

Comparison of Debt and Equity

Debt:	Equity:
<ul style="list-style-type: none">• Not an ownership interest• Creditors do not have voting rights• Interest is considered a cost of doing business and is tax deductible (up to 30% of EBIT)• Creditors have legal recourse if interest or principal payments are missed• Excess debt can lead to financial distress and bankruptcy	<ul style="list-style-type: none">• Ownership interest• Common stockholders vote for the board of directors and other issues• Dividends are not considered a cost of doing business and are not tax deductible• Dividends are not a liability of the firm, and stockholders have no legal recourse if dividends are not paid• An all-equity firm cannot go bankrupt