WINSLOW
FINANCIAL SERVICES

FMV vs $Buy Leases
Understanding Your Options

FAIR MARKET VALUE (FMV) LEASE

Fair Market Value (FMV) leases are the most common technology equipment lease. FMV leases eliminates ownership risk, provides greater flexibility and lower monthly payments versus a $1 Buyout lease.
Key benefits include a number of preset, end-of-lease options:

- Return the equipment with no further obligation, or
- Purchase the equipment for its fair market value, or
- Re-lease the equipment for its fair market value, or
- Continue leasing the equipment on a month-to-month basis

FMV leases are most commonly used for computers, servers, security systems, storage, or other technology-based equipment to eliminate technological obsolescence due to the ever-changing dynamics of the technology landscape.

As much as 100% of the FMV lease payments may be tax deductible as current operating expenses for both financial reporting and income tax purposes. This can reduce overall tax liability, thereby reducing the “real cost” of the acquired equipment. However, some FMV leases qualify as “capital” leases, allowing for the same depreciation benefits attributed to $1 Buyout leases under Section 179 of the IRS Tax Code.

Preserve Lines of Credit: FMV leases can be structured so that lease debt is not shown as a direct liability on financial statements. This allows preservation of borrowing power with the bank and other creditors. It may also result in improved debt-to-equity and earnings-to-fixed-asset ratios, thereby improving the lending community’s view of the company.

$1 BUYOUT, BARGAIN PURCHASE OR CAPITAL LEASE

- $1 Buyout leases combine fixed monthly payments with the guaranteed-in-advance right to purchase the equipment at the conclusion of the lease term at a predetermined price.
- Most commonly used for software, maintenance or licensing agreements, or long-term acquisitions such as furniture, construction and/or material handling.
- Payments for $1 Buyout leases generally do not qualify as deductible operating expenses and must be amortized and depreciated.
- $1 Buyout leases are eligible for some tax benefits under Section 179 of the IRS Tax Code.

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