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WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal provide dedicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

# **SHOULD THE CORPORATE VEIL BE LIFTED AUTOMATICALLY: EXAMINING PARENT COMPANY LIABILITY AND SUBSIDIARY ABUSE**

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## **Abstract**

This research explores India's corporate veil doctrine, assessing whether existing judicial discretion is adequate to counter rising cases of corporate malfeasance, or if a more rule-regulated regime is required. It starts with a theoretical foundation in the principle of separate personality from *Salomon v. A. Salomon & Co. Ltd.* and its application in Indian law through the Companies Act, 2013. The article follows the growth of veil-piercing in India from colonial times to the mid-20th century, to the more aggressive jurisprudence of the late twentieth century and today's era defined by regulatory reforms and increased judicial readiness to pierce the veil in cases of fraud, sham, statutory avoidance or public interest. Comparative analysis is taken from leading foreign precedents, in particular the case of the UK (which distinguishes between "evasion" and "concealment") and U.S. cases that look at undercapitalization, control, and corporate formalities. The core question is: should India keep veil-piercing only as an exceptional case, or embrace more transparent, even compulsory lines to enforce accountability without subverting limited liability, the article uses doctrinal legal research, analysing statutes and illustrative case law to look for recurring principles and lacunae. It concludes by suggesting reforms, codification of factors, more precise definitions, increased transparency, and greater director liability—to find a more balanced approach between safeguarding corporate autonomy and avoiding abuse of the corporate form.

## **Introduction.**

The corporate veil represents a fundamental legal principle that establishes a company as a distinct legal entity separate from its members and directors. This conceptual separation, firmly entrenched in corporate jurisprudence worldwide, ensures that shareholders enjoy limited liability, protecting their personal assets from corporate debts and obligations. *The Indian Companies Act, 2013*, like its predecessor, operationalises this principle by

providing companies with a separate legal personality, enabling them to own property, enter into contracts, and sue or be sued in their own name.

The theory of separate legal personality is one of the pillars upon which modern company law relies, a concept so central that it can be said to be the foundation of contemporary business.<sup>1</sup> This principle was firmly rooted by the House of Lords in the ground-breaking case of *Salomon v. A. Salomon & Co. Ltd. (1897)*,<sup>2</sup> stipulating that once a company is incorporated by law, it constitutes a separate legal person, apart from its owners, directors, and shareholders. This legal entity is usually described as the "corporate veil". By considering the company as an "artificial person" with rights, duties, and obligations of its own, the doctrine grants significant protection to its members in the main form of limited liability. This limited liability allows shareholders not to be individually liable for the debts and liabilities of the company above the amount of their initial investment, thus fostering entrepreneurship, inviting investment, and enabling risk-taking in a fast-moving commercial situation. But the very protection that is afforded to bona fide business can also be used as a cover for wrongdoing.<sup>3</sup>

Through time, the corporate form has been abused by parties and parent companies to inflict fraud, cheat the law, escape taxes, and hide unlawful acts. Such abuse of the corporate form negates the founding principles of justice and accountability on which the justice system is founded. As corporate forms have grown more complicated, especially through the development of holding and subsidiary companies, the issue of when and how to hold the persons behind the corporate veil liable has become the hallmark challenge for courts and regulators. This law question addresses this essential dilemma, concentrating on a core research question: Should the corporate veil be pierced routinely: The paper will examine whether the existing discretionary jurisdiction of courts to pierce the veil is adequate to deal with the oncoming tide of corporate wrongdoing, or whether the requirement of justice demands a more mandatory, rule-based regime.<sup>4</sup>

The paper will be based on the Indian legal framework, in particular, the *Companies Act, 2013*, and supplemented by a rigorous thematic analysis of case laws of Indian and foreign

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<sup>1</sup> <https://nmlaw.co.in/piercing-the-corporate-veil-an-empirical-analysis-of-indian-judiciarys-approach/>.

<sup>2</sup> *Salomon v. A. Salomon & Co. Ltd.*, [1896] UKHL 1, [1897] A.C. 22 (H.L.).

<sup>3</sup> <https://betteringresults.in/corporate-veil-in-india-when-and-how-courts-lift-it/>.

<sup>4</sup> <https://blog.iplayers.in/doctrine-of-lifting-of-corporate-veil-an-analysis/>.

jurisdictions. The report will steer the sensitive path between maintaining the integrity of the corporate personality and preventing the corporate form from being a haven for fraudulent activity.

**Keyword.**

Corporate Veil, Separate Legal Personality, Limited Liability, Judicial Discretion, Fraud / Sham.

**Evolution of the Corporate Veil in India Colonial / Pre-Independence**

In the colonial period, Indian company law was a transplantation of English law of companies: the principle that a company, upon proper incorporation, becomes a distinct legal entity separate from its members was ingrained in British model statutes. Early legislation, including the *Companies Act of 1850, 1857 and 1866*, established the foundation by creating machinery for incorporation. The *1857 Act*, specifically, codified limited liability, inducing investment by guaranteeing that the shareholders would not be held liable personally beyond their contribution. The historic *Companies Act of 1913* further solidified these doctrines of incorporation, management, powers and winding up, codified in accordance with the British model. During this phase, however, Indian courts did not often pierce or lift the veil of corporate personality; the doctrine of separate personality was regarded as nearly revered.<sup>5</sup>

When the courts did do so, it was usually only in extremely limited, express statutory grounds (e.g., when a statute needed to know the identity of the shareholders for taxation or regulatory purposes) or when there was extremely evident abuse. But such cases were few. The early court and legislative innovations were more to define the corporate form, corporate powers, and company rights and liabilities, but less to restrict or pierce it.

**Post-Independence to Mid-20th Century**

When India became independent in *1947*, Indian courts went on to reaffirm the principles of law inherited from colonial law that a company is a separate legal entity from its shareholders, with its own rights and responsibilities. Concurrently, however, there emerged a realization over time that at times the corporate form could be abused to avoid legal, regulatory or tax obligations. Veil-lifting starts to appear in judgments, but only in specific and rather unusual

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<sup>5</sup> <https://thelegalschool.in/blog/companies-act-1913>.

situations fraud, statute evasion, or where the law text requires consideration of the actual human being behind the company. One significant case in this period is *Bacha F. Guzdar v. Commissioner of Income-Tax, Bombay (1952)*.<sup>6</sup> In such a scenario, the Supreme Court of India reiterated that shareholders are distinct from the company: that even if a company receives income that is partly from farming (which may be exempt), a shareholder getting dividends does not necessarily inherit that exempt nature merely because the company possesses that income.<sup>7</sup>

That is to say, the personal rights of the shareholders are confined to those given by law and by their shareholding; they do not directly share in the assets of the company or the nature of its income for being shareholders. (This shows how a separate legal personality was being given full effect.) See sources such as *The Law Literates*. Another developing tendency during this time was greater application of company law in financial and tax affairs: the courts were more vigilant as to whether or not companies were being utilized as vehicles to evade tax or statutory liabilities, for instance, whether the structure of the company facilitated evasion of liabilities that otherwise would fall upon individuals, and whether the law authorized courts or taxation authorities to treat individuals behind the company in specified manners. Although the veil-lifting doctrine was not formally formulated during this period, these initial cases sowed the seeds for future extension, showing that despite separate legal personality being the rule, its protection was not always absolute.

### Late-20th Century (1980s-1990s)

The Indian judiciary became progressively proactive in enforcing the doctrine of veil piercing. Though the principle of separate legal personality was still undiluted, courts began to cut out exceptions for cases of statutory evasion or public interest. One of the important developments was the "one concern" doctrine, which enabled the court to regard a parent company and its subsidiary as a single concern for certain legal purposes, particularly when the subsidiary was wholly controlled by the parent. Cases such as *Life Insurance Corporation of India v. Escorts Ltd. (1986)*<sup>8</sup> and *State of U.P. v. Renusagar Power Company (1988)*<sup>9</sup> created precedents permitting the veil to be lifted in situations of fraud, tax evasion, and artificial distinction

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<sup>6</sup> *Bacha F. Guzdar v. Commissioner of Income-Tax, Bombay*, [1955] A.I.R. 740 (S.C.).

<sup>7</sup> <https://indiankanoon.org/doc/1091591>.

<sup>8</sup> *Life Ins. Corp. of India v. Escorts Ltd.*, (1986) 1 S.C.C. 264 (India).

<sup>9</sup> *State of U.P. v. Renusagar Power Co.*, (1988) 4 S.C.C. 59 (India).

between closely related companies. These decisions consolidated that absolute ownership and control of a subsidiary, coupled with an abuse of the corporate form, were strong bases for piercing the veil.

### **2000s - Present**

The development of this doctrine has been influenced by increasingly complex corporate forms, economic crimes, and an insistence on higher levels of regulatory transparency. *The Companies Act, 2013*, gave essential statutory support, added provisions that make "officers in default" and individuals involved in fraudulent activity personally liable, thus increasing the courts' legal tools for veil-piercing. Despite increased tools being available, courts have continued to hold veil-piercing to be an extraordinary remedy, invoked only where the corporate form is being used as a "device to camouflage" an unjust or fraudulent transaction and not simply because of majority ownership. The recent case of *State of Rajasthan v. Gotan Lime Stone Khanji Udyog Pvt Ltd (2016)*<sup>10</sup> is a contemporary example where the veil was lifted since a company was a "mere device" to cover up a fraudulent sale. The doctrine is being extended to more fields now, such as tax law and environmental law, and with the provision of "officer-in-default" under the *Companies Act, 2013*, liability is being attached more and more directly to individuals who abuse the corporate entity.<sup>11</sup>

### **Methodology**

This report is based on a doctrinal legal research methodology, a systematic approach that involves the analysis of primary and secondary legal sources to understand and critique a specific legal doctrine. This method is uniquely suited to the research question, as it allows for a comprehensive evaluation of the existing legal framework and its application in practice. The goal is not merely to describe the law but to critically examine its strengths, weaknesses, and potential for reform based on a thorough review of jurisprudence.

The research design is structured to conduct a normative inquiry into the central debate on the automatic lifting of the corporate veil. The process began with the collection of relevant legal provisions from the *Companies Act, 2013*, alongside a curated selection of landmark and contemporary case laws from Indian jurisdictions. The collected data, comprising statutory text

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<sup>10</sup> *State of Rajasthan v. Gotan Lime Stone Khanji Udyog Pvt. Ltd.*, (2016) 4 S.C.C. 469 (India).

<sup>11</sup> [Indiankanoon.in](http://Indiankanoon.in).

and judicial pronouncements, was then thematically organised to identify recurring patterns and principles. For instance, cases were grouped under categories such as "fraud," "tax evasion," and "public interest" to demonstrate the varied grounds on which courts have exercised their discretion. This thematic analysis allows for a nuanced discussion of how judicial discretion has been applied over time, revealing inconsistencies and trends that directly inform the central argument. The final stage of the methodology involves synthesising this analysis to propose a well-reasoned conclusion and offer recommendations for a more predictable and effective framework for corporate liability in India.

## **Discussion and Analysis**

### **4.1 The Case for Judicial Discretion: Supporting Corporate Form**

The separate legal personality is a fundamental principle of corporate law, which guarantees the company a distinct legal personality separate from that of its directors and shareholders. This distinction offers limited liability protection, such that shareholders are not personally responsible for paying the company's debts. Nevertheless, this principle is not absolute, and courts have evolved the concept of "lifting the corporate veil" to cover cases where the corporate form is abused.<sup>12</sup>

#### **i. Judicial Discretion in Piercing the Corporate Veil.**

Indian courts have always insisted that piercing the corporate veil is an extraordinary remedy to be exercised only in special cases where justice requires. The Supreme Court in *Life Insurance Corporation of India v. Escorts Ltd.* (1986) laid down the principle that the corporate veil may be pierced when the company is a sham, hiding the facts. Likewise, in *State of U.P. v. Renuagar Power Co. (1988)*,<sup>13</sup> the Court did not pierce the veil, bringing out the fact that the doctrine must be reserved for cases where there is a need to avoid fraud or illegality. Such rulings accentuate the prudence displayed by the judiciary in making sure that the corporate veil is not pierced indiscriminately but only if there is cogent proof of abuse.<sup>14</sup>

#### **ii. Principle of Limited Liability and Investment Climate**

The doctrine of limited liability is central to investment and entrepreneurship. It prevents investors from going into business ventures, fearing personal financial loss.

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<sup>12</sup> <https://humanrightlawreview.in/wp-content/uploads/2025/05/Judicial-Interpretation-and-Lifting-of-the-Corporate-Veil-in-India.pdf>.

<sup>13</sup> *State of U.P. v. Renuagar Power Co.*, (1988) 4 S.C.C. 59 (India).

<sup>14</sup> <https://nmlaw.co.in/piercing-the-corporate-veil-an-empirical-analysis-of-indian-judiciarys-approach>.

An automatic or rule-based veil lifting system would distort this principle, creating a "chilling effect" where prospective investors fear investing due to the additional personal risks. This might stifle economic growth and innovation, as the free flow of capital is crucial for business growth.

**iii. Changing Nature of Corporate Misconduct**

Corporate wrongdoing has become more sophisticated, with persons and entities developing new methods of abusing the corporate form to engage in fraudulent or illegal activities. The judiciary must keep pace with these changing schemes. A strict, rules-based system may not prove effective in combating the intricacies of contemporary corporate wrongdoing. Judicial discretion permits courts to pay attention to the facts of the particular case in front of them, so that justice will be served and the corporate form will not be abused.<sup>15</sup>

**iv. Judicial Discretion as an Instrument of Justice**

Although certain legal theorists have condemned veil-piercing decisions by the judiciary as "unprincipled" or "not fully understandable," such perceived inconsistency merely mirrors the judiciary's pragmatic approach to challenging cases. The Supreme Court has insisted that the deployment of the doctrine should be premised on the facts and circumstances of a particular case, urging a case-by-case determination. This method guarantees that the corporate form is not being used to commit fraud or to escape legal responsibilities, and it maintains the doctrine of the separate personality.

**4.2 Comparison of the US, UK & India.**

In the US, the courts have evolved a relatively more expansive and liberal doctrine of veil-piercing, especially under doctrines such as alter ego and instrumentality. American jurisprudence generally considers a range of factual indicia, including whether a corporation is undercapitalized; whether formalities of the corporate form (corporate meetings, bank accounts to keep assets separate, clear governance within the corporation) have been disregarded; whether there is commingling of assets; whether the parent actually controls the day-to-day operations of the subsidiary; and whether the corporate structure is being utilized to perpetuate fraud or to escape obligations. Ownership or control is not enough; there must be abuse of the corporate form or an unfair outcome. For instance, in *Kinney Shoe Corp. v. Polan (1991)*,<sup>16</sup>

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<sup>15</sup> <https://sheokandlegal.com/articles/corporate-veil/>.

<sup>16</sup> *Kinney Shoe Corp. v. Polan*, 939 F.2d 209 (4th Cir. 1991).

ownership, absence of meetings, and absence of the election of officers (among other factors) were taken into account in determining whether the veil should be pierced. By contrast, the doctrine in the United Kingdom has long been a good deal narrower.

Since *Salomon v. A. Salomon & Co. Ltd. (1897)*<sup>17</sup> endorsed the doctrine that a company is a distinct legal personality, the UK has only come to permit exceptions gradually. One of the most important recent trends is *Prest v. Petrodel Resources Ltd (2013)*,<sup>18</sup> where the Supreme Court crystallised veil-piercing into cases of "evasion" of the current obligations or "concealment" where individuals utilise a company under their control to evade or frustrate those obligations. The decision in *Prest* establishes that ownership or control alone is not a reason to pierce; there must be impropriety and a connection between impropriety and the imposition of the company structure. It confirms that veil-piercing is still a remedy of last resort, and where it is not, ordinary legal or equitable mechanisms must be employed.<sup>19</sup>

India's jurisprudence reveals convergence with the UK model in upholding separate legal personality as the default and considering veil-piercing as exceptional. Indian courts, though, seem to be more forthcoming in applying a broader range of circumstances for removing the veil.

The doctrine is called upon in India not only in fraud or evasion but also in public interest, statutory offence, abuse by promoters, or where several companies are a "single concern" (or under group control). For example, in *Balwant Rai Saluja v. Air India (2013)*,<sup>20</sup> the Supreme Court ruled that although a company is a separate legal entity, when that entity is being utilised as a "mere camouflage or sham" to deny individuals (in this case, workmen) their legal rights, the veil can be pierced. The Court clarified that ownership/control in itself is not sufficient; it has to be established that improper behaviour (misuse, sham, or fraud) has to be established, and that said misuse must have tangible consequences, such as denying legal rights.<sup>21</sup>

***India might improve*** its doctrine of corporate veil piercing by introducing greater clarity,

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<sup>17</sup> *Salomon v. A. Salomon & Co. Ltd.*, [1896] UKHL 1, [1897] A.C. 22 (H.L.).

<sup>18</sup> *Prest v. Petrodel Resources Ltd.*, [2013] UKSC 34, [2013] 2 A.C. 415 (U.K.).

<sup>19</sup> <https://keidanharrison.com/2021/11/piercing-the-corporate-veil-series-the-evasion-principle-and-the-concealment-principle/>.

<sup>20</sup> *Balwant Rai Saluja & Anr. v. Air India Ltd. & Ors.*, (2014) 9 S.C.C. 407 (India).

<sup>21</sup> <https://ksandk.com/corporate/unveiling-the-corporate-veil-piercing/>.

predictability, and consistency by way of both judicial and statutory reforms.<sup>22</sup> One reform that comes to mind is codification of the list of factors to be taken into account by courts in piercing the veil for example, whether fraud or a sham is involved, the extent of control or domination by a parent, neglect of corporate formalities, undercapitalization, or evasion of legal responsibilities. Now, much is left to judicial discretion, and sometimes this results in conflicting judgments. Intimately tied to that is the necessity of defining terms like "sham," "camouflage," "one concern," "evasion," and "concealment." The UK case *Prest v. Petrodel Resources Ltd (2013)*<sup>23</sup> differentiates between concealment (concealment of true parties) and evasion (avoidance of legal duty) to assist in clarifying these concepts. Yet another reform would reverse the burden of proof: once certain threshold facts are established (e.g., total control and abuse of the business entity), perhaps the defendant's burden could be to rebut or establish legitimacy, with adequate due process safeguards.<sup>24</sup>

Additionally, rules on transparency and disclosure may be reinforced beneficial ownership registers mandatory, more stringent monitoring of related-party transactions, and improved financial reporting, to make it more difficult to conceal abuse of corporate form. Judicial capacity can be built with specialised benches or corporate, financial, and forensic training to enable judges to rule on veil-piercing cases better informed with facts. To prevent inconsistency between regimes, India might aim at harmonisation between corporate law, tax law, environmental law, insolvency law, etc., and agree on common guidelines for when veil piercing is legitimate, so companies can't take advantage of loopholes.<sup>25</sup>

Courts must also decisively rule that ownership or control is not enough; there should be abuse for wrongful purposes just being a shareholder or parent does not warrant piercing the veil. Last, with India's experience with public interest litigation, there ought to be more definite standards for when the public interest basis is enough to justify veil piercing (e.g., widespread harm, consumer or environmental injury) in order to prevent excessively indiscriminate or imprecise applications.<sup>26</sup>

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<sup>22</sup> [https://cdn.ymaws.com/www.inbar.org/resource/resmgr/publications/RG-11.16\\_Flora](https://cdn.ymaws.com/www.inbar.org/resource/resmgr/publications/RG-11.16_Flora).

<sup>23</sup> *Prest v. Petrodel Resources Ltd.*, [2013] UKSC 34, [2013] 2 A.C. 415 (U.K.).

<sup>24</sup> [https://www.researchgate.net/publication/328469896\\_Piercing\\_the\\_Corporate\\_Veil\\_Historical\\_Theoretical\\_and\\_Comparative\\_Perspectives](https://www.researchgate.net/publication/328469896_Piercing_the_Corporate_Veil_Historical_Theoretical_and_Comparative_Perspectives)

<sup>25</sup> <https://www.nortonrosefulbright.com/en-in/knowledge/publications/55b72cd0/the-corporate-transparency-act-is-here>.

<sup>26</sup> <https://lhssccollective.in/re-evaluating-the-corporate-veil-in-environmental-catastrophes/>.

### **4.3 The Jurisprudence of Veil Lifting**

#### **4.3.1 Fraud, Sham, and Facade**

Fraud is the most straightforward and widely accepted ground for lifting the veil. The company structure is used as a device or instrument to commit a dishonest or wrongful act, to cheat creditors, to avoid existing legal obligations, or to perpetrate a wrongdoing.

A "sham" is where the company, in law, does not represent the actuality of the situation. It does not have a real business purpose or separate existence. A company is said to be a sham where the company is created to give rise to an appearance of a genuine business, but in fact has no separate mind, will, or existence of its own. It is nothing but a puppet, wholly owned by its owner(s) and with no actual business activity aside from catering to them personally.

A facade is very near to both fraud and sham. It is possibly the most suggestive word applied by judges. A company is a "facade" where it is employed as a bare "front" or "screen" to conceal facts, to disguise the identity of the real parties, or to present a transaction in appearance other than that which it really is. The corporate form is a sham intended to deceive.<sup>27</sup>

- i. *Gilford Motor Co. Ltd. v. Horne* (1933):<sup>28</sup>** This foundational English case demonstrated the evasion principle, where the court lifted the veil of a company formed by a former employee as a "mere cloak or sham" to evade a non-compete clause.
- ii. *Jones v. Lipman* (1962):<sup>29</sup>** A similar English case where a party formed a company as a "sham" to evade a contractual obligation to sell land. The court looked beyond the corporate entity to enforce specific performance against the individual.
- iii. *Delhi Development Authority v. Skipper Construction Co. (P) Ltd.* (1996):<sup>30</sup>** The Supreme Court of India demonstrated its willingness to disregard the corporate form to achieve justice. The court lifted the veil of a group of companies used by promoters to fraudulently divert money collected from homebuyers, holding that the corporate structure could not be a mask for fraud.
- iv. *Re: Dinshaw Maneckjee Petit* (1927):<sup>31</sup>** In this seminal Indian case, the court lifted the veil of multiple shell companies that had been formed solely to evade income tax. The judgment exposed the companies as being mere façades with no genuine business

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<sup>27</sup> <https://www.legaltea.in/piercing-the-corporate-facade-understanding-the-doctrine-of-lifting-the-corporate-veil>

<sup>28</sup> *Gilford Motor Co. Ltd. v. Horne*, [1933] Ch 935 (Eng. C.A.).

<sup>29</sup> *Jones v. Lipman*, [1962] 1 WLR 832 (Ch.).

<sup>30</sup> *Delhi Development Authority v. Skipper Construction Co. (P) Ltd.*, (1996) 4 S.C.C. 622 (India).

<sup>31</sup> *In re Dinshaw Maneckjee Petit*, AIR 1927 Bom 371 (India).

purpose.

- v. ***Vodafone International Holdings B.V. v. Union of India (2012)***:<sup>32</sup> This crucial tax case reinforced that while the courts have the power to lift the veil for tax evasion, the burden of proof is high. The Supreme Court upheld the transaction, emphasising that a complex corporate structure is not, in itself, proof of a "sham or fraud" and that veil-lifting cannot be applied lightly.

#### **4.3.2 Tax Evasion and Avoidance of Legal Obligations**

This includes illegal, dishonest methods to avoid paying tax. It involves intentional hiding, misrepresentation, or concealment to pay tax less than is due according to the law. Promoters may design a web of companies so that the real nature of transactions cannot be traced, income is camouflaged, or fictitious expenses are claimed.<sup>33</sup>

***Juggilal Kamlatpat v. CIT (1969)***:<sup>34</sup> The Supreme Court lifted the veil of a managing agency firm to determine the real income-earning entity and prevent tax evasion, reaffirming the state's power to look beyond the corporate form to protect public revenue.

#### **4.3.3 Public Interest and Social Welfare**

Public Interest and Social Welfare are strong, although rare, reasons by which a court will "pierce the corporate veil." There are instances in which the court will uphold the rights and welfare of the state, the community, or the public interest over the formal distinction between a company and its members.

- i. ***Workmen of Associated Rubber Industry Ltd. v. Associated Rubber Industry Ltd. (1986)***:<sup>35</sup> The court lifted the veil to ensure social justice, holding that a subsidiary company was formed as a mere "device" to reduce the parent company's profits and thereby deny workers their rightful bonuses.
- ii. ***State of U.P. v. Renusagar Power Co. (1988)***:<sup>36</sup> The Supreme Court treated a subsidiary, Renusagar, as an extension of its parent, Hindalco, to determine tax liability, noting that lifting the veil is permissible when public interest demands it.

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<sup>32</sup> *Vodafone International Holdings B.V. v. Union of India*, (2012) 6 S.C.C. 613 (India).

<sup>33</sup> <https://arxiv.org/abs/2208.07660>.

<sup>34</sup> *Juggilal Kamlatpat v. Commissioner of Income-Tax*, (1969) 2 S.C.C. 376 (India).

<sup>35</sup> *Workmen of Associated Rubber Industry Ltd. v. Associated Rubber Industry Ltd.*, (1986) 59 Comp. Cas. 134 (SC)

<sup>36</sup> *State of U.P. v. Renusagar Power Co.*, (1988) 4 S.C.C. 59 (India).

- iii. ***Life Insurance Corporation of India v. Escorts Ltd. (1986)***:<sup>37</sup> The court lifted the veil to identify the true shareholders behind a foreign investment to ensure compliance with foreign investment laws, a matter of public policy.
- iv. **The Bhopal Gas Tragedy Case**:<sup>38</sup> This case serves as a cautionary tale on the limitations of the doctrine. While the veil was pierced in other cases on grounds of public interest, the complex corporate structure of Union Carbide Corporation and its Indian subsidiary created a legal quagmire that hindered the process of holding the parent company fully liable, highlighting the need for a more robust framework for transnational tort liability.

#### 4.3.4 Parent-Subsidiary Relations and Agency

The corporate veil is lifted if the subsidiary is not truly a separate entity but rather a tool for fraud, evasion, or injustice. The parent is responsible because the subsidiary was its authorised agent in a specific transaction or activity.

- i. ***DHN Food Distributors Ltd. v. Tower Hamlets (1976)***: This English case introduced the "single economic entity" doctrine, viewing a group of companies as a single unit where the parent company exerts complete control, justifying treating the group as a single entity for legal purposes.
- ii. ***Smith Stone & Knight Ltd. v. Birmingham Corp. (1939)***: The court held that a subsidiary could be an agent of the parent company, justifying the parent's liability for the subsidiary's actions, particularly when the parent company controls the subsidiary's profits and operations.
- iii. ***Singer India Ltd. v. Chander Mohan Chadha (2004)***: The court demonstrated its willingness to look past the corporate form of a restructuring (amalgamation) to enforce a legal obligation. The judgment held that the amalgamation amounted to a "parting with possession" under the rent control law, making the company liable for eviction, a decision that prioritised the "substance over form".
- iv. ***Telesound India Ltd., In Re (1983)***: This case established that upon amalgamation, the transferee company acquires all the rights and liabilities of the transferor company, which ceases to exist. This principle is a statutory exception to the separate legal personality doctrine.

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<sup>37</sup> *Life Insurance Corporation of India v. Escorts Ltd.*, (1986) 1 S.C.C. 264 (India).

<sup>38</sup> *Union Carbide Corporation v. Union of India*, (1989) 1 S.C.C. 674 (India).

- v. ***Balwant Rai Saluja v. Air India Ltd. (2014)***: In a crucial counterpoint to the "single economic entity" doctrine, the Supreme Court of India refused to impose liability on Air India for its subsidiary's actions, despite some degree of control, reinforcing that parental control alone is not sufficient to lift the veil.

#### **4.2.5 Other Notable Cases**

- i. ***Prasad-Sushee JV v. Singareni Collieries Co. (2009)***: This case exemplifies the discretionary power of courts to decide on veil-lifting based on the specific facts and circumstances of the case.
- ii. ***State Trading Corporation of India Ltd. v. CTO (1963)***: The Supreme Court distinguished between a company as a legal person and a "citizen" under the Constitution, holding that companies cannot claim fundamental rights exclusive to citizens.
- iii. ***Jyoti Limited v. Kanwaljit Kaur Bhasin (1995)***: The court held individuals behind the company personally responsible for contempt of court, demonstrating that a corporation cannot be used as a shield to defy judicial orders.
- iv. **The Satyam Computer Services Scandal**: This scandal, a turning point in Indian corporate jurisprudence, led to stricter governance norms and demonstrated that individuals like the company chairman could be held personally liable for fraudulent dealings and manipulation of financial records.

#### **4.4 Reforms Recommendation.**

In order to keep a strong veil of the corporation, subsidiaries and parent firms need to be treated by themselves as distinctly separate legal entities in all real senses. To start with, every subsidiary should have its own articles of association, bylaws or incorporation documents, a separate board of directors or equivalent, and a legally separate identity. Public or internal portrayals that obfuscate this, e.g. presenting a subsidiary as a "division" of the parent, or employing the name of the parent in contracts of the subsidiary without explanation, ought to be eschewed. Second, formalities of the company must be strictly observed: periodic board meetings with minutes recorded; separate officers and directors; resolutions adopted for important decisions; separate contracts executed in the name of the specific company; issuing of stock or shares according to the social contract of the subsidiary. American courts have examined closely such failures in form, e.g., ***Kinney Shoe Corp. v. Polan***, in which the court pierced the veil partially because the subsidiary conducted no meetings, elected no directors,

and was undercapitalised. Third, financial independence should be maintained. This involves having banking accounts for each organisation, independent accounting, separate audit trails, keeping the organisation from being undercapitalised, and making sure that any inter-company loans or financial assistance are on terms of arm's-length, well-documented, with clear intentions. For example, in U.S. law, undercapitalization combined with the absence of formalities is a persuasive consideration for piercing the veil.

Fourth, commingling of assets or personnel must be avoided. It is essential to keep parent and subsidiary separate when it comes to sharing staff, premises, equipment, or management in a manner that implies they are the same person. Commingling can erode the case for separateness considerably if employees do not distinguish clearly between their subsidiary role, or where shared activities are casual and not documented, this can be used as proof of sham or agency.

Finally, transparency in external transactions is essential. In all external agreements, regulatory filings, public statements, creditor disclosures, etc., it must be clear which entity is contracting or holding certain assets or incurring liabilities. Misleading statements, whether deliberate or through careless drafting, can put the entity at risk of veil-piercing. The UK Supreme Court in *Prest v. Petrodel Resources Ltd (2013)* emphasises that interposing companies to avoid legal obligations ("evasion principle") or to hide ownership can justify piercing the veil.

### **Conclusion**

The corporate veil doctrine continues to be a vital, if tension-ridden, part of company law in India: essential to making limited liability possible and entrepreneurship viable, but at risk of being exploited when corporations are used for fraud, evasion or ill. By way of historical and comparative analysis, this paper has revealed that whereas Indian law has made significant progress—through the Companies Act, 2013, recent labour and public interest judgments, and greater disclosure requirements—the existing discretionary regime is subject to uncertainty and unevenness in enforcement. Cases such as *Balwant Rai Saluja v. Air India* reinforce that courts are prudent, but also emphasize that control and ownership alone are not enough; there should be proof of impropriety, rights deprivation, or abuse. Based on UK and U.S. precedents, this paper is convinced that reforms are both indispensable and possible. Central amongst these are codification of the grounds and considerations for veil-piercing in statute, more precise definitions of terms like "sham," "camouflage," "evasion" and "concealment," procedural

reforms (such as burden-of-proof modifications), and more stringent transparency and disclosure requirements. These reforms would align veil-piercing with greater certainty than is currently the case, discourage abuse, safeguard victims, but maintain the advantages of limited liability. Finally, the law has to guarantee that the corporate veil is not used as a protection for wrongdoing, but is still a valid safeguard for those who rightfully need it.

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