Fair Market Value and $1 Purchase Option Leases

Lenovo Financial Services

Which Lease Structure is Best for You?

The most common leases that organizations use to acquire technology equipment are Fair Market Value (FMV) and $1 out purchase option leases. Each has merits depending upon your needs.

Fair Market Value

An FMV lease offers the lowest monthly payment, is the most flexible lease structure, and may allow you to obtain tax advantages. Technically, you don't own the equipment (think of it like renting over a fixed period of time). The equipment may not be considered an asset on your balance sheet. Depending upon your situation, up to 100% of the finance expense may be tax deductible. This treatment can improve finance ratios such as return on assets.*

At the end of the lease term, you may purchase the equipment, return the equipment to the finance company, or continue to pay for use of the equipment according to the terms of the original agreement. The FMV purchase price may depend upon many factors such as how quickly new technologies have advanced, the price for those new capabilities, the condition and usage levels of the leased equipment, and the used equipment market demand for that particular equipment.

Summary:

- Little or no upfront cost
- Lower monthly payments than $1 out purchase option leases
- 100% financing may be available, including software and services
- Moves the burden of technology obsolescence to the finance company
- Can return the equipment at the end of lease without further obligation
- Avoids the hassle of complying with e-waste disposal regulations
- May have significant tax and accounting benefits

$1 Out Purchase Option

In a $1 Out Purchase Option lease, you own the equipment. It is a good option when you are confident you will use the equipment for an extended period beyond the finance term.

The monthly payments are higher than the FMV lease because you are financing 100% of the equipment cost. Typically, you are considered the owner of the equipment, which may provide you with depreciation and interest expense benefits for taxes and accounting purposes.*

Summary:

- Ability to purchase the equipment for a fixed price
- Offers the benefits of ownership without the large, upfront cost
- May have significant tax and accounting benefits

* Consult your tax advisor. Lenovo Financial Services cannot provide tax advice.

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