



## 2011 FEDERAL TAX CREDIT FOR BIOMASS STOVES

On February 17, 2009 President Obama signed into law, H.R.1, the American Recovery and Investment Act (ARRA). In this critical legislation a tax credit for the purchase of biomass burning stove to help consumers fight rising home heating costs was included.

**The tax credit for 2009 through December 31<sup>st</sup>, 2010 was 30% tax credit of up to \$1500 total over a two year period (2009-2010) for the purchase of a 75% (lower heating value LHV) efficient biomass burning appliance.**

**For 2011, the tax credit was changed and reduced to a tax credit of 10% (down from 30% and the previous \$1500 ceiling) which falls to \$500.** There are also caps on many items. No more than \$150 can be claimed for furnaces and water heaters, \$200 for windows and **\$300 for biomass stoves.** The credit is no longer allowed for payments financed with state or federal subsidies. **Credits claimed in previous years (2009 and 2010), will count against the \$500.**

### SEC. 302. CREDIT FOR NONBUSINESS ENERGY PROPERTY

- "from January 1, 2009 to December 31<sup>st</sup>, 2009"  
*(extended through Dec 31<sup>st</sup>, 2010)*
- "a stove which uses the burning of biomass fuel to heat a dwelling unit located in the United States and used as a residence by the taxpayer, or to heat water for use in such a dwelling unit, and which has a thermal efficiency rating of at least 75 percent"
- "BIOMASS FUEL – The term "biomass fuel" means any plant-derived fuel available on a renewable or recurring basis, including agricultural crops and trees, wood and wood waste and residues (including wood pellets), plants (including aquatic plants), grasses, residues and fibers."

**To claim your tax credit you will need the IRS "Residential Energy Credit" form 5695 and a copy of the Manufacturer's Certificate of Efficiency.**

## FREQUENTLY ASKED TAX CREDIT QUESTIONS

**Q: What is the biomass burning stove tax credit?**

**A:** This federal tax credit encourages people to make energy conscious purchases that improve the energy efficiency of their home. It is an up to \$1500 tax credit you can get for the purchase and installation of a qualifying biomass burning stove or fireplace insert (2009-2010) or up to \$300 for the purchase of a biomass stove installed during 2011.

*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 amount of tax you pay, dollar-for-dollar. Tax deductions, such as those for home mortgages and charitable contributions, lower your taxable income.*

**Q: What is the difference between a non-refundable tax credit and a refundable tax credit?**

**A:** A non-refundable tax credit (such as this one) is a tax credit that is applied to the amount of tax owed by the taxpayer after all deductions are made from his/her taxable income. Typically, a tax credit only reduces an individual's tax liability to zero. Refundable credits can be considered the same as a payment, with no limit to the amount a taxpayer can receive. A refundable tax credit is a tax credit that is not limited by the amount of an individual's tax liability.

**Q: When does the 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 or insert, during 2009 and 2010. The maximum tax credit for this two-year period is \$1500. Since the tax credit was extended with caps for the 2011 tax year, the credit for this year is 10% up to to \$300. The sales receipt must indicate that the purchase was made during the year and before December 31<sup>st</sup> of that year.

**Q: How is the value of this tax credit determined?**

**A:** When you purchase a qualifying biomass burning appliance between January 1, 2009 and December 31, 2010, you get a tax credit of 30% of the total price for the appliance and installation, up to \$1500. During 2011 the tax credit is 10% of the total price paid for the appliance (doesn't include installation), up to \$300. For example, if your biomass stove or insert cost \$5,000, you can deduct \$1500 from the taxes you owe the government for 2009 or 2010. Or, you can deduct \$300 from the taxes you owe the government for 2011.

**Q: What appliances qualify for the tax credit?**

**A:** Any wood, pellet or biomass burning stove or insert that meets the 75% Lower Heating Value (LHV) efficiency rating qualifies for this tax credit. Manufacturers test their products to certify they meet this efficiency standard and the IRS-required certification is made available from the appliance manufacturer. The MANUFACTURER'S CERTIFICATE OF EFFICIENCY will indicate which of their products qualify for the tax credit. The taxpayer must keep a copy of the certification along with the sales receipt for their records and do not have to submit a copy with their tax return. You do however, have to have them available should the IRS request them from the taxpayer.

The Manufacturers Certificate of Efficiency must include the following:

- The name and address of the manufacturer.
- Identification of the class of qualified energy property (products).
- The make, model number and any other appropriate identifiers of the appliances.
- A statement that the product is an eligible qualified energy property.
- A signature of a person able to bind the manufacturer the above standards.

**Q: Why was the 75% efficiency selected?**

**A:** The 75% efficiency on the Lower Heat Value (LHV) 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: Are biomass stoves installed into a second new home or vacation homes included for this tax credit?**

**A:** No. The tax credit only applies to your existing principle residence. New second homes don't qualify, nor do homes owned as rental units/property. The IRS is very clear that this credit applies only to existing principle residences.

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

**A:** The tax credit is an aggregate, meaning the two year \$1500 total credit can be used for items other than biomass stoves, such as windows, 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 items (upgrades) is capped at the \$1500 for the two year period for 2009-2010. And \$300 for 2011. For example if a taxpayer uses the entire \$1500 for a product in 2009 it cannot be used again in 2010 or 2011 for any other product in that same category. If you did not use the full cap of \$1500 during the year, the balance up to the capped amount can be used for other qualified items during the two year period 2009-2010. For 2011, the cap dropped from the \$1500 to \$300.

**Q: Are installation costs included in this tax credit?**

**A:** Yes, during the 2009 and 2010 period installation costs are included providing a professional installation is performed by a qualified professional for the proper and safe operation of the stove or insert. Installation is not included as part of the 2011 extended tax credit.

**Q: Does the stove or insert need to be manufactured in the U.S.A. to qualify for the tax credit?**

**A:** No. There is no "Buy America" component to this tax credit.

**Q: Where can I find more information about this tax credit?**

**A:** Check out the IRS description:

<http://www.irs.gov/pub/irs-drop/n-09-53.pdf>

## **2012 UPDATE on FEDERAL TAX CREDIT**

### **Consumer Tax Credit for Biomass Stoves Expires**

**With partisan division in Washington running extremely high and Congressional approval ratings mired at or near all-time lows, the first session of the 112<sup>th</sup> Congress has drawn to a close, with lawmakers being able to reach agreement on very few measures. One of the casualties of 2011's political gridlock was the Section 25C consumer tax credit for "energy efficient building property," which is now expired as of December 31, 2011. Of particular interest to HPBA members is the expiration of the 10 percent tax credit (up to \$300 annually and subject to a \$500 lifetime credit limit) on biomass stoves with a thermal efficiency rating of at least 75 percent.**

**HPBA understands that these tax credits provide incentives to consumers to purchase energy efficient stoves and inserts. The government affairs staff is in contact with congressional offices to keep apprised of the prospects for extension of the tax credit in the early stages of 2012. While very few measures in Congress will be passed without a substantial fight, we believe that some version of the tax credit extenders (and likely a retroactive one, at that) will be included in one of the must-pass measures of the opening months of the 112<sup>th</sup> Congress's second year.**

**We will be providing more information as the congressional actions of 2012 come into clearer focus and will immediately report on any movement on tax credit extending legislation.**

*Hearth Patio & Barbecue Association – January 2012 Vol. 15, No. 1*