 DOI: https://doij.org/10.10000/IJLMH.1111084

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 8 | Issue 6

2025

© 2025 International Journal of Law Management & Humanities

Follow this and additional works at: https://www.ijlmh.com/
Under the aegis of VidhiAagaz – Inking Your Brain (https://www.vidhiaagaz.com/)

This article is brought to you for free and open access by the International Journal of Law Management & Humanities at VidhiAagaz. It has been accepted for inclusion in the International Journal of Law Management & Humanities after due review.

In case of **any suggestions or complaints**, kindly contact **support@vidhiaagaz.com**.

To submit your Manuscript for Publication in the **International Journal of Law Management & Humanities**, kindly email your Manuscript to **submission@ijlmh.com.**

An Analysis on the Corporate Veil

APPAN ANIRUDH M[1], SRIDHAR RCS[2] AND VIVAHA NP[3]

ABSTRACT

This research explores the doctrine of the corporate veil, a cornerstone of modern company law that establishes the separate legal personality of a corporation from its members. It examines the meaning, importance, and judicial evolution of the principle through landmark cases such as Salomon v. Salomon & Co. Ltd., and analyses the circumstances under which courts lift the veil to prevent fraud, evasion, or injustice. Further, it discusses emerging disputes and the controversial doctrine of reverse piercing of the corporate veil, highlighting how courts balance economic freedom with accountability and fairness in corporate jurisprudence

I. INTRODUCTION

The concept of the corporate veil stands at the foundation of modern company law, shaping how businesses operate and how individuals participate in those businesses. It represents the legal separation between a company and its members, protecting personal assets of the individuals and the company distinctly, while encouraging entrepreneurship, investment, and economic growth. However, this protection is not absolute. Courts sometimes "lift" or "pierce" the veil when the company's separate personality is misused for fraud, evasion, or injustice. Over time, this has led to complex debates about the limits of corporate personality and accountability, including the emerging idea of "reverse piercing," which operates in the opposite direction. This research explores the evolution, importance, and judicial interpretation of the corporate veil and its exceptions, highlighting how courts balance economic freedom with fairness and responsibility in corporate conduct.

II. MEANING AND IMPORTANCE OF CORPORATE VEIL

The corporate veil principle, originating from ***Salomon v. Salomon & Co. Ltd. [1897]***[4], establishes the concept of distinct legal personality, which creates a division or separation between a corporation and its shareholders, directors and stakeholder groups. When an entity is properly incorporated, it will have a separate independent capacity to own property, enter into

[1] Author is a Student at Sastra University, Thirumalaisamudram, Thanjavur, India.
[2] Author is a Student at Sastra University, Thirumalaisamudram, Thanjavur, India.
[3] Author is a Student at Sastra University, Thirumalaisamudram, Thanjavur, India.
[4] AC 22

© 2025. International Journal of Law Management & Humanities [ISSN 2581-5369]

contracts, borrow money, sue or be sued which also results in members not at risk of losing personal assets for corporation liabilities. These liability protections are limited to the contributions made into the corporation or through valued shares. A corporate veil provides certainty in business, increases investment, and makes it easier to engage in international trade because it protects individuals from creditors directly and engages in industry expectations.

Nevertheless, the corporate veil is not a complete shield. Courts will lift or pierce the veil when wrongdoing or fraud occurs, or when a corporation is used to escape a duty. This lifting of the corporate veil will result in personal liability in order to address the wrong and to protect creditors, consumers, and society. While providing some context in the wrongs of lifting the corporate veil, courts are balancing investor protection and accountability through this principle. This offers a level of oversight while seeking to generate two separate business worlds. Overall, this doctrine supports economic activity and its vitality, while capping 'breaches', and a lost balance, in company law.

Importance of Corporate Veil

The importance of the corporate veil is much deeper than mere legal theory; it is foundational to economic dynamism and business innovation. Its protective features are essential for a vibrant market economy.

First and foremost, it encourages entrepreneurship by limiting liability to the share capital to allow individuals to innovate without a personal financial ruin. Potential founders are able to pursue concepts involving significant risks, whether a tech startup, or expanded business models, while knowing that they limit their exposure to only that loss of capital that they invest into the business. This limitation of financial risk has sparked numerous cycles of innovation in the past; think of the industrial revolutions or the rise of the digital age, while also expanding access to opportunities for a broader base of the market.

Equally compelling, the veil supports the mobilization of capital. Limited liability provides security for the investment or business community, which allows capital to be pooled across a diverse group of funding, whether shares, bonds, or through additional firm resources like venture capital. Without the assurance of limited liability, the prospect of unlimited exposure would reliably discourage any participation that could entail unlimited liability, including the participation into stock markets or into crowdfunding. Developing through a limited liability structure permits corporations to use previous, pooled assets to achieve growth while allowing returns to investors to match the limited risks.

In operations, the veil also allows structural flexibility. An organization may establish

subsidiary businesses, or companies, for unique purposes like limited risk, or tax mitigating, or compliance for regulatory purposes. This modularity ultimately leads to operational efficiencies, as firms can change organizational structure to adapt while maintaining compliance with changing regulatory or market changes. In addition, it guarantees the continuity of the company, making it invincible to human foibles like death or resignation. Transfers of ownership do not disrupt business operation; contracts remain unaffected; employees maintain continuity; and stakeholders feel reassured. This continuity fosters long-term planning, from research and development to the establishment of a legacy brand. In the end, the corporate veil enhances transactions while saving transaction costs. Parties contract with the entity and do not inquire as to personal financial performance, increasing the velocity of commerce by reducing transaction costs. Creditors analyse the corporate balance sheets, fostering ecosystems based on trust.

However, with power comes protection. The veil's presumption of separation allows for judicial penetration in cases of fraud or essentially sham transactions, which can be evidenced in such statutes as the U.S. Fair Labor Standards Act or other jurisdictions with provisions in their respective Insolvency or Bankruptcy Acts. This balance allows for legitimate commerce to participate in the economy of the age while exposing those that would act as economic pirates.

So, it can be put forward that the corporate veil provides a cornerstone for modern capitalism and the architecture of resilience and prosperity. The veil separates personal from the corporation, encourages risk-taking endeavour, provides a mechanism and framework for wealth aggregation, thereby creating and supporting dynamic processes of progress, while the courts always sit in judgment and restraint of its potential abuse. The corporate veil in its legacy testifies to the necessity for separate personalities to sustain economies.

III. The doctrine of lifting the corporate veil

The Doctrine of Lifting the Corporate Veil represents the major exception to the principle of separate legal personality in corporate law. This separate legal personality principle was established by the House of Lords in ***Salomon v. Salomon & Co. Ltd. (1897)***[5] that an incorporated company possesses a legal identity distinct from its members and controllers. The resulting corporate veil provides shareholders with the crucial protection of limited liability.

However, judicial authorities and statutes have consistently recognised that this privilege cannot be exploited to perpetrate injustice, fraud, or evade legal obligations. The act of "lifting" or

[5] AC 22

"piercing" the corporate veil is that, where the court looks beyond the company's legal shield, to identify and hold the real individuals who are in control, to be personally liable for the company's actions; where those individuals misused their power.

Categorisation of Judicial Approaches

Courts have developed contrary approaches for applying this doctrine, often depending on the intent behind the corporate misuse.

In the case of ***Daimler Company Ltd. v. Continental Tyre and Rubber Company (1916)***[6], the court scrutinised the nationality of the shareholders and directors to determine if the company possessed an "enemy character" during wartime. In such a way, the court used it to ascertain the true character of the company, especially regarding national interest or statutory compliance. Also, it focuses on making the controllers directly responsible for the actions carried out in the corporate name, so that the court can hold individuals personally accountable for statutory non-compliance or malfeasance.

In ***DHN Food Distributors Ltd. v. London Borough of Tower Hamlets (1976)***[7], the principle was applied in a complex group structure, facilitate the treating of a parent company and its subsidiary as a unified entity. The court reasoned that, the subsidiary was wholly owned and controlled by the parent company; where the subsidiaries had no independent business existence apart from DHN and; the corporate structure was essentially a technical facade, and in reality, DHN was the true owner and operator of the business. Therefore, the court lifted the corporate veil and allowed DHN Ltd. to recover compensation for the disturbance caused by the compulsory acquisition.

In the classic precedent of ***Gilford Motor Co. Ltd. v. Horne (1933)***[8], where a company was established solely to defeat an existing non-compete clause, the court held was a mere facade. This was the strongest application of the principle, where it entirely disregarded the corporate personality principle when the entity is used for deliberate misuse.

Modern Framework and Limitations

The UK Supreme Court decision of ***Prest v. Petrodel Resources Ltd. (2013)***[9] (one of the landmark judgements) significantly refined the doctrine; where Lord Sumption distinguished between two foundational principles.

---

[6] 2 AC 307
[7] 1 WLR 852
[8] Ch 935
[9] UKSC 34

One is Concealment Principle, where a company to hide the identity of the real actor. This does not involve piercing, as the court merely investigates the facts behind the veil and does not pierce the veil. The Other one is the Evasion Principle, where a company is used to evade an existing legal obligation that would otherwise bind the person controlling the company.

Piercing the veil is reserved exclusively for this principle, making it a remedy of last resort to be used only when no other established legal route can redress the wrong. Indian jurisprudence, while upholding the Salomon principle, aligns with the evasion-based approach, intervening when the corporate form is used as an "instrument of fraud" (e.g***., Delhi Development Authority v. Skipper Construction Co. (P) Ltd., 1996***[10]).

IV. The foundation of corporate personality: salomon v. Salomon & co. Ltd. (1897)

Salomon v. Salomon & Co. Ltd.[11] serves as the salient case affirming the principle of separate legal personality in company law. Aron Salomon, a successful sole trader operating a business on manufacturing leather boots, incorporated the business, on advice from his lawyers, in 1892. The Companies Act at that time required seven shareholders, so Salomon, his wife, and his five children, each subscribed to one share and held these shares solely to meet the statutory requirement. Salomon's business was valued at £39,000 and was exchanged for £20,001 in shares that were fully paid, £10,000 in debentures secured by a floating charge over the company's assets, and approximately £1,000 in cash.

Within approximately one year, the company was forced into insolvent liquidation because of adverse market conditions and had approximately £7,733 more liabilities than assets. The liquidator contested that the incorporation was valid and Salomon could not receive preferred creditor status as a secured debenture-holder acting on behalf of the creditors who were unsecured creditors.

At trial, Vaughan Williams J held that the company was solely Salomon's "alias" or "agent" and was created solely to limit personal liability when Salomon obtained preferred creditor status. Salomon was ordered by the court to indemnify the company and his claims under the debentures were subordinated to those of the unsecured creditors The Court of Appeal affirmed this conclusion, referring to the incorporation as an abuse of the Companies Act. Lord Justices Lindley and Lopes contended that limited liability was designed for "genuinely independent

[10] 10 SCC 574
[11] AC 22

shareholders" rather than "one substantial person and six mere dummies."

The House of Lords unanimously overturned both lower courts. Lord Halsbury LC stated that a company that is properly incorporated has a legal personality "with rights and obligations proper to itself." The court said that the motives of the incorporators were "utterly irrelevant" to the establishment of the corporation's rights and obligations. All of the statutory incorporation requirements had been fulfilled; whether the six family members held the shares in their own right or on behalf of Salomon was entirely irrelevant to the existence of the corporation.

The Law Lords determined that the lower court findings of "agency" and "trust" were internally inconsistent with acknowledged corporate personhood. A legal person cannot both exist as an independent entity, as well as being an agent. In addition, there was no fraud; all of the shareholders had full knowledge of the events of the transaction and consented to the transaction.

The case demonstrates that properly incorporated companies are legal entities distinct from shareholders and directors. This results in some important implications, including: companies may own property, enter into contracts, borrow money and incur debts, bring or respond to actions in their own name; shareholders only have limited liability to the extent of their investment being at risk; companies have perpetual succession and can continue even if membership changes; the corporate "veil" of the company visually and legally separates a company's obligations from the obligations of its members; and shareholders can also act as creditors and not lose their identity as shareholders at the same time.

This principal promotes entrepreneurship by permitting entrepreneurs to take commercial risks and is invested capital assets, without placing their personal property at risk, except to the extent of their invested capital. The principal also allows development of capital markets. But the principal is not absolute. Courts recognized that in exceptional cases of fraud, tax avoidance or attempts to avoid the law, the corporate veil may be lifted. Although this was recognized in Salomon, the future case law has attempted to create limits to these exceptions by protecting the corporate personality absent strong evidence of abuse.

V. Other landmark cases on the doctrine of lifting the corporate veil

Firstly, ***Gilford Motor Co. Ltd. v. Horne***[12] is an important case in determining piercing the corporate veil in fraud and evasion of contractual terms. Mr. E.B. Horne was the managing director of Gilford Motor Co. Ltd. and was subject to a restrictive covenant prohibiting him

[12] Ch 935

© 2025. International Journal of Law Management & Humanities

from soliciting customers of the company on the termination of his employment. After his final notice, Horne started his competing business. After becoming aware of the legal implications of his conduct, and the likely breach of contract, Horne incorporated a company named J.M. Horne & Co. Ltd. with his wife and a friend, and stated in the articles of incorporation the company would not act in a way that contravened the restrictive covenant. In the first instance, Farwell J found that Mr. Horne breached the contract but refused to enforce the covenant on public policy. On appeal the court took a different view. Lord Hanworth MR granted an injunction and said, "I am entirely satisfied that this company was formed as a device, a stratagem, in order to mask the effect carrying on of a business of Mr EB Horne." They pierced the veil of incorporation, finding Mr. Horne personally liable, despite the fact that he was acting through a nominally different firm. This case established the foundational principle that courts will disregard corporate personality when a company is deliberately created as a sham to evade pre-existing contractual obligations.

Secondly, ***Jones v. Lipman***[13] clarified the exception based on "sham" or "façade" to the Salomon principle, ruling that the corporate veil can be pierced where a company has been created with the intention of avoiding existing liabilities. Mr. Lipman agreed to sell a property at 3 Fairlawn Avenue, Chiswick to Mr. Jones for £5,250, but after experiencing buyer's remorse, Mr. Lipman formed a company with himself as sole shareholder and director. Mr. Lipman sold the property to this new company for £3,000, which was, of course, far below the original agreed price with Mr. Jones. Mr. Jones commenced and action seeking specific performance against both defendants. Russell J ordered specific performance against both defendants and issued one of corporate law's most memorable citations: "The defendant company is the creature of the first defendant, a device and a sham, a mask which he holds before his face in an attempt to avoid recognition by the eye of equity." This case illustrates the fact that when a company is simply a façade to avoid existing legal commitment, equity will take action to hold the individuals accountable.

Then, ***Lee v. Lee's Air Farming Ltd.***[14] reaffirmed the Salomon principle that separate legal personality is preserved, even in one-man corporations which are predominately controlled by a single individual. Mr. Geoffrey Lee formed Lee's Air Farming Ltd., a crop dusting business with an aerial service in New Zealand. Lee held 2,999 out of the 3,000 shares, was the sole director of the company, and was also employed as the chief pilot. After Geoffrey Lee died in a plane accident while doing aerial work, his widow Catherine brought a claim for compensation

[13] 1 WLR 832
[14] AC 12

pursuant to New Zealand's Workers' Compensation Act 1922. The crucial issue was if Geoffrey Lee could be both an employee as well as the controlling shareholder and director. The Court of Appeal held that Lee could not be a "worker" if he was effectively also the employer. The Judicial Committee of the Privy Council overturned the lower court's ruling and held that Mrs. Lee was entitled to compensation. Lord Morris stated that the company was a true legal entity and said, *"it [was] never suggested that the company was a sham."* The ruling confirmed the principle that a company is a separate legal entity and, as such, the company may contract with its members.

Then, ***Life Insurance Corporation of India v. Escorts Ltd.***[15], is one of India's early leading cases endorsing the Salomon principle. The case arose under the Foreign Exchange Regulation Act, 1973 (FERA), which allowed non-resident companies to invest in Indian companies but only within tightly defined limits: each such company could only invest to the extent of 1% paid-up equity capital of the Indian company, with an aggregate cap of 5% in any one Indian company. Thirteen companies owned by Caparo Group Limited invested in Escorts Limited. Notably, 60% of the equity shares of Caparo Group were owned by a trust whose beneficiaries were Swraj Paul and his family. Opponents argued that the courts should "pierce the corporate veil to find Mr. Swraj Paul hiding behind" the multiple entities. The Supreme Court waved away the veil-lifting request, affirming that companies enjoy a separate legal personality. The Supreme Court explained as follows: "We do not think it is necessary or even desirable to make a comprehensive enumeration of the classes of cases in which a veil may be lifted as that must depend upon the relevant statutory provisions, the object to be achieved, the conduct in issue, the amenability to public scrutiny, etc."

Lastly, ***Delhi Development Authority v. Skipper Construction Co. (P) Ltd.***[16] is a case of first impression in India, in which the Supreme Court lifted the corporate veil and imposed personal liability on directors for contempt and fraud. In 1980, Skipper Construction Company bid Rs. 9.82 Crores for a DDA plot located in Jhandewalan, Delhi. Although Skipper was granted seven payment extensions for the respective bid price, Skipper ultimately defaulted and executed a new agreement on 11 August 1987. After defaulting on the payment and before being provided possession of the property, Skipper began to sell flat spaces to potential buyers and collected a total of Rs. 645.66 Lakhs. The Supreme Court granted an interim order on 29 January 1991 and explicitly prohibited Skipper from, "inducting any person in the building and from creating any rights in favour of third parties." Knowing of the court order, Skipper continued to sell flats and

[15] 1986 AIR 1370
[16] 1996 AIR 2005

© 2025. International Journal of Law Management & Humanities [ISSN 2581-5369]

enter into contracts with those to whom flats were sold. Directors Tejwant Singh and Surinder Kaur perpetrated these fraudulent transactions. The Supreme Court, on piercing the corporate veil, explained that, "where a fraud is committed in the name of a company, those persons responsible cannot shield themselves by the identification of the company." The directors were found guilty of contempt and sentenced to prison.

VI. DISPUTES ARISING FROM THE CORPORATE VEIL: AREAS OF CONFLICT

Disputes regarding the corporate veil come about when creditors, regulatory agencies, or opposing parties challenge the legal seperation between a company and its members. These disputes test the extent of limited liability; and also demands that justice and accountability prevail over the legal distinctions. In an environment of complex multinational corporate structures, these challenges have become a highly disputed area of corporate litigation.

Key Dispute Categories

The judicial interpretation, exemplified in the case of ***Jones v. Lipman (1962)***[17], where it was held that, where the corporate form is a mere instrument for deception, the corporate identity must not be considered so as to enforce the underlying obligation, such as specific performance. It is understood from the case that the most straightforward disputes involve the company being used as a 'sham' or 'facade' to avoid contractual or pre-existing legal duties.

In ***Vodafone International Holdings B.V. v. Union of India (2012)***[18], the Supreme Court said that: Tax planning (legally arranging your affairs to pay less tax) is allowed, but tax evasion (creating fake or meaningless transactions only to avoid tax) is not allowed and can be investigated by the courts and be taken for Judicial scrutiny. The Court also said that authorities must show clear and strong evidence of malafide intent before they can disregard a company's separate legal identity to recover tax. Many later disputes have involved tax officials trying to challenge complicated company structures that they believe to have been created just to hide or avoid paying taxes.

While the general principle maintains separation as laid down in the case of ***Kingston Dry Dock Co. v. Lake Champlain Transportation Co***.[19], the courts will look for evidence that the subsidiary company operates as a mere alter ego or instrumentality of the parent company. Disputes here focus on whether a parent company should be held liable for the debts or torts of its subsidiary company.

---

[17] 1 WLR 832
[18] 6 SCC 613
[19] 31 F.2d 265

© 2025. International Journal of Law Management & Humanities

As in the case of ***Kapila Hingorani v. State of Bihar (2003)***[20], the court interpreted against the state-owned corporations, to protect the rights of employees against withheld salaries. Likewise, the Courts may pierce the corporate veil to uphold public policy or to protect unsafe stakeholders. Furthermore, in the ***Standard Chartered Bank v. Directorate of Enforcement*** case, the court confirmed that corporate status cannot shield individuals from criminal prosecution, attributing the *mens rea* (guilty mind) of the directing individuals to the company.

Evolving Concepts and Jurisdictional Challenges

One key challenge in this area is the lack of uniformity. Judicial discretion remains high, making the outcome highly fact-dependent, varying upon jurisdictions; where the doctrine is applied more cautiously in common law jurisdictions like the UK and India than in some US states employing the broader "instrumentality" or "alter ego" tests.

A debated and generally rejected concept is reverse piercing, where a claimant attempts to make the company liable for the personal debts of its shareholders. While some US jurisdictions permit this under limited circumstances; Indian courts have generally resisted it. The ongoing evolution of this doctrine reflects the judicial effort to strike a balance between encouraging economic activity through limited liability and the ensuring of corporate status not being misused, as a shield for wrongdoing.

VII. THE DOCTRINE OF REVERSE PIERCING OF THE CORPORATE VEIL

The Doctrine of Reverse Piercing of the Corporate Veil is one of the most debated movement from traditional corporate jurisprudence. It challenges the basic concept of a company's separate legal identity, which was established in the landmark case of ***Salomon v. Salomon & Co. Ltd.(1897)***[21]. Reverse piercing, functions inverse to the Lifting of Corporate Veil, by allowing personal debts or legal obligations of an individual, be charged against the company itself. Essentially, it permits creditors to reach company’s assets to satisfy the individual owner’s liabilities.

While the separate legal personality is meant to protect legal business and encourage investment; it can also be exploited to conceal assets or evade lawful obligations. Thus, the concept of Reverse piercing attempts to balance the principle of limited liability with ensuring justice. Courts crucially rely on two key factors when considering its application, they are, the dominant or alter-ego control; and the presence of fraud or injustice. The first indicator deals in determining whether the company is a genuine independent entity or merely a shield for

[20] 6 SCC 1
[21] AC 22

© 2025. International Journal of Law Management & Humanities [ISSN 2581-5369]

personal dealings. The second indicator requires proof that the corporate structure was misused to commit fraud, or avoid statutory obligations. With these indicators, domination without wrongful intent is insufficient to justify reverse piercing.

Two variations of this doctrine have emerged; where in the first, Insider reverse piercing occurs when a shareholder seeks to use the company's separate status to protect personal interests. But, the courts generally reject that, as it can be unfair against innocent shareholders or creditors. Whereas in the second, Outsider reverse piercing, by contrast invoked by an external parties like creditor or tax authority, seeking to hold the company liable for an individual's misconduct. This form has found limited acceptance, particularly in cases of evident fraud or tax evasion, as explained in ***GM Leasing Corp. v. United States***, where corporate assets were rightly subjected to satisfy unpaid tax debts.

Judicial approaches to reverse piercing have been inconsistent. Some American courts, as in the case of ***Kingston Dry Dock Co. v. Lake Champlain Transportation Co***.[22], have rejected this doctrine, to preserve corporate seperateness, while in other cases, like ***Crum v. Krol***[23], courts have invoked the doctrine in compelling situations to prevent injustice. However, in India, the courts have not formally recognized reverse piercing, but prefers to apply doctrines like vicarious liability or corporate criminal responsibility instead of this doctrine. The decision in ***Standard Chartered Bank v. Directorate of Enforcement (2005)***[24] also reaffirmed that companies may be held accountable for the acts of their controllers, yet this does not extend to using company's assets to satisfy personal debts. As a result, reverse piercing remains mostly unaccepted in Indian corporate law. This shows a deliberate commitment to preserve corporate autonomy, while addressing misconduct through traditional legal mechanisms.

VIII. CONCLUSION

In conclusion, the corporate veil stands as both a shield and a test of integrity in company law. It protects innovation, investment, and entrepreneurship but also maintains a clear division between personal and corporate identity. Yet, when misused for fraud or evasion, courts justly intervene to lift or even consider reversing the veil to uphold fairness and accountability. This delicate balance between protection and responsibility ensures that corporate personality serves its true purpose, which is fostering honest enterprise while preventing abuse or exploitation of the Separate Corporate Personality for unjust gain.

---

[22] 31 F.2d 265
[23] 425 N.E.2d 1081
[24] 4 SCC 278