
Lifting corporate veil

Lifting the corporate veil



- **The concept of the ‘corporate veil’ is inherent in the doctrine of corporate personality. The effect of this principle is that there is a fictitious veil (and not a wall) between the company and its members.**
- **This flows from the acceptance of limited liability**

- DISREGARD COMPANY AS A SEPERATE LEGAL ENTITY
- PAY REGARDS TO ACTUAL REALITY
- COMPANY AND IT'S MEMBERS ARE THEREFORE REGARDED AS ONE.

Lifting Corporate Veil

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Judicial exceptions

Statutory exceptions

Company's liability in crime and tort

1.To determine whether company to be characterized as enemy in the time of war.

Dialmar Co Ltd v Continental Tyre and Rubber Co(1916)

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Daimler Co Ltd vs Continental Tyre & Rubber Co Ltd

- Continental Tyre and Rubber company was incorporated in England but the holders of its all shares except one and also the directors were Germans residing in Germany.
- The company supplied tyres to Daimler, But Daimler was concerned that making a payment might contravene a common law offence of trading with the enemy act 1914.
- The case started after the outbreak of the first world war so Continental tyres bought an action against Daimler Co Ltd to recover trade debts.
- This is a classic corporate case related to alien enemy , trading with the enemy and lifting the corporate veil.

JUDGEMENT - HOWEVER THE COMPANY IS A SEPERATE LEGAL ENTITY AND THE COMPANY IS FORMED IN ENGLAND AND SHOULD BE AN ENGLAND COMPANY BUT ENEMY CHARACTER ARE DETERMINED BY THE NATIONALITIES OF SHAREHOLDER.

2. Using corporate personality to defraud and improper conduct

Mitigating the rigour of the separate legal entity doctrine

- *Jones v Lipman* [1962] 1 WLR 832
- Facts:
- Lipman agreed to sell land to Jones. Before completion of the contract, Lipman transferred the land to a company of which he and a clerk employed by his solicitors were the only shareholders and directors. Jones brought an action for specific performance of the contract against both

Mitigating the rigour of the separate legal entity doctrine

- ***Jones v Lipman* [1962] 1 WLR 832 (Continued...)**
- Russell J held :
- *"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*

3. When Company is a cloak or sham

Gilford Motor Company Ltd



Lifting of the Corporate Veil



Case: 1 Gilford Motor Co. Vs Horne

Horne, a former employee of GM company, had bound himself not to solicit to its customers.

He formed a Company to do his business and sent the employees of the so formed company to solicit the customers of GM & Co.

- Gilford Motors argued that Mr Horne had breached the covenant which was contained in his service agreement under 'Clause 9'.
- The case went to the Court of Appeal who granted an injunction against both Mr Horne and his new company on the basis that his new company was a "mere cloak or sham" allowing him to breach the covenants in his service agreement.



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- **Statutory Circumstances:**
 - reduction of membership
 - Misdescription of companies name
 - Liability under penal legislations