LIKEARISINGSUN SDN BHD (1221304-H)
Unit 32-01, Level 32, Vertical Corporate Tower B,
Avenue 10, The Vertical Bangsar South City,
No 8 Jalan Kerinchi 59200 Kuala Lumpur, Malaysia

Equity finance or Debt finance Part 2

Continuing from the previous issue, we would like to explain the difference between equity finance and debt finance.

1 Previous confirmation
While equity finance is to acquire the right to participate in the management of the target company, debt finance is to lend money. As specific differences, we explained (1) voting rights, (2) dividends and interest, (3) obligation to repay the investment and principal, and (4) order of repayment priority at the time of company liquidation.

2 Other differences
(5) Accounting treatment
The investment is booked in assets in the target company, while a loan is booked in liabilities as a debt. An increase in investment will increase the equity ratio, while an increase in loan will reduce the equity ratio.
(6) Tax treatment
In Malaysia, there is no tax on capital gains, which means that there is no income tax on the gain on the transfer or dividend when you transfer shares and make a gain on the transfer or receive a dividend. Therefore, the equity investor will not be taxed on the dividend received in Malaysia.
On the other hand, if you receive interest at the time of loan, it is taxable.
(7) Internal procedures at the target company
There are two cases of acquisition of shares where shares are transferred from existing shareholders of the target company, or the target company increases capital and underwrites the capital increase. In the former case, if the target company is a private company, it is necessary to obtain approval for the transfer by the target company. In the latter case, it is necessary to obtain approval by the board of directors or general shareholders meeting, as who will become shareholders is a matter that has a significant impact on the management of the company. In particular, in the case of a capital increase, the shareholding ratio of other existing shareholders will inevitably decrease (dilution) as the number of new shareholders increases, and the influence on the control of the company will decrease, so procedures are in place to protect existing shareholders.
On the other hand, in the case of debt finance, it does not affect the control of existing shareholders and can be decided by the representative or by an approval of the board of directors, depending on the amount. There is also a difference between equity finance and debt finance in that an approval of the general shareholders meeting of the target company is required or not.
(8) Impact of the Money Lending Business Act
In the case of debt finances, it should be noted that lenders may be in breach of the Money Lending Business Act if they provide loans as a business. On the other hand, there is no such restriction on the equity investor in the case of equity finance.
(9) Impact of restrictions on foreign investment
In some industries, such as logistics and education, the foreign investment ratio is regulated. In such cases, if foreign capital invests, the investment ratio will change, which may violate restrictions on foreign investment. On the other hand, in the case of debt finance, there is no need for such considerations as it does not affect the control of the company.
(10) Security interests
In the case of debt finance, in order to ensure the recovery of the principal, mortgages, pledges, mortgage by transfer, and other security interests are set for the real estate and valuable movables of the target company, or the representative's joint guarantee is obtained. On the other hand, in the case of equity finance, it is not planned to recover the investment in the form of a return of capital, so security interests will not be set.