

Short notes on:

## **THE CORPORATE VEIL EXPLAINED:**

### ***Introduction***

A company is a juristic entity with a legal identity that is separate from its members. This means that the company has the capacity to conclude contracts, purchase goods and services, and institute legal proceedings against others. Conversely, a company may accumulate debt and have legal proceedings instituted against it. As such, when a company accumulates debt that it is unable to pay, its creditors cannot turn to its members to relieve the company's responsibilities.

### ***What Is The Principal Of The Corporate Veil***

As discussed above, a company has the capacity to enter into agreements and accumulate debt in its own name. A company is not an actual person, so its members will be responsible for conducting the business of the company on its behalf. This means that an authorized member of the company will conclude agreements in the company's name.

The corporate veil is a legal principle that separates the identity of a company from that of its members and protects the members from being held personally liable for the company's obligations and debts. In the case of *Salomon v Salomon & Co. Ltd, 1897*, the court stated that once a company has been established, a separate and independent legal identity is formed from its creators. It was further stated that the company's members are merely agents to that company.

### ***Piercing The Corporate Veil***

When the members of a company exercise their rights to conclude business on behalf of the company, they are required to do so with the necessary care, skill, and diligence. The protection offered by the corporate veil is therefore not absolute and may be limited as required. This is referred to as *piercing the corporate veil*. The company members are required to keep their personal assets separate from those of the company. Once the assets of the members become intermingled, it is easier for creditors to establish a reason to place the company's liabilities on the member, thus piercing the corporate veil.

## **Conclusion**

The corporate veil is a principle intended to protect authorized company members from being held personally liable for the actions of the company. Despite this protection, the members of a company remain responsible for maintaining a distinct separation between the assets of the company and their own. The failure to do so opens the doors to piercing the corporate veil

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