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**JANUARY 11, 2021 UPDATE:** Out with the old and in with the new! A spending legislation and pandemic relief package was signed into law at the very end of December and included a long sought-after tax credit for wood and pellet heaters. These systems, whether they are stoves purchased to heat space or larger, whole home heating systems, will now qualify for a renewable energy investment tax credit (Section 25(D) of the Internal Revenue Code). Up until now, only solar, small wind, fuel cell, and geothermal systems qualified for this credit.

Beginning in 2021, consumers buying highly efficient wood or pellet stoves or larger residential biomass heating systems will be able to claim a 26% tax credit that is uncapped and based on the full cost (purchase and installation) of the unit. The credit will remain at 26% through this year and next, and then step down to 22 percent in 2023. This provision is part of the BTU Act, which has been actively supported by HPBA for the last several years and has been part of our Advocacy Day requests to Members of Congress.

**NOTE:** The language that made it into the final spending package eliminates the Sec. 25(C) credit for biomass stoves. The Sec. 25(C) tax credit may still be claimed on your 2020 tax return for qualifying purchases and installations completed before December 31, 2020.

### **What is this new tax credit?**

- **Effective Dates:** The new tax credit under Sec. 25(D) of the U.S. Internal Revenue Code (“IRC” or “tax code”) will come into effect on January 1, 2021 for qualifying purchases and installations completed on or after that date, through December 31, 2023

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2022; moves down to 22 percent of purchase and installation costs in 2023 (under Sec. 25D of the U.S. tax code)

- **Qualifying Products:** Require qualifying products (any biomass-fueled heater) be at least 75 percent efficient per the higher heating value (HHV) of the fuel
  - Further IRS guidance on qualifying products will likely be provided in 2021
  - In the meantime, the [EPA certified wood heater database](#) may be referenced

### What happens to the 25(C) tax credit?

- Eliminates the tax credit for biomass stoves under IRC Sec. 25(C) starting in 2021 and enacts this provision in its place
- Any product purchased in 2020 that qualifies for the new Sec. 25(D) credit, but isn't installed until 2021, can be claimed under the Sec. 25(D) credit on a 2021 tax return. Products must be claimed on the tax return year in which the product installation is complete.

### See our new FAQs about this new tax credit for additional information.

NEHPBA will continue to update this page with additional information and new materials as we learn more. **Please contact [Rachel Feinstein](#) if you have any questions.**

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