

CORPORATE PERSONALITY AND LIFTING OF CORPORATE VEIL

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PREFACE

In the present-day world, most of us, either directly or indirectly, interact with the persona of corporate entities. We deal in shares of some company, or are employed by it, or render professional services to such legal personas as lawyers, chartered accountants, technicians, or contest legal battles with it or may be just interested in knowing about their ever changing world. The interaction is, however as a matter of course, taken as any ordinary transaction in which we, as one party, deal with another. We are really not concerned with the various facets of the existence, creation and working of these corporate entities as legal persons while we deal with the most commendable feat of legal imagination.

This study is confined to 'Corporate Personality' & 'Lifting of Corporate Veil' the basic concepts of company law, this study has been made with private corporations as the reference point rather than dealing with statutory, municipal, and other types of corporations.

It is very interesting to know that a company has a corporate personality separate from its shareholders or directors. Further it is important to know why such corporate personality is conferred on groups of men, in what way law has shaped this legal fiction over the years and how this concept has grown and with what ramifications. Incorporation by registration was introduced in 1844 and the doctrine of limited liability followed in 1855. Subsequently in 1897 in *Solomon v. Solomon & Company* the House of Lords effected these enactments and cemented into English law the twin concepts of corporate entity and limited liability, and from there the concept has been tailored in the Indian Law

For law and society, legal persona of a corporate entity is fundamental; the concept as such is relatively complex. On the one hand law, by fiction, has created these legal persons and on the other hand law itself, disregards their separate personality in various situations. In some cases, law must deal with such persons of its own creation in the context of serious public interest concerns, be that of industrial development or the area of torts committed by a multinational company affecting lives of many.

An overview of the various aspects in this arena of corporate personality, its notions and treatment in law, public interest concerns and judicial response, is necessary to get

an insight into the world of these legal persons which have increasingly become more than a part of our daily

lives.

The concept of lifting of corporate veil is of great importance in the present-day scenario, with the increase in white collar crimes, information technology crimes, shares scams, tax evasions, forgeries by the companies etc. It is important to know as to who the persons behind such crimes are and are hiding behind the veil of the company, and to punish them for such acts and to put them behind bars, as a company being a juristic person cannot be put behind bars

The Dissertation is divided into 7 chapters

Chapter I Gives a brief introduction to the concepts of corporate personality and lifting of corporate veil, further it defines company, its evolution, attributes etc.

Chapter II Deals with the concept of judicial personality and corporate personality along with various case laws.

Chapter III Deals with the concept of Lifting of Corporate Veil

Chapter IV Traces the various Statutory Provisions under which the corporate veil could be lifted

Chapter V Attempts to give various judicial provisions under which corporate veil could be lifted

Chapter VI Deals with the concept of Lifting of Corporate Veil in relation to Public interest

Chapter VII Provides conclusion and some suggestions as to further improve the concept.

The basic aim of this dissertation is to bring out some of the issues that have been raised of late, in the arena of corporate persons, no simple answers can be found but I hope this study will help in proceeding towards that direction, or at least providing a focus.

CHAPTER I – INTRODUCTION

“I weigh my words when I say that in my judgment the limited liability corporation is the greatest single discovery of modern times”

Nicholas Murray Butler¹

¹ Roger E. meiners, James S. Mofsky and Robert D. Tollison, “piercing the veil of limited liability”, *Delware Journal of corporate law*, Vol.4, No.2, 1979, p.377

1.1 GENERAL

Over a century has passed since the modern firm emerged as a type of corporate organization. Due to the expansion of commercial enterprise, its complexity, high capital requirements, and associated risks, agencies have become an essential component of business enterprise in the modern world. Their significance will only grow in the years to come, as demonstrated by the experience of the developed economies in this sector.

At the end of the nineteenth century, the judiciary once more acknowledged the distinct judicial identities of these groupings. According to the landmark ruling issued by the House of Lords, the corporation has a fantastic criminal nature of its own, independent of its stockholders., create a bank account, borrow money, have its own residence, and continue to operate regardless of the lives of its directors, shareholders, or participants, among other things.

The idea that a company's judicial persona is distinct and exceptional from its members, lenders, employees, auditors, and many others has gained traction not only in England and India but practically everywhere in the world where corporations are present. An element owner of the company's assets is not a shareholder. He may serve as a director, auditor, employee, creditor, or all of these at the same time, and the agency's judicial nature will not be impacted. The regulation at hand is full of court pronouncements, and the judiciary has clarified those features in nearly every type of issue. However, the judiciary has stopped allowing the judicial persona to be extended to its logical limit in order to prevent violations of the standards of justice, fair play, public interest, and sales. These days, organizations have far more extraordinary powers than they ever had before, control far more assets than they ever had, and are staffed with bright people who will fight for

Roger E. meiners, James S. Mofsky and Robert D. Tollision, “piercing the veil of limited liability”, *Delaware Journal of corporate law*, Vol.4, No.2, 1979, p.377

them in every area of difficulty to find ways to sell hobbies, whether they are legitimate or not, and use the company image for their own purposes. The corporate personality has been used, or most likely has been utilized, as an active tool to break public hobby norms on numerous occasions. When it has been discovered that the business form is being utilized as a fake, a cloak, or a tool, courts have openly and frequently stepped in. Over the years, the judicial process has penetrated the corporate veil in some public-interest situations to identify the agency's enterprise person, defend sales practices, prevent fraud or improper behavior, and determine who its antagonist is. As an alternative reasoning for dismissing the company's character, the courts have

increasingly leaned toward coverage and public hobby considerations. Both the public interest and the ways in which the corporate structure of an organization might be used as a weapon to achieve goals that are contrary to the public interest are limitless. However, in the back of its Indian limb, a multinational corporation may also use an ex-submit facto shield to delay or refuse to reimburse the victims of its technological disaster. This could be a pre-planned, calculated move by the smallest or most dishonest traders to defraud the public from behind the corporate veil. lifestyles and the judiciary have encountered difficult circumstances that were most likely unimaginable at the time the Salomon case was decided. This area of judicial response to the prevalence and disregard of corporate character and public interest issues in numerous cases is what this analysis aims to examine. The examination has been limited to enterprise businesses under organization rules, not statutory companies, municipal corporations, and other entities where the sufficiency of protections for the public interest should be viewed as unusual. An analysis of all legislative provisions and judicial activism has attempted to give insight into the ever-growing number of agencies and groups worldwide that are inmates, as well as how the legal system and judiciary have handled them on a variety of occasions and in the public interest. Like other social institutions, companies are an integral element of our society. At the local, national, and global levels, companies are a unique and potent force that possesses enormous financial clout. Except for governments and governmental entities, businesses may be the most potent forces driving change in our society. However, agencies, like apprehend nowadays, have changed from their previous state. Because it prevented "growing," the various functions that organizations serve in modern human lives have been made necessary by societal needs. The structure and characteristics of the company have been directly impacted by the advancement of civilization at various stages throughout time. Because of this, there has been a growing demand for the law to comprehend the alternative and align its packages. The nature and shape of a corporate sector have become more complex over the past few years. Over the course of the 20th century, we witnessed the globalization and privatization of all commercial entities worldwide. This globalization also paved the way for the "international Village," which significantly altered the structure of business corporations. These days, a business enterprise is a man-made entity that the law views as having a personality all its own, independent of the people who comprise the company. Because an organization is composed of and operated by individuals who function as its agents, this means that an enterprise can, for example, acquire and sell property, sue or be sued, or conduct a criminal offense. A corporation's existence exists independently of its shareholders, who are not responsible for any wrongdoing by the business. The companies are operated by various people, and their actions may be illegal and occasionally can cause significant financial and human losses to the community.

The so-called "white collar" and "company" crimes have increased even more in the twenty-first century. Crook hobby on behalf of an enterprise organization is known as corporation crime. Throughout much of America's history, the main criminal position on the hobby of entrepreneurship became distinctly laissez-faire (leave it alone to do as it pleases). Under the influence of capitalist ideology, American courts adopted the stance that the government shouldn't interfere with business by trying to change it. the primary important scandal of the primary decade of the 21st century is that Enron corporation, which has been referred to as 'one of the most complex portions of monetary chicanery in records' and for traders in its stock and its personnel.

The Enron scandal greatly damaged the company and destroyed investor confidence in ways that haven't been seen since the great depression. Enron evolved into a \$100billion business empire with over 200,000 employees spread over 40 countries, controlling roughly one-fifth of all US purchases and sales of natural gas and electricity. The agency spent tens of thousands of dollars on lobbying and political campaigns that promoted further deregulation of the energy markets. The leadership of Enron expected its government to continue innovating and growing in order to support this enormous enterprise. Executives responded by inventing fictitious markets, "paper partnerships," and ghost growth, which allowed them to record earnings that were no longer there and pay off obligations that were. Executives used a variety of creative techniques to cook the economic books, which prevented Enron's stock expenses from increasing and, as a result, their own compensation. because a significant portion of the competition that Enron's government received was based mostly on inventories;

They had a strong motivation to disclose excessive income in order to make the business appear very plausible to potential buyers. Some corporate crimes have become less serious in the recent past. The unexplained disappearance of enterprises is one of the main causes of the chaos that is caused in these times. 2750 of the 5,561 companies included on the Bombay inventory change index have disappeared. It indicates that the two organizations who visit the stock exchange take crores of rupees from traders, steal, and flee. Even well-known brands like "Home Alternate" came here with grand publicity stunts, but after raising money, they disappeared.

In those 2750 enterprises, about 11 million traders have invested Rs 10,000 crores.

Although the Department of Enterprise Affairs, the Reserve Bank of India, and the Securities Board of India have the authority to monitor and adjust inventory exchange operations, none of them have recorded the locations of the 2750 firms that were barred from the inventory change. Although it has been decided by a majority vote of three to two, some of the promoters and merchant bankers who are responsible for those are wandering scot-loose. According to G. Balakrishnan J., incarceration may be used against artificial entities, such as corporations, in which case the corporate veil would be removed and the organization's leaders and directors

might be subject to punishment.

For a deeper comprehension of the standards, it has become essential to comprehend the idea of corporate character and uncovering the corporate veil.

"The word 'company' has no legally defined or strictly technical meaning." In this era, corporations were widely used as associations of people for a few commonplace items or devices. Although there are many different reasons why people could want to associate, the term "enterprise" is usually only used for those who have an economic motivation, such as maintaining a business for profit.

According to legalese, an organization is an enterprise that has been integrated or registered by the 1956 Corporations Act or any of the previous Agency Acts. A commercial venture is defined as "an enterprise registered and fashioned beneath the Act or an existing company" in accordance with the Companies Act of 1956.

However, this definition does not advance our understanding of the term "organization." Another attempt has been made to define a joint stock company under the Enterprise Act of 1956. 'a joint-stock company means a company having a permanent paid up or nominal share capital of fixed amount divided into shares, also of fixed amount, or held and transferable as stock, or divided and held partly in the one way and partly in the other, and formed on the principle of having for its members the holders of those shares or that stock, and no other persons'². Its safe to depend upon opinions and ideologies of several Prominent judges with respect to this. *Lindley, L.J.*, describes company, "An association of many persons who contribute money or money's worth to a common stock, and employ it in some common trade or business and who share the profit and loss (as the case may be) arising therefrom. The common stock so contributed is denoted in money, and is the capital of the company. The persons who contribute it, or to whom it belongs, are members. The proportion of capital to which each member is entitled is his share. Shares are always transferable although the right to transfer them is often more or less restricted".

² S.566, The Companies Act, 1956

Again Chief Justice *Marshal's* defined, "A company is a person, artificial, invisible and existing only in the eyes of law. Being a mere creature of law, it possesses only those properties which the charter of creation confers on it, either expressly or as incidental to its very existence".

Hence, "a company is a person, though artificial, i.e. unlike human beings it exists only in the eyes of law and has no physical existence. It has an independent legal entity, a common seal and perpetual succession."

1.3 EVOLUTION

“The Corporations are not novelties. They are institution of very ancient date”³. However, massive partnership out of which present day enterprise employer advanced seemed on the English scene in the course of the economic revolution.

A frame corporate all through the 17th and eighteenth centuries can be offered into existence either with the aid of a Royal constitution or with the aid of a special act of parliament. each those strategies had been very costly. Therefore, to cope up with developing industrial requirements of the country,

Large partnerships which were not incorporated entered the trading and lifestyle industries, but in a corporate form. Every such organization has a huge membership, and three trustees are now in charge of running the business. As a result, possession and control were separated. It was possible for trustees to buy and sell using other people's money. Regulations that apply to these kinds of businesses have not yet been developed. As a result, dishonest marketers got a rare chance to take advantage of people's money. Many spurious agencies had been created which could seem most effective to vanish resulting in loss to the investing public. The English

³ “This is observed by Marshal LJ, *Bank of U S Vs Dandridge*, 12 Wheat (25 US 64, 92)”

Parliament, therefore, passed an act called the “Bubbles Act of 1720” that, made the mere practice of promoting agencies illegal rather than outlawing the creation of phony corporations. This turned out to be a significant blow to the growing trade and exchange. However, the act was in effect for more than a century. In 1825, it was revoked. However, it became the simplest in 1844 when large partnerships were required to register and incorporate. Although the businesses incorporated below it were still referred to as partnerships and the idea of unlimited legal responsibility was upheld, the Joint Stock businesses Act of 1844 was the principal piece of legislation that made registration easier.

The Joint Stock Companies Act of 1856 helped to streamline the regulations pertaining to these businesses after the right to alternate with limited legal liability was granted in 1855.

The Joint Stock Companies Act of 1850 marked the beginning of Indian company law. taking into account that the Corporations Act of 1956, the most comprehensive and intricate piece of legislation, was added to us via the cumulative process of modification and consolidation. However, it is not a comprehensive list of all ways to incorporate business concerns. Nonetheless,

organizations for business or industrial purposes may be established through special parliamentary legislation. For example, under the 1956 Existence Insurance Organization Act, the Indian employer is covered by existence insurance for businesses. These institutions are referred to as "groups." Companies are business organizations or other institutions incorporated under the Companies Act. Indian company law began with the Joint Stock Companies Act of 1850. keeping in mind that the Corporations Act of 1956, the most extensive and complex piece of legislation, was added to our collection through a series of consolidations and modifications. It is not, however, an exhaustive list of all methods for incorporating business enterprises. However, specific legislative legislation may be used to create organizations for commercial or industrial reasons. For instance, the Indian employer is protected by existence insurance for firms under the 1956 Existence Insurance Organization Act. These establishments are called "groups." Companies are institutions or commercial groups that have been incorporated under the Companies Act.

1.4 ESSENTIAL FEATURES

Diverse legislative and judiciary definitions in that time period ‘company’ or ‘corporate personality’ does not show its traits absolutely. In terms of its characteristics, a corporation can be defined as a group of people who came together for a shared goal and were regulated. It has a distinct legal entity, a common seal, and an ongoing existence, with transferable shares serving as its capital. These qualities can also be succinctly stated as follows:

- **incorporated association** – A company needs to be integrated under “the Companies Act”. For a governmental agency, the minimum variety required is seven, and for a private organization, it is a couple. An association of more than ten men and women in the banking sector and twenty persons in other purchasing and selling hobbies could also be mentioned here; if they are not registered as an enterprise, they will be considered an illegal association..

- **Limited-Liability** – One of the main advantages of conducting business under the company form of corporation is the ability to limit legal responsibility for business debts. As a distinct legal entity, the organization owns its assets and is liable for its debts. Individuals, as a whole, are not responsible for the employer's debts or the owners of its challenge. Legal duty becomes limited to the nominal charge of the stocks taken by them or the amount guaranteed by utilizing them in cases when subscribers choose to register with a company that has limited legal responsibility. No member is guaranteed to contribute more than the face value of the stocks that are owned

by him. However, under a partnership, each partner's liability for the business's debt is uncapped. They must fulfill all of the company's commercial enterprise responsibilities without exception. Since the lenders have the ability to levy execution even on a partner's personal property, his entire fortune is at risk. Buckley J. has found that the laws pertaining to restrictions have likely achieved more than any regulations of the last fifty years in terms of the nation's economic development. They have got, to the benefit of the investor as well as of the public, allowed and recommended aggregation of small sums into huge capitals that have been employed in undertakings of superpublic software largely increasing the wealth of USA. One of the number one and established motivations in the back of incorporating a company is to restrict non-public risks through acquiring the gain of limited liability”.

- **Artificial Personality** – Despite being a legal person, enterprise lacks the body of a herbal being. It is most evident when considering regulation. Due to its artificial nature, it must rely on natural humans—specifically, the directors, officers, stockholders, etc.—to do its many tasks. However, those people are the finest representatives of the company, therefore anything they do that falls within the bounds of their power and is done in the organization's name and on its behalf binds the employer rather than them. Being a legal entity, an agency has the authority to acquire, enjoy, and dispose of property at its own discretion. The business acquires ownership of its assets and capital. The property of the company is neither jointly or severally owned by the shareholders. "The organization is the actual person or entity that owns all of its assets and that controls, manages, and disposes of them." A member no longer possesses an insurable pastime within the agency's property. Almost all of the shares were acquired by one person, except one, of a wood agency, and was a significant creditor as well. He obtained personal insurance for the company's timber. The coverage company altered into one that was no longer vulnerable to him when the timber was destroyed by the hearth. No shareholder is entitled to any property owned by the company because he has neither a criminal record nor an equitable interest in it. Therefore, incorporation enables the employer's property to be genuinely distinct from its contributors' property. No matter how many shareholders come and go, the property is still owned by the firm, and it can be carried, assigned, mortgaged, or handled in any other way regardless of those changes.
- **Transferable assets:** Joint stock companies were hooked up with the amazing idea that their equities should be easily transferable. According to the Business Act, "Any member's shares, debentures, or other interest in a company shall be movable property, transferable in the manner supplied by the articles of organization." This is why incorporation allows a member to sell his share in the open market and receive a refund without having to take the funds out of the company. This gives the organization balance and liquidity to the traders. An accomplice in a partnership, however, is not permitted to move his stocks within the company's capital unless all of the partners agree.

- **Perpetuity** – In no way does integrated agency die. It is a perpetually succession-oriented creature. As an example, let's say that X, Y, and Z are the agency's top contributors, safeguarding all of its shares. Their shares may be inherited or transferred to A, B, and C, they may then become the new owners and managers of the business. The organization will remain the same, though. The company may be an equal entity with the same rights and benefits, as well as the same estates and possessions, despite the broad trade in membership. Perpetual succession means that even though an organization's club may continue to convert sometimes, it has no bearing on the company's ability to continue operating. Additionally, the guarantors of a company's mortgage could not assert that they were released from liability due to the fact that the business's control, including the dealing director, had completely changed. The business enterprise's continuity and the contractual and industrial members of the family are no longer impacted by such changes.
- **Authority of suing and capacity to be sued** – Being a body corporate, a business entity has the right to file and receive lawsuits under its own name. Crook critique must be represented by a single character, although it can be lodged through an organization. The same person does not necessarily have to serve as a consultant at some point. In the same manner that a complaint from a man or woman may be dismissed due to the complainant's absence, the complainant through an organization runs the danger of having their complaint dismissed due to the consultant's absence. A business is entitled to protect its good name. . It has the right to sue for objectionable remarks that are likely to damage its property or company, among other things. When defamatory content is posted, a business has the right to seek damages if it affects its operations. Similarly any character aggrieved via the moves the enterprise can also document a case against corporation.
- **Common-seal** – Once more, the firm lacks the framing of a natural character since it is a synthetic character. It no longer has a man's or woman's intellect or limbs as a result. As a result, it must function through people known as "the administrators." Since administrators are the agency's agents, the business is held accountable for anything they do within their authority. However, the files that bear its signature are the most effective way to hold it bound. A business enterprise's professional signature is the typical seal. It is etched with the company's name in place of its signature. Any document now not bearing the commonplace seal of the organization will now not be binding on the company.

A employer may also with the aid of writing below the commonplace seal,empower any character, both normally or in admire of any distinct subjects, as its attorney, to execute deeds on its behalf in any vicinity either in or out of doors India . It in addition provides that a deed signed by using such an lawyer on behalf of the employer and below his seal, where sealing is needed, s h a l l bind the agency and have the equal impact as though it have been beneath its

common seal.

SUGGESTIONS

1. In case of holding and subsidiary companies (cases of holding more than 50 % holding) the vague 'control criteria' may be dispensed with for disregarding the corporate personality and control may be deemed to exist.
2. In case of multinational corporations, the responsibility of any public injuries resulting in cases of multinational operations either through subsidiaries or collaborations be jointly imposed on the multinational by incorporation of a compulsory clause to this effect in the collaboration approval letter and obtaining the multinationals consent. It may be desirable that as larger policy considerations will be involved, the state provides for such provisions either generally or selectively, rather through courts.
3. It is also suggested that the technical rules interconnection of companies be dispensed with in disregarding the corporate veil because rules are by now are well known and easily bypassed. In such cases the enterprise entity concept be applied rather than analytical legal rules. For example, if an issue arises from consumers point of view and there are several corporate entities which are involved in the matter, these should be regarded as one if they use a common trademark in respect of same/similar goods and any action or orders against one should be deemed to be effective for all others regardless of whether the consumer concerned made all corporations parties to the proceedings (because he may not have knowledge of such number of corporations) and regardless of whether as per technical rules of association and interconnection the entities are separate or not. Likewise, if a problem arises of intellectual property infringement, the various entities from the competitors point of view should be regarded as one enterprise rather than allowed to go scot free till separate actions are taken against each corporate form.
4. It is also observed that ghost of *Salomon* survives, in most cases large corporations are family controlled enterprises. A few individuals having a small shareholding, control vast empires taking advantage of the scattered shareholding and other relatively small shareholders. It is therefore suggested that in case of lifting of corporate veil the technical rule be disregarded and the realities of the situation looked into.
5. The area of imposing criminal liability conjointly on managerial persons along with the companies, which has emerged recently, also calls for caution and restrain in its further development. No uncertainty can be allowed to exist in this area because that can shy away the talented and capable few who are needed to run corporate enterprises which are enlarging day by day. It is suggested that in the absence of statutory provisions criminal liability must not be imposed on managerial personnel for matters like income tax, pollution laws etc. The legislature has to take this lead in

such cases and clearly define the circumstances and extent of criminal liabilities. Courts as such, must exercise restraint and confine to strict application of such provisions.

6. While the tussle between the government and the private sector, so far as revenue collections through taxes is concerned, is a continuous unending one, the state policies in areas of public interests of development of small scale industry, overall technological advancement etc., must be clearly spelt out. If not in advance, as and when such matters come up before the judiciary, the legislative or/and must also respond quickly in clarifying the public interest and policy considerations. For instance, in excise matter, the corporate form of small enterprises supplying products to large ones is sought to be discharged by the government, at times in interest of revenue, while, on the other hand interests of development of such small enterprises are at stake. The legislature in such cases must urgently respond to provide certainty in the organization of such affairs.
7. It is also suggested that to promote investments, separateness of company and members, in so far as the enterprise profits are concerned, may be removed and double taxation first in company's hands then in the shareholders hands as dividend avoided
8. The judicial system as such particularly in India must also gear up to expeditiously dispose of corporate rights and liabilities matters by resorting to legal principles rather than by resorting to expediency or considerations of quick justice which may not be helpful in future and which is even more harmful as a precedent in the area of corporate laws from the point of view of other corporations as well as the affected parties and breeds uncertainty
9. There should be more transparency in all the other departments and the corporate veil should not be allowed to be used as a cloak to do frauds etc. for eg. Mergers, acquisitions, demergers, share markets etc
10. Last but not least it should not only be open for the courts to lift the veil, but the companies should themselves be allowed to lift their veil.

It can be said that much has yet to be done by the judiciary in future cases while responding to the legal personality of companies and corporations, particularly in view of growing public interest concerns. Further than this, it is not possible to go in attempting to present in a rational form a development which has been essentially haphazard and irrational. Until very recently the courts and the legal profession have failed to see the interconnection between the various situations in which the problem arises, with the result that relevant decisions taken in one context have not been cited in litigation in another context. That, at least, is better now. The most that can be said is that the courts policy is to lift the veil if they think justice demands it, and they are not constrained by contrary binding authority. The results in individual cases may be commendable but it smacks of palm-tree justice rather than the application of legal rules.

In the end it can be said in decades, corporations as a business form have been incorporated

dramatically. Except that this business form allows a corporation raising huge capital in a quick way, another advantage to incorporating a business is that the principals of the corporation provide shareholders broad protection from being held personally responsible for the debts and liabilities of the corporation. That is, creditors can reach the corporation's assets, but once those assets are exhausted they cannot ordinarily also reach the personal assets of the owners or shareholders of the corporation. Speaking in an accurate way the "Corporation Veil" can protect shareholders of a corporation from being personally liable only when the corporation acts as a buffer between its creditors and claimants, and its shareholders and directors. Nevertheless many people think that once they have incorporated they have no personal liability. Especially many small closely held corporations don't think they are held to the same standards as big companies to follow proper corporate procedures. That is simply not true. Incorporating a business is only one step in protecting one's personal assets from the creditors of their corporation. When courts impose liability on individuals for the actions of the corporation, this is called "Piercing the Corporate Veil Thus is abundantly clear that incorporation does not cut off personal liability at all times and in all circumstances "Honest employees, by means of companies is allowed; but the public are protected against kiting and humbugger" The sanctity of separate corporate identity is upheld only in so far as the entity is consonant with the underlying policies which give it life. Those who enjoy the benefits of the machinery of incorporation have to assume a capital structure adequate to the size of the enterprise. They must not withdraw the corporate assets or mingle their own individual accounts with those of the corporation or represent to the third parties that no difference exists between themselves and the company. The courts have at times seized upon these facts as evidence to justify the imposition of liability on shareholders.

The purpose of the principle of separate corporate personality is to encourage and facilitate industrializations, but not to obstruct it. Hence, a mechanical interpretation of the principle of corporate personality is to be avoided, as it may frustrate the very purpose for which it was made, viz. to promote the growth of industries. Consequently, the exception of the principle, namely, the doctrine of piercing the veil of corporate personality should be adopted, not merely in cases of fraud or evasion of legal-obligations, but also in a large number of cases where it would promote the growth of industry. In this way, both the principle of corporate personality as well as its exception Viz. the doctrine of piercing the veil will serve a common complementary purpose, namely, to promote industrialization, such an interpretation would serve the main national objective of our country, which is rapid industrialization.