

## The Corporate Entity

It is important to understand that the words “Incorporate”. ‘Corporation” and “limited liability Company” means the same. It is a separate distinct legal entity created for the purpose of carrying on business.

Under the law, a Corporation is created by filing certain documents at the Corporate Registry and then organizing and assigning the duties of shareholders, directors and officer to one or more individuals. The Corporation then thinks and acts through these titles.

In the eye of the law the Corporation is its own person in that it have its own identity (Business number just like that of an individual who has a Social Insurance Number or “SIN” number, and as such it can be sue or be sued in its own name and incur tax on the profits of the business independent of the financial circumstances of the individuals associated with it.

The Corporation status as a separate legal entity enjoys all of the capacity, privileges, powers, rights similar to that of an individual --- in other words a Corporation can do anything permitted by law equal to that of an individual. It is important to remember the YOU and the CORPORATION are two separate legal entity, therefore any assets you buy in the name of the Corporation belongs to the Corporation, even though you are the shareholder or owner of the corporation. The legal personality had been decided from the well known Company law case - **Salomon v A Salomon & Co Ltd [1897] AC 22**. The effect of the Lords' unanimous ruling was to uphold firmly the doctrine of corporate personality.

*Quote:*

**Salomon v A Salomon & Co Ltd [1897] AC 22** is a landmark [UK company law](#) case. The effect of the Lords' unanimous ruling was to uphold firmly the doctrine of corporate personality, as set out in the [Companies Act 1862](#), so that creditors of an insolvent company could not sue the company's shareholders to pay up outstanding debts.

[http://en.wikipedia.org/wiki/Salomon\\_v\\_A\\_Salomon\\_%26\\_Co\\_Ltd](http://en.wikipedia.org/wiki/Salomon_v_A_Salomon_%26_Co_Ltd)

The directors are an agent for the corporation and act in good faith for the corporation. They owe a fiduciary duty to the Corporation, failing which will result them being personally liable for all loss incurred due to their failure- **Industrial Development Consultants v Cooley [1972] 1 WLR 443**. Facts:

*Quote:*

Mr. Cooley was an architect and the managing director of IDC. The Eastern Gas Board has a lucrative contract going, to design a depot in Letchworth, but they told Mr. Cooley that they did not want to give it to a firm. Mr. Cooley told IDC that he felt a bit poorly and could he resign from his job on early notice. They let him go. He went off and got handsomely compensated. IDC found out. They sued him for breach of his duty of loyalty. To read more :

[http://en.wikipedia.org/wiki/Industrial\\_Development\\_Consultants\\_Ltd\\_v\\_Cooley](http://en.wikipedia.org/wiki/Industrial_Development_Consultants_Ltd_v_Cooley)

The Accounts Receivable of the Corporation belongs to the Corporation; likewise the debts and obligations of the Corporation are the Corporation's not yours personally, unless there exist a signed personal guarantee.

Therefore, proper accounting is of vital importance. If you take money or property out of the Corporation for personal use without properly accounting or paying for it is considered as stealing from the Company. While as owner or shareholder of the Corporation you may close a blind eye to this act, the Tax Department on the other hand will raise an eyebrow and impose stiff penalties and fines on you (potentially including imprisonment) under the Income Tax Act since the monies or property taken out is considered as a taxable benefit and your act is consider an evasion of tax.

Once you understand the separate nature of a Corporation, the concepts and principles of Company Law becomes more simple and logical to understand.