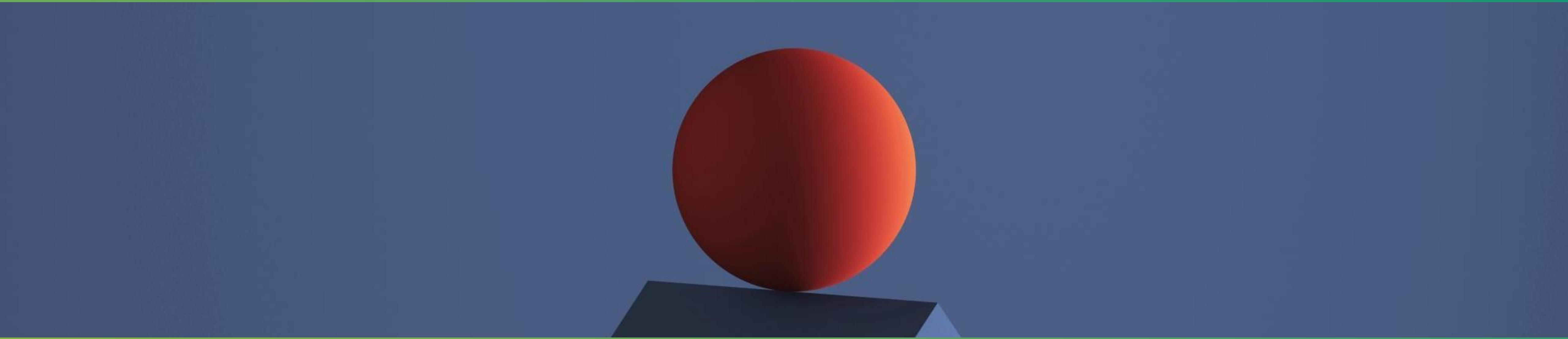

SALOMON V SALOMON & CO. LTD

Introduction

Ltd case is a cornerstone of modern corporate law, marking a turning point in how companies are viewed legally

It established that a company, once incorporated, becomes a separate legal entity—essentially a “person” in the eyes of the law—distinct from its owners

This principle of corporate personality underlies the concepts of limited liability, shareholder rights, and the "corporate veil," which still influence how businesses operate today

The Facts of the Case

Aron Salomon was a successful leather boot and shoe manufacturer in London

In 1892, he decided to take advantage of the new legal framework that allowed businesses to incorporate as limited liability companies

Salomon sold his bootmaking business to the company for £39,000, receiving payment in the form of shares and secured debentures

The Legal Questions

High Court

The High Court sided with the creditors, ruling that the company was a mere agent or trustee for Salomon, making him personally liable for its debts

Court of Appeal

The Court of Appeal agreed, describing the company as a mere "sham" designed to protect Salomon from personal liability

The judges emphasized that the company was Salomon in disguise and that such an arrangement should not be allowed to circumvent legal obligations

House of Lords

The House of Lords, however, overturned the lower courts' decisions, ruling in favor of Salomon

The Lords unanimously held that Salomon & Co

Ltd was a separate legal entity distinct from its shareholders

The Key Legal Principles

- The most significant principle established by this case is that a company, once incorporated, is treated as a separate legal entity
- **Very Important - This means it can own property, incur debts, and sue or be sued in its own name. Shareholders, even if they hold nearly all the shares, are not personally responsible for the company's debts. Once a company is legally incorporated, it must be treated as a separate "person" under the law, irrespective of whether it is a one-man company or controlled by a single individual. It will still be separate person even if the shareholders are the close relatives.**

Limited Liability

The decision reaffirmed the principle of limited liability, meaning that shareholders are only liable for the company's debts up to the amount they invested

Beyond that, their personal assets are protected, a critical aspect of encouraging entrepreneurship and investment

Conclusion

The case of Salomon v Salomon & Co

Ltd marked a turning point in company law by firmly establishing the separate legal personality of a corporation

The decision allowed businesses to thrive in a framework that balances the protection of personal assets with the responsibilities of running a company