



What do you mean by
Corporate Personality



Corporate personality is the fact stated by the law that a company is recognized as a legal entity distinct from its member. A company with such personality is an independent legal existence separate from its shareholder, directors, officers and creditors.

What is a separate legal entity of a company?

So, what is the meaning of separate legal entity? A separate legal entity is when you and anyone involved in your company are separate from your business for legal purposes. Basically, an SLE means that if someone takes legal action against your business, your personal finances are separate and safe from the legal suit. And, any investors, stakeholders, shareholders, and partners are also personally protected.



concept of the corporate personality of a company was recognized in the case of *Salomon v. Saloman & Co.Ltd.* The facts of the case are as such: Solomon was a leather merchant. Due to the overwhelming response to his leather business, he decided to convert his business into a limited Company- Solomon & Co. Ltd. The company consisted of Solomon, his wife and one of his children as members. The company purchased the business of Solomon for £20,000, the purchase consideration was paid in terms of £10,000 debentures conferring charge over the company's assets, £20,000 in fully paid £1 share each and the balance in cash. Within a year of incorporation of the company, it ran into a financial crisis and liquidation proceedings commenced. The assets of the company were not enough sufficient to discharge the debentures (held entirely by Solomon himself). And nothing was left for the unsecured creditors.

House of Lords held that the company has been validly constituted since the Act only required seven members to hold at least one share each. It said nothing about their being independent, or that there should be anything like balance of power in the constitution of the company. Hence, the business belonged to the company and not to Solomon. Solomon was its agent. The company was not agent of Solomon.





The shareholders are not the agents of the company and so they cannot bind it by their acts. The company does not hold its property as an agent or trustee for its members and they cannot sue to enforce its rights, nor can they be sued in respect of its liabilities. Thus, 'incorporation' is the act of forming a legal corporation as a juristic person. A juristic person is in law also conferred with rights and obligations and is dealt with in accordance with law. In other words, the entity acts like a natural person but only through a designated person, whose acts are processed within the ambit of law.



Another Case : Kandoli Tea Estate Co. Ltd-

The decision of the Calcutta High Court in *Re. Kondoli Tea Co. Ltd.*, (1886) ILR 13 Cal. 43, recognised the principle of the separate legal entity even much earlier than the decision in *Salomon v. Salomon & Co. Ltd.* case. Certain persons transferred a Tea Estate to a company and claimed exemptions from ad valorem duty on the ground that since they themselves were also the shareholders in the company, it was nothing but a transfer from them in one name to themselves under another name. While rejecting this Calcutta High Court observed: "The company was a separate person, a separate body altogether from the shareholders and the transfer was as much a conveyance, a transfer of the property, as if the shareholders had been totally different persons.



CASE STUDY: Lee v. Lee's Air Farming Ltd. (1961) AC 12

FACTS:

This case is concerning about the veil of incorporation and separate legal personality. In this case out of the 3000 shares in Lee's Air Farming Ltd., L held 2999 shares. He made himself the Managing Director and was also the chief pilot on a salary.

While working for the company he was killed in an air crash. Since his death was in the course of employment, his widow claimed for compensation. She claimed £2,430 compensation for herself and her four infant children and she also claimed a sum for funeral expenses.

The respondent company denied that deceased was a "worker" of the company and alleged that at the time of the accident the deceased was the controlling shareholder and



HELD:

The Lee Air Farming case confirmed the Salomon principal. The Privy Council allowed Mrs Lee's claim and said that Lee might have been the controller of the company in fact but in law, they were separate distinct persons and the concept of separate legal entity was explained. Mr. Lee could therefore enter into a contract with the company, and could be considered to be an employee. His wife was therefore entitled to an award in respect of workmen's compensation.

Judicial Committee of the Privy Council also said that a company is a separate legal entity, so that a director could still be under a contract of employment with the company he solely owned.



Conclusion:

From the above case laws we will see that Company was separate Legal entity from the date of its incorporation. A company becomes in law a different person altogether from the member who composes it. Thus, an incorporated company has a legal personality distinct from that of its members from the date of its incorporation.

