energy property” by providing the taxpayer with a **manufacturer’s certification statement** that satisfies the requirements of sections 6.04, 6.05 and 6.06 of the IRS Guidance found at <http://www.irs.gov/pub/irs-drop/n-09-53.pdf>. The certification statement may be provided by including a written copy of the statement with the packaging of the component or property, in printable form on the manufacturer’s website, or in any other manner that will permit the taxpayer to retain the certification statement for tax recordkeeping purposes.

Q: What information should be included in a manufacturer’s certification statement?

A: A **manufacturer’s certification statement** must contain the following information:

- (1) The name and address of the manufacturer.
- (2) Identification of the class of qualified energy property (Biomass-Burning Stove) in which the property is included.
- (3) The make, model number, and any other appropriate identifiers of the stove.
- (4) A statement that the component is an eligible qualified energy property.
- (5) A manufacturer’s certification statement must contain a declaration, signed by a person currently authorized to bind the manufacturer in these matters, in the following form: “Under penalties of perjury, I declare that I have examined this certification statement, and to the best of my knowledge and belief, the facts are true, correct, and complete.”

Q: What should a retailer provide and the customer retain for tax purposes?

A: Retailers and consumers must keep exact records of any sale or purchase. Retailers should provide a consumer with the **manufacturer’s certification statement** for the specific product model purchased. A consumer may rely on a manufacturer’s certification statement that their products are qualified energy property. A taxpayer is not required to attach the certification statement to the return on which the credit is claimed. A consumer claiming a credit for qualified energy property should retain the certification statement as part of the taxpayer’s records. Manufacturers should make this certification document available to consumers on the web, in the product packaging, or in some other easily accessible manner.

Q: Does the stove need to be manufactured in the U.S. to qualify for the credit?

A: No; there is no “Buy America” component to this tax credit.

The IRS Guidance can be found at <http://www.irs.gov/pub/irs-drop/n-09-53.pdf>.