

Research Article

From Salomon to Startups The Evolution of Corporate Liability in India

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Abstract

Separate legal personality allows a company to conduct business in its own name and ordinarily confines a shareholder's exposure to the capital committed. The rule associated with *Salomon v. A. Salomon & Co. Ltd.* remains essential to investment and enterprise, including India's growing startup sector. Yet the rule does not answer every question about wrongdoing carried out through a company. Indian law may impose an obligation on the company itself, attach responsibility to a director or promoter under a specific legal provision, or, in exceptional circumstances, look through a corporate structure used to evade the law. These are distinct routes to accountability. This paper traces the development of Indian company law and examines judicial decisions, the Companies Act, 2013, insolvency law, and newer regulatory demands affecting technology businesses. It argues that sound corporate governance depends on identifying the legal basis for liability in each case while retaining the commercial value of incorporation. Clearer rules and more effective enforcement would better protect creditors, investors, and the public without treating every business failure as personal misconduct.

Keywords: separate legal personality; limited liability; corporate veil; directors' duties; startups; Indian company law.

1. Introduction

Incorporation gives an enterprise a legal identity through which it can hold assets, borrow, contract, and litigate. The identity continues even when the people who own or manage the business change. The House of Lords' decision in *Salomon v. A. Salomon & Co. Ltd.* is the familiar statement of this principle: a duly incorporated company is a person in law distinct from its members.¹ Its continuing importance lies in the ability to pool capital and undertake risk without making share ownership alone a source of unlimited personal liability.

The modern company, however, may operate through layered ownership, platform technology, venture financing, and activity that crosses borders. In these settings, the question is often less whether the company exists separately than which person or entity bears a particular legal duty. A creditor's unpaid claim, a misleading investment statement, and an unlawful use of personal data may each require a different legal response. Treating all three as instances of "lifting the corporate veil" obscures those differences.

This paper asks how Indian law has preserved the benefits of separate personality while increasing accountability of companies and the people who direct them. It uses a doctrinal method:

¹*Salomon v. A. Salomon & Co. Ltd.*, [1897] AC 22 (HL).

legislation and reported decisions provide the primary material, with the startup as the setting in which older principles meet newer risks. The discussion distinguishes three routes to liability. First, the company may answer for its own obligations. Second, a statute or a person's own conduct may make a director, promoter, or officer responsible. Third, a court may exceptionally examine the reality behind an entity when its separate form is used to defeat an existing legal obligation. That distinction guides the analysis and the proposed reforms.

2. Development of Company Law in India

India's company law took shape through successive legislation governing incorporation and the management of registered enterprises. The Companies Act, 1956 itself identifies the earlier Acts of 1866, 1882, and 1913 as part of that statutory history. After independence, the 1956 Act supplied the principal framework for company formation and administration.² This history matters because incorporation began as a means of organising investment but later had to serve an economy with larger firms, more varied investors, and more complex forms of control.

Economic liberalisation after 1991 increased the scale and variety of private enterprise. As capital markets and corporate groups developed, the adequacy of disclosure, board oversight, and creditor protection attracted greater attention. The Companies Act, 2013 responded with a more detailed governance framework, including express duties of directors and provisions addressing fraud.³ India thus retained incorporation as the starting point while using regulation to address conduct that the traditional rule of limited liability could not, by itself, control.

3. What Separate Personality Protects

A company owns its property; shareholders own shares in the company. These two forms of ownership are legally different. The Supreme Court's decision in *Bacha F. Guzdar v. Commissioner of Income Tax* makes the distinction clear in the Indian context.⁴ Likewise, *Tata Engineering and Locomotive Co. Ltd. v. State of Bihar* treated corporate identity as separate from that of the persons behind it.⁵ The company can therefore acquire rights and incur debts in its own name. Its existence does not depend on the continued membership of any particular investor.

Limited liability is related to this separate identity but should be stated with care. A shareholder is generally exposed to the unpaid amount, if any, on the shares held, rather than every debt of the company. The rule does not release the company from its debts. Nor does it excuse a shareholder's independent wrongdoing or a director's breach of a duty imposed on that director. English decisions such as *Macaura v. Northern Assurance Co. Ltd.* and *Lee v. Lee's Air Farming Ltd.* illustrate that even a person with substantial control does not simply become the company for all legal purposes.⁶

The practical case for this structure is strong. Investors can assess the amount at risk before contributing capital, and a business can continue through changes in ownership. Creditors, however, may be exposed to losses if the company's assets prove insufficient. Company law therefore pairs the protection of incorporation with rules on disclosure, governance, insolvency, and misconduct. The issue is how to apply those rules without turning limited liability into either an absolute immunity or an empty promise.

4. Looking Beyond the Corporate Form

4.1 The limits of veil piercing

"Piercing" or "lifting" the corporate veil describes an exceptional judicial step: the court looks beyond the company's separate identity to determine the legal effect of a transaction or arrangement. It should not be used as a general label for every case in which a director is liable. A director who makes a fraudulent statement, for example, may incur responsibility under a statute or ordinary principles governing that conduct even though the company's separate identity remains intact.

²Companies Act, 1956, Act 1 of 1956, § 3(1)(ii) (definition of "existing company").

³Companies Act, 2013, Act 18 of 2013; Ministry of Corporate Affairs, Report of the Companies Law Committee (2016), introduction.

⁴*Bacha F. Guzdar v. Commissioner of Income Tax*, AIR 1955 SC 74.

⁵*Tata Engineering and Locomotive Co. Ltd. v. State of Bihar*, AIR 1965 SC 40.

⁶*Macaura v. Northern Assurance Co. Ltd.*, [1925] AC 619; *Lee v. Lee's Air Farming Ltd.*, [1961] AC 12 (PC).

English case law is a useful point of comparison. *Adams v. Cape Industries plc* resisted a broad power to disregard corporate structure merely because the outcome would otherwise seem unfair. Later decisions likewise treated veil piercing as a confined doctrine, rather than a substitute for proving an applicable cause of action.⁷ The relevant inquiry is therefore not whether a claimant has suffered loss alone, but whether the corporate arrangement has been used in a way that the law recognizes as justifying departure from ordinary separateness.

4.2 Indian judicial practice

Indian decisions also begin with respect for corporate personality while allowing courts to examine a structure used for fraud or evasion of law. In *Life Insurance Corporation of India v. Escorts Ltd.*, the Supreme Court explained that the circumstances and statutory setting determine when the veil may be lifted.⁸ In *Delhi Development Authority v. Skipper Construction Co. (P) Ltd.*, the Court looked through interposed companies in response to a fraudulent scheme.⁹ The concern was the misuse of the corporate form, rather than the mere existence of several related entities.

State of Rajasthan v. Gotan Lime Stone Khanij Udyog Pvt. Ltd. illustrates the importance of substance in a regulated transaction. The Court examined a corporate arrangement alleged to have circumvented restrictions on the transfer of a mining lease.¹⁰ The case does not mean that group structures are presumptively suspect. It shows that a court may consider the purpose and effect of the arrangement, the statute being evaded, and the interests affected. A workable approach to veil lifting must remain sensitive to those facts. A loose appeal to “public interest” without an identified legal obligation would give parties little guidance and weaken the certainty that incorporation is meant to provide.

5. Statutory and Criminal Accountability

The Companies Act, 2013 supplies more direct routes to accountability than veil piercing. Section 166 states duties owed by directors, including good faith, care, skill, diligence, and avoidance of conflicts. A claim based on these duties concerns what a director did or failed to do; it does not require the court to deny that the company is a separate person.¹¹ The Act also regulates independent directors and board processes, while section 135 establishes corporate social responsibility requirements for companies that meet its statutory thresholds.¹² These provisions distribute responsibility by role and by the type of company involved.

Section 447 addresses fraud under the Act.¹³ It is important to connect a proposed sanction to the elements of the relevant provision, rather than infer personal liability from a person's title as founder or director. Similar care is required in criminal law. A corporation can itself be subject to prosecution where the offence and rules of attribution permit it; the Supreme Court has recognised corporate criminal liability, including for offences requiring a mental element.¹⁴ Responsibility of an individual officer remains a separate question governed by the applicable law and evidence of that person's involvement.

Insolvency law addresses another setting in which the allocation of loss matters. The Insolvency and Bankruptcy Code, 2016 establishes a collective process for dealing with an insolvent corporate debtor. Section 66 permits action in specified cases of fraudulent or wrongful trading; section 29A restricts eligibility of certain persons to submit a resolution plan.¹⁵ Neither provision is a general rule that promoters personally guarantee every failed venture. The distinction between commercial

⁷*Adams v. Cape Industries plc*, [1990] Ch 433; *VTB Capital plc v. Nutritek International Corp.*, [2013] UKSC 5.

⁸*Life Insurance Corporation of India v. Escorts Ltd.*, (1986) 1 SCC 264.

⁹*Delhi Development Authority v. Skipper Construction Co. (P) Ltd.*, (1996) 4 SCC 622.

¹⁰*State of Rajasthan v. Gotan Lime Stone Khanij Udyog Pvt. Ltd.*, (2016) 4 SCC 469.

¹¹Companies Act, 2013, § 166.

¹²Companies Act, 2013, § 135.

¹³Companies Act, 2013, § 447.

¹⁴*Iridium India Telecom Ltd. v. Motorola Inc.*, (2011) 1 SCC 74; see also *Standard Chartered Bank v. Directorate of Enforcement*, (2005) 4 SCC 530.

¹⁵Insolvency and Bankruptcy Code, 2016, §§ 29A, 66.

failure and legally defined misconduct is especially important for young firms, where a high rate of failure is inherent in innovation.

Listed companies also face securities regulation directed at disclosure, governance, and the protection of minority investors. These obligations are best understood alongside, rather than as exceptions to, separate personality. They require the enterprise and designated persons to make information available and manage conflicts so that investors can assess risk. The law is more coherent when the claimant identifies the specific duty, the person who owed it, and the conduct that breached it before turning to the exceptional language of veil piercing.

6. Startups and New Sources of Risk

6.1 Founders, financing, and control

In a startup, one person may be a shareholder, promoter, director, and public face of the business. Those roles can overlap in practice, but they do not carry identical legal consequences. A founder does not become personally liable for an ordinary corporate debt simply because the founder exercised influence. Personal responsibility may nevertheless arise from a guarantee, a misleading representation, breach of a statutory duty, or participation in fraud. The first step in an assessment is to identify the capacity in which the founder acted and the source of the claimed obligation.

Venture financing further complicates control. Investors may obtain board seats, consent rights, or information rights through negotiated agreements. Such arrangements can affect governance, but investment alone should not be treated as proof that an investor directed every corporate act. Conversely, contractual distance should not prevent scrutiny of a person who actually participated in misconduct. Courts and regulators need evidence of conduct and legal responsibility, not labels alone.

Fundraising highlights the difference between business risk and defective disclosure. Forecasts may prove wrong even when honestly prepared. False statements about revenue, ownership of technology, or use of funds raise a different issue. Due diligence, reliable records, and clear allocation of approval authority help investors evaluate claims and help founders demonstrate the basis on which statements were made. These governance practices are valuable before a dispute arises, particularly when a company scales faster than its internal controls.

6.2 Digital operations and data

Technology companies may collect, store, and analyse personal data at a scale that creates risks beyond traditional creditor claims. India's Digital Personal Data Protection Act, 2023 and its implementing rules establish a developing compliance framework, with commencement of provisions occurring in stages.¹⁶ The relevant obligations should therefore be assessed by reference to the provisions in force and the role of the entity processing the data. A company's duty to comply is distinct from any personal liability that a particular officer may incur under an applicable provision or through independent misconduct.

Artificial intelligence creates related questions. If an automated tool influences hiring, lending, pricing, or access to a service, a company still needs a process for testing the system, recording decisions, and responding to errors. The technology does not itself determine who owes a legal duty. Existing rules on corporate governance, contracts, discrimination, consumer protection, and data use may apply according to the facts, while future legislation may specify further obligations. The immediate governance task is to keep meaningful human oversight and an auditable record of important decisions.

6.3 Sustainability and cross border activity

Environmental, social, and governance concerns can affect companies through specific reporting and operational requirements, as well as contractual commitments. It would overstate the law to treat "ESG" as one free standing source of universal director liability. A more precise inquiry identifies the environmental, labour, disclosure, or other rule that applies to the company. This is particularly relevant when a startup moves into a highly regulated sector or expands across borders. Opaque holding structures and cryptocurrency activity may add difficulties in tracing funds and

¹⁶Digital Personal Data Protection Act, 2023; Digital Personal Data Protection Rules, 2025, r. 1(2)–(3).

responsible persons. Growth may change which legal regimes apply even though the basic principle of separate corporate personality remains the same.

7. A Comparative Assessment

The traditional account of company law emphasizes the company as an independent bearer of rights and liabilities. Contemporary Indian law retains that account but adds more detailed rules about the conduct of those who manage and control the enterprise. The shift is visible in disclosure, board duties, fraud provisions, insolvency remedies, and sector specific regulation. It is a change in the methods of accountability, not a general abandonment of the corporate form.

This distinction helps resolve an apparent tension. Limited liability encourages the provision of capital by making the investor's ordinary exposure predictable. Targeted liability protects stakeholders when a person breaches a defined duty or deploys the company as a device to evade one. These objectives can coexist if legal standards are clear. The greater danger lies in using a single, elastic idea of "veil lifting" to decide disputes that would be better resolved through statutory interpretation, proof of personal wrongdoing, or ordinary claims against the company.

8. Recommendations

First, judicial and legislative guidance should make the grounds for looking behind a company more explicit. Decisions should identify the obligation said to have been avoided, the way the corporate structure was used, and the remedy that follows. A fact specific standard can remain flexible without making fairness alone the legal test.

Second, compliance measures should reflect a company's size and activities. Startups need clear responsibility for financial records, fundraising statements, data handling, and board approvals, but identical processes for a small private company and a large listed issuer would impose disproportionate costs. Periodic director education and early legal review of material disclosures can reduce avoidable disputes.

Third, enforcement should focus on demonstrable fraud and evasion while preserving room for honest business failure. Effective whistleblower channels and reliable internal reporting can reveal misconduct before losses grow. Regulators should coordinate where conduct crosses company, insolvency, securities, and data protection law, so that the same facts are assessed under the correct legal powers.

Finally, governance of high risk technology should be practical and reviewable. Companies deploying consequential automated systems should document how decisions are tested and who can correct them. Carefully designed regulatory sandboxes could allow supervised testing where the regulator has authority to offer them. This approach addresses emerging risks through identifiable duties and evidence rather than assuming that new technology requires the disappearance of separate personality.

9. Conclusion

Indian company law now applies the principle recognised in *Salomon* to an economy with far more complex forms of financing and control. The incorporated company remains the primary holder of its property, rights, and debts. At the same time, modern law reaches misconduct through directors' duties, fraud provisions, insolvency remedies, criminal liability, and carefully confined judicial scrutiny of abusive structures. Each route has a different legal basis and should be applied on its own terms.

For founders and investors, the result is a more intelligible balance. Incorporation protects legitimate risk taking; it does not authorize deceptive fundraising, evasion of statutory restrictions, or disregard of duties owed by the company and its officers. Clear standards, proportionate compliance, and credible enforcement offer a better response to emerging corporate risks than a broad assumption that anyone connected to an unsuccessful company must answer for its debts.

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Citation: Dr. K. Prasanna Rani & M. Poojitha. 2026. "From Salomon to Startups The Evolution of Corporate Liability in India". *International Journal of Academic Research*, 13(3): 194-199.

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