



Biomass Appliance Tax Credit Slashed

One-year extension reduces cap from \$1,500 to \$300 and makes it harder to qualify

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Thursday, December 17, 2010 the House voted 177 to 148 in favor of the \$858 billion Tax Cut Compromise Package of 2010 which reduces the biomass heater tax credit to 10% with a \$300 cap. The bill now goes to the White House for the President's signature. Another significant change that further restricts the tax credit for biomass appliances is that Congress removed the lower heating value measurement and only allows the credit towards the purchase price and not for installation.

Energy efficiency provisions were shortchanged even further by a clause that says the \$500 tax credit is a lifetime maximum, meaning that if a homeowner has used this credit anytime since 2005, it cannot be used again. During the past 2 years, the credit up to \$1,500 could be used regardless of whether the family has used the credit between 2005 and 2009.

The reduction to 10% tax credit affects all energy efficiency measures that had enjoyed 30% credit for the past two years. Many members of Congress felt the 25C tax credit program had cost the government too much money and should not be extended in its current form at 30% up to \$1,500.

This setback for incentives for wood and pellet heating systems is a result of biomass appliances being considered an energy efficiency device instead of a renewable energy system. Solar, wind and geothermal systems still enjoy the full 30% tax credit with no maximum and are not set to expire until 2016.

"This creates a terrible double standard for incentives between renewable energy systems favored and affordable by the wealthy and systems favored and affordable by average American families," said John Ackerly, President of the Alliance for Green Heat.

"Fortunately, we understand that Congress will be revisiting these tax credits again in 2011 and advocates for cleaner and more efficient biomass appliances need to be prepared," said Ackerly. Instead of using tax credits based on a percentage of purchase and installation costs, Congress is likely to consider performance-based credits.

Initially, it was unclear if the 25C energy efficiency tax credit would be included in the tax deal worked out between President Obama and Senate Republicans. On December 9, a group of Senators (Collins, Snowe, Wyden, Merkley, Shaheen, Bingaman and Harkin) mainly from northern states wrote a letter urging inclusion of 25C into the package, but they did not ask that it be kept at 30%.

American Council of Energy Efficient Economy (ACEEE), National Resources Defense Council, Union of Concerned Scientists (UCS) and the Alliance to Save Energy (ASE) were among the large groups pushing for extension of 25C. With more than a dozen renewable energy and energy efficiency provisions, 25C did not seem to be the highest priority for many groups. ACEEE wanted changes to 25C and NRDC pushed for allowing everyone to qualify for the credit, regardless if they had used it in the past. Alliance to Save Energy urged the House to pass the bill but did not mention that the credits had been slashed to 10% on home energy improvements. For a more in depth article on this: <http://www.thedailygreen.com/green-homes/eco-friendly/home-improvement-tax-credits#ixzz18JEXssDD>

The original intent of the 25C tax credit program was to advance home energy-efficient appliances and upgrades to existing homes by providing a modest tax credit. In the 2010 package are provisions limiting window incentives to \$200, oil and gas furnace and boiler incentives to \$150-200, and water heater and wood heating system incentives to \$300. As part of these amendments, Congress is loosening the qualification for window incentives (ENERGY STAR windows now qualify) and tightening the specifications for oil furnaces and boilers and gas boilers to 95% efficiency, up from the 90% efficiency in current law.

Yesterday's vote in the Senate was 81 to 19 in favor of the package. The Tax Cuts Compromise Package of 2010 extends numerous other renewable energy programs, including some very controversial ones that made groups like NRDC oppose the bill, such as incentives for ethanol and liquid coal. Other incentives were the energy-efficient new homes credit, a 30% investment tax credit for alternative vehicle refueling property and the Section 45M tax credits for U.S manufacture of energy efficient 'white appliances.' Of the eleven energy related provisions being extended in this Tax Cuts Compromise Package, only three provided direct benefits to homeowners. The others were corporate tax credits and incentives.

Section 25C timeline:

2005- Non-business Energy Property Tax Credit (25c) was added to the Internal Revenue Code by the Energy Policy Act of 2005 with a 10% credit not to exceed \$300 for any item of energy-efficiency improvements (defined as any energy efficient building envelope component meeting the criteria set by the 2000 International Energy Conservation Code) and a total credit capped at \$500.

2007- Section 25c expired.

2008- Section 25c is revived by the Energy Improvement and Extension Act, a part of the Emergency Economic Stabilization Act (EESA) rescue package by President Bush. EIEA clarified the original Act by specifically including biomass stoves and boilers under energy-efficient building property.

2009- American Recovery and Reinvestment Act of 2009, expanded the scope of the earlier 25c and increased the credit up to 30%, and capped it at \$1,500. The efficiency standard for biomass boilers was defined as over 75% efficient appliances as measured using a lower heating value.

2010- Section 25c is extended for one year by re-instating the credit as it existed before 2009- lowering the credit to 10% capped at \$300. Biomass stoves and boilers will remain in the bill but the lower-heating value measurement is removed.