Medicare
Provider Reimbursement Manual - Part 1, Chapter 1,

Department of Health and Human Services (DHHS)
Centers for Medicare and Medicaid Services (CMS)

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HEADER SECTION NUMBERS	**PAGES TO INSERT**	**PAGES TO DELETE**
104.17 - 104.18	1.3 – 1-3.1 (2 pp.)	1.3 – 1-3.1 (2 pp.)

NEW/REVISED MATERIAL--EFFECTIVE DATE: ***For assets acquired on or after August 1, 2008***

Section 104.17, Useful Life of Depreciable Assets, allows use of the 2008 edition of the American Hospital Association (AHA) Estimated Useful Lives of Depreciable Hospital Assets published by the AHA for assets acquired on or after August 1, 2008. A provider who used the 2004 edition of the AHA guidelines for assets purchased on or after August 1, 2008, and before publication of this transmittal, and who now wishes to change to the 2008 guidelines may do so.

DISCLAIMER: The revision date and transmittal number apply to the red *italicized material* only. Any other material was previously published and remains unchanged. However, if this revision contains a table of contents, you will receive the new/revised information only, and not the entire table of contents.

this payment, and not the fair market value, is considered to be the historical cost of the asset. If an asset is exchanged for new debt or the assumption of debt, then the transaction is considered a sale and not a donation. (For the depreciation basis, see §114.2.)

104.17 Useful Life of Depreciable Assets.--The estimated useful life of an asset is its expected useful life to the provider, not necessarily the inherent useful or physical life. In initially selecting a proper useful life for computing depreciation under the Medicare program, the provider may use certain published useful life guidelines. The guidelines used depend on when the asset was acquired. For assets acquired before January 1, 1981, either the Internal Revenue Service (IRS) or the American Hospital Association (AHA) guidelines may be used. For assets acquired on or after January 1, 1981, only the AHA guidelines may be used.

Date Asset Acquired	Useful Life Guidelines
Before 1/1/81	Internal Revenue Service (IRS) guidelines except those offered by the Asset Depreciation Range System) or the 1973 edition of the AHA Chart of Accounts for Hospitals
On or after 1/1/81, but before 1/1/82	1973 edition of the AHA Chart of Accounts for Hospitals
On or after 1/1/82, but before 1/1/83	1978 edition of the AHA Estimated Useful Lives of Depreciable Hospital Assets
On or after 1/1/83, but before 8/1/88	1983 edition of the AHA Estimated Useful Lives of Depreciable Hospital Assets
On or after 8/1/88, but before 3/1/93	1988 edition of the AHA Estimated Useful Lives of Depreciable Hospital Assets (except Table I)
On or after 3/1/93, but before 3/1/98	1993 edition of the AHA Estimated Useful Lives of Depreciable Hospital Assets
On or after 3/1/98, but before 5/1/2004	1998 edition of the AHA Estimated Useful Lives of Depreciable Hospital Assets
On or after 5/1/2004, *but before 8/1/2008*	2004 edition of the AHA Estimated Useful Lives of Depreciable Hospital Assets
On or after 8/1/2008	*2008 edition of the AHA Estimated Useful Lives of Depreciable Hospital Assets*

The use of the 1978 or later AHA editions allow more detailed component lives for building and building equipment (e.g., automatic doors, canopies, computer flooring, etc.). Each component may be depreciated separately on the basis of the useful life of each component, rather than on the basis of a single useful life for the entire building.

A composite useful life, as illustrated in the 1973 and 1978 editions, may be used for a class or group of assets. In using the 1988 edition, Table 1, which provides useful life ranges for groups of assets, may not be used.

For assets acquired before December 1, 1997, a purchaser of a used asset must assume a useful life based on the guidelines for new assets. However, if approved by the contractor, the purchaser of a used asset may reduce the useful life based on acceptable factors that affect the establishment of a different useful life as described below.

For used assets acquired on or after December 1, 1997, and subject to the historical cost limitation in 104.10E and 104.14A.4 the purchaser must use the remaining useful life .

Purchased computer software acquired prior to August 1, 1988, is depreciated over the useful life of the hardware if the software is purchased with computer equipment and the cost is not separately
stated. If the cost of the software is separately stated, or if the software is purchased independent of the hardware, it must be depreciated over a minimum of 5 years. Purchased computer software purchased on or after August 1, 1988, is depreciated using the applicable edition of the useful life guidelines.

The costs of initial customizing and/or modification of purchased computer software to function with the provider's computer hardware, or to put it into place for use, should be capitalized as part of the historical cost of the software. Such costs are analogous to installation costs of a moveable asset. The costs of internally generated computer software must be expensed, rather than capitalized. For purposes of this section, internally generated computer software means software generated, in whole or in part, by staff internal to the provider. The use of outside consultants to assist the provider's staff in developing a systems change does not change the nature of any resultant software from internally generated to purchased.

The costs of a building addition may be depreciated over the remaining useful life of the primary building to which it is appended, rather than over the inherent physical life of the building addition, if the provider intends to demolish or abandon the primary building and the building addition upon the expiration of the useful life of the primary building. However, the provider must demonstrate to the contractor by convincing evidence a clear intention to demolish or abandon the building addition at the expiration of the useful life of the primary building (e.g., a master building plan which does not provide for any alternative which would have the building addition remain in place beyond demolition or abandonment of the primary building). If the provider's evidence contains alternatives that would extend the useful life of the building addition beyond the remaining useful life of the primary building, a presumption must be made that the useful life of the building addition corresponds with its inherent physical life, and the shorter useful life may not be used.

A different useful life may be approved by the contractor if the provider's request is properly supported by acceptable factors which affect the determination of useful life. Such factors include normal wear and tear, obsolescence due to normal economic and technological changes, climatic and other local conditions, and the provider's policy for repairs and replacement. When the useful life selected differs significantly from that established by the guidelines, the deviation must be based on convincing reasons supported by adequate documentation, generally describing the realization of some unexpected event. Factors such as an expected early sale, retirement, demolition, or abandonment of an asset (however, see exception regarding building additions above), or termination from the Medicare program, may not enter into a determination of the expected useful life of an asset.

104.18 Useful Life - Leasehold Improvements.--The costs of improvements which are the responsibility of the provider under the terms of a lease may be depreciated over the useful life of the improvement or the remaining term of the lease, whichever is shorter. The term of the lease includes any period for which the lease may be renewed, extended, or continued following either an option exercised by the provider or, in the absence of an option, reasonable interpretation of past acts of the lessor and lessee pertaining to renewal, etc., unless the provider establishes, omitting past acts, that it will probably not renew, extend, or continue the lease.