

Title:

Pierce the Corporate Veil

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Summary:

The corporate structure of your business will provide shelter for your personal assets. There are several events that will cause a judge to disregard the corporate entity.

Keywords:

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Article Body:

The corporate structure of your business will provide shelter for your personal assets. There are several events that will cause a judge to disregard the corporate entity or "pierce the corporate veil." There are several reasons why the corporate veil may be pierced. There are also several easy steps you can do to avoid the corporate veil from being pierced.

The corporate veil can be pierced if a party is tricked or misled into dealing with the corporation rather than an individual. Whenever the corporation does correspondence with a third party, the officers and directors of that company need to make it clear that they are acting on behalf of the corporation and not themselves individually. All the documents need to clearly be entered into on behalf of the corporation otherwise there may be a conflict that could arise that would pierce the corporate veil.

If the corporation is set up to never make a profit or always be insolvent it is considered too "thinly" capitalized. This could be when the corporation is formed without sufficient capital to meet potential liabilities and debts. This often occurs when an individual or group of people uses a corporation as a form of shield from liabilities instead of a legitimate business.

When the corporation fails to follow corporate formalities where the corporation is located, it can be pierced. A few of the corporate formalities are meetings, minutes, stock ledger. If the corporate entity fails to do some of these duties the judge can rule that it is not a proper corporation.

The biggest mistake small corporations usually make is not keeping separate

accounts for the corporation. If an individual moves funds from their bank account into the corporate bank account, and vice versa then the court will disregard the corporate entity.

If the corporation is engaged in illegal enterprise where it is ruled that the corporation was setup as a sole means for those involved to partake in an illegal activity, the corporate veil can be pierced. For instance, a corporation will not be tried for murder. The individuals responsible will be tried for it. The same thing can be applied for all kinds of cases such as drug trafficking, etc.

While it is possible for the corporate veil to be pierced, if you take the proper precautions when setting up your corporation you will help to protect your own personal assets. A few of the steps to protecting your personal assets are quite simple and some are even common sense. The important thing is that you take care when operating a business, and you get sound legal advice before doing anything questionable.