

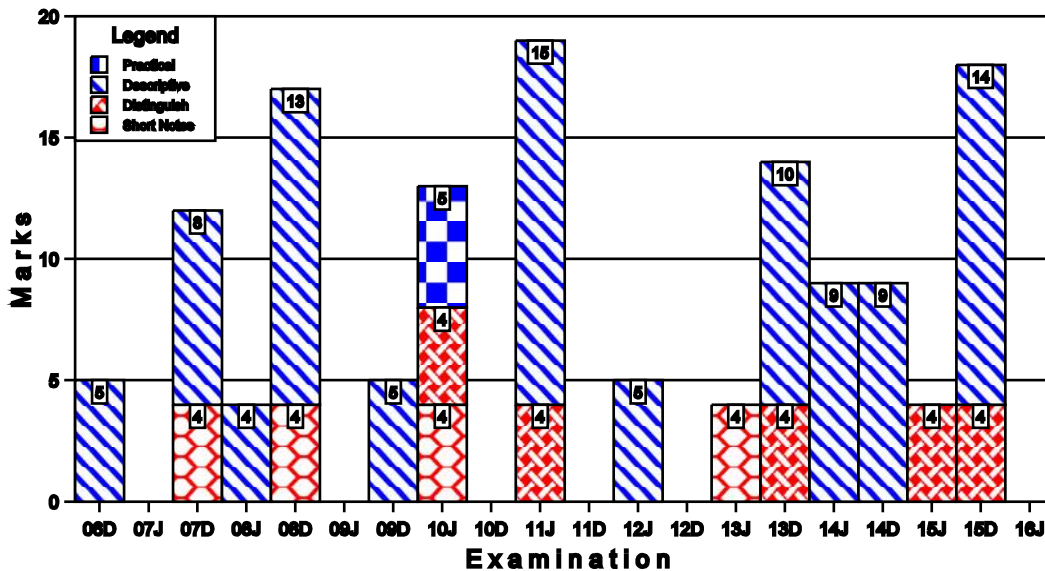
# 1

## Introduction

### This Chapter Includes

- Company as a business medium
- Meaning and definition of term company
- Nature and characteristics of a company
- Historical Development of Concept of Corporate Law in India
- Development of Company Law in India and England
- Highlights of the Companies Act, 2013
- Companies vis-a-vis other Forms of business
- Concept of Corporate Personality
- Lifting of Corporate Veil
- Citizenship
- Personal liability of directors or members
- Illegal association.

### Marks of Short Notes, Distinguish Between, Descriptive & Practical Questions



### Chapter at a Glance

Topic	Important Highlight
<b>1. Company</b>	A company is an association of both natural and artificial persons incorporated under the existing law of a country. A company has a separate legal entity from the persons constituting it.
<b>2. Characteristics of a company</b>	The main characteristics of a company are corporate personality, limited liability, perpetual succession, separate property, transferability of shares, common seal, capacity to sue and be sued, contractual rights, limitation of action, separate management, termination of existence etc.
<b>3. Compared to other types of business associations</b>	As compared to other types of business associations, an incorporated company has the advantage of corporate personality, limited liability, perpetual succession, transferable shares, separate property, capacity to sue, flexibility and autonomy.
<b>4. Disadvantages and inconveniences in incorporation</b>	There are, however, certain disadvantages and inconveniences in incorporation. Some of these disadvantages are formalities and expenses, corporate disclosures, separation of control from ownership, greater social responsibility, greater tax burden in certain cases, cumbersome winding-up procedure.
<b>5. Doctrine of lifting of or piercing the corporate veil</b>	(1) Separate personality of a company is a statutory privilege and it must be used for legitimate business purposes only.

	<p>(2) Where a fraudulent and dishonest use is made of the legal entity, the individuals concerned will not be allowed to take shelter behind the corporate personality.</p> <p>(3) The Court will break through the corporate shell and apply the principle/doctrine of what is called as “lifting of or piercing the corporate veil”.</p>
<b>6. LLP</b>	It is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership. LLP can continue its existence irrespective of changes in partners. It is capable of entering into contracts and holding property in its own name. LLP is a separate legal entity, and is liable to the full extent of its assets but liability of the partners is limited to their agreed contribution in the LLP.
<b>7. Corporation</b>	An organization formed under state law for the purpose of carrying on a business enterprise in such a manner as to make the enterprise distinct from its owners.
<b>8. Illegal association</b>	As per Section 464 of Companies Act, no association or partnership consisting of more than such number of persons as may be prescribed shall be formed for the purpose of carrying on any business that has for its object the acquisition of gain by the association or partnership or by the individual members thereof, unless it is registered as a company under this Act or is formed under any other law for the time being in force. The number of persons which may be prescribed under this section shall not exceed 100. Rule 10 of Companies (Miscellaneous) Rules, 2014 prescribes 50 persons in this regard.

## CS Executive Programme (Module I)

### DISTINGUISH BETWEEN

**2013 - Dec [2]** Distinguish between the following:

(a) 'Company' and 'partnership firm'.

(4 marks)

**Answer:**

1. **Regulating Act:** A Company is regulated by the **Companies Act, 2013** while a partnership is governed by the **Indian Partnership Act, 1932**.
2. **Mode of Creation:** Registration is compulsory in case of company. Whereas registration is optional in Partnership.
3. **Membership :**
  - (a) **Minimum:** In partnership, the minimum no. of partners are two whereas the minimum number of members in a private company are two and that in case of public company are seven members.
4. **Legal Status :** A company has a separate legal personality distinct from that of its members whereas partnership is not a distinct person, it comprises of several persons who compose it.
5. **Liability of Members :** In case of company, the liability of shareholders is limited to the extent of their share capital or upto the amount of guarantee given by them. But in case of partnership the liability of partner is unlimited. Each partner is liable to an unlimited extent for the debt incurred in the ordinary course of business.
6. **Transfer of Share :** Shares of a Public Co. are freely transferable but in case of partnership, no partner can transfer his share without the consent of other partner.

**2015 - June [2]** Distinguish between the following :

(c) 'Limited liability partnership' and 'body corporate'.

(4 marks)

**Answer:**

**Limited Liability Partnership (LLP) and Body Corporate**

1. LLP is an alternative form of corporate business, not being a company, that gives the benefits of limited liability of a company and the flexibility of a partnership. LLP is covered under the Limited Liability Partnership Act, 2008 while term “Body Corporate” as defined under section 2(11) of Companies Act, 2013 includes a Company incorporated outside India but does not include:
  - (i) a co-operative society registered under any law relating to co-operative societies; and
  - (ii) any other body corporate (not being a company as defined in this Act), which the Central Government may, by notification, specify in this behalf.
2. A body corporate may be a company incorporated by one person as One Person Company. LLP can't be incorporated by one person.
3. A LLP may be a body corporate but the vice-versa may not be true.
4. LLP will have lesser compliance requirements as compared to a company.

**2015 - Dec [2]** Distinguish between the following:

- (a) ‘Company’ and ‘limited liability partnership’. (4 marks)

**Answer:**

A basic difference between an LLP and a joint stock company lies in that the internal **governance structure** of a company is regulated by statute (i.e. Companies Act, 1956 & 2013) whereas for an LLP it would be by a contractual agreement between partners.

The **management-ownership divide** inherent in a company is not there in a limited liability partnership.

LLP will have more flexibility as compared to a company.

LLP will have lesser compliance requirements as compared to a company.

LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership. LLP can continue its existence irrespective of changes in partners. It is capable of entering into contracts and holding property in its own name. LLP is a

separate legal entity, is liable to the full extent of its assets but liability of the partners is limited to their agreed contribution in the LLP.

LLP is a body corporate and a legal entity separate from its partners, having perpetual succession:

LLP form is a form of business model which.

- (i) is organized and operates on the basis of an agreement in between partners;
- (ii) provides flexibility without imposing detailed legal and procedural requirements;
- (iii) enables professional/technical expertise and initiative to combine with financial risk taking capacity in an innovative and efficient manner.

#### DESCRIPTIVE QUESTIONS

**2013 - Dec [1]** Comment on the following:

- (b) A shareholder is held personally liable for the acts of the company, if he holds virtually the entire share capital of the company.
- (d) Common seal acts as the official signature of a company.

(5 marks each)

**Answer:**

(b) *Please refer 2012 - June [1] (ii) on page no. 34*

(d) On incorporation, a company acquires legal entity with perpetual succession and a common seal. Since the company has no physical existence, it must act through its agents and all such contracts entered into by its agents must be under the seal of the company. The common seal acts as the official signature of a company. The name of the company must be engraved on its common seal. A rubber stamp does not serve the purpose. A document not bearing common seal of the company is not authentic and has no legal force behind it. The Companies Act or the Articles of Association of a company may require certain instruments or documents to be executed under the common seal of the company.

The person authorised to use the seal should ensure that it is kept under his personal custody and is used very carefully because any deed, instrument or a document to which seal is improperly or fraudulently

affixed will involve the company in legal action and litigation. According to the Act the following deeds and contracts are required to be under the common seal of the Company:

- (a) The common seal should be entrusted on power of attorney.
- (b) Share certificate.
- (c) Share warrant.
- (d) Any deed as required by Articles.

**2014 - June [1]** Comment on the following:

- (b) Common seal can be used by any employee of the company irrespective of his designation. (5 marks)

**Answer:**

*Please refer 2008 - Dec [1] {C} (i) on page no. 31*

**2014 - June [5]** Answer the following citing the relevant provisions of law/case law, if any:

- (c) "Separate personality of a company is a special privilege. In case of dishonest or fraudulent use of this privilege, corporate veil can be lifted". Discuss. (4 marks)

**Answer:**

**Doctrine of lifting of or piercing the corporate veil:**

The separate personality of a company is a statutory privilege and it must be used for legitimate business purposes only. Where a fraudulent and dishonest use is made of the legal entity, the individuals concerned will not be allowed to take shelter behind the corporate personality. The Court/Tribunal will break through the corporate shell and apply the principle/doctrine of what is called as "lifting of or piercing the corporate veil". The Court/Tribunal will look behind the corporate entity and take action as though no entity separate from the members existed and make the members or the controlling persons liable for debts and obligations of the company.

The corporate veil is lifted when in defence proceedings, such as for the evasion of tax, an entity relies on its corporate personality as a shield to cover its wrong doings. [*BSN (UK) Ltd. v. Janardan Mohandas Rajan Pillai* 1996] 86 Com Cases 371 (Bom).]

However, the shareholders cannot ask for the lifting of the veil for their purposes. This was held in *Premlata Bhatia v. Union of India* (2004) 58 CL

217 (Delhi) wherein the premises of a shop were allotted on a licence to the individual licensee. She set up a wholly owned private company and transferred the premises to that company with the Government consent. She could not remove the illegality by saying that she and her company were virtually the same person.

**2014 - Dec [1]** Comment with reasons on the following:

(a) Piercing through corporate veil.

(5 marks)

**Answer:**

*Please refer 2014 - June [5] (c) on page no. 25*

**2014 - Dec [2A] (Or)** (i) In an annual general meeting of Amar (Pvt.)Ltd., all the shareholders were killed in a bomb blast. State, whether the company is still in existence. If so, how? (4 marks)

**Answer:**

An incorporated company never dies except when it is wound up as per law. A company, being a separate legal person is unaffected by death or departure of any member and remains the same entity, despite total change in the membership. A company's life is determined by the terms of its Memorandum of Association. It may be perpetual or it may continue for a specified time to carry on a task or object as laid down in the Memorandum of Association. Perpetual succession, therefore, means that the membership of a company may keep changing from time to time, but that does not affect its continuity.

The membership of an incorporated company may change either because one shareholder has transferred his shares to another or his shares devolve on his legal representatives on his death or he ceases to be a member under some other provisions of the Companies Act. Thus, perpetual succession denotes the ability of a company to maintain its existence by the constant succession of new individuals who step into the shoes of those who cease to be members of the company. Professor L.C.B. Gower rightly mentions, "Members may come and go, but the company can go on forever. During the war all the members of one private company, while in general meeting, were killed by a bomb, but the company survived - not even a hydrogen bomb could have destroyed it".



**2015 - Dec [1]** Comment on the following:

- (a) A company incorporated under the Companies Act, 2013, being an artificial person, is not entitled to sue a natural person or to sue another company incorporated under the same Act. (5 marks)
- (d) A company incorporated under the Companies Act, 2013 never dies except when it is wound-up as per the law. (5 marks)

**Answer:**

**(a)** A Company being a body corporate, can sue and be sued in its own name. To sue, means to institute legal proceedings against (a person) or to bring a suit in a Court of law. All legal proceedings against the company are to be instituted in its name. Similarly, the company may bring an action against anyone in its own name. A company's right to sue arises when some loss is caused to the company, i.e. to the property or the personality of the company. Hence, the company is entitled to sue for damages in libel or slander as the case may be [*Floating Services Ltd. vs. MV San Fransceco Dipaloo* (2004) 52 SCL 762 (Guj)]. A company, as a person distinct from its members, may even sue one of its own members.

Hence, a company is entitled to sue a natural person or to sue another company incorporated under the Companies Act, 2013 in its own name.

**(d)** Please refer 2014 - Dec [2A] (Or) (i) on page no. 26

However in case of merger, the transferor company is dissolved without winding up.

**2015 - Dec [2A] (Or)** (i) Explain clearly the meaning of 'lifting of corporate veil' in relation to a company incorporated under the Companies Act, 2013. Examining the judicial decisions, state whether 'corporate veil' can be lifted in the following cases:

- (a) Where the corporate veil has been used for improper conduct; and  
(b) Where the acts of a company are opposed to workmen? (4 marks)

**Answer:**

**Lifting of Corporate Veil under Judicial Interpretation:** Ever since the decision in *Salomon vs. Salomon & Co. Ltd.*, (1897) A.C. 22, normally Courts are reluctant or at least very cautious to lift the veil of corporate personality to see the real persons behind it. Nevertheless, Courts have found it

necessary to disregard the separate personality of a company in the following situations:

**(a) Where the corporate veil has been used for commission of fraud or improper conduct. In such a situation, Courts have lifted the veil and looked at the realities of the situation:**

**In *Jones vs. Lipman*, (1962) I. W.L.R. 832:** A agreed to sell certain land to B. Pending completion of formalities of the said deal, A sold and transferred the land to a company which he had incorporated with a nominal capital of £100 and of which he and a clerk were the only shareholders and directors. This was done in order to escape a decree for specific performance in a suit brought by B. The Court held that the company was the creature of A and a mask to avoid recognition and that in the eyes of equity A must complete the contract, since he had the full control of the limited company in which the property was vested, and was in a position to cause the contract in question to be fulfilled.

**(b) Where the acts of a company are opposed to workmen:**

It has been decided in *The Associated Rubber Industries Ltd. Bhavnagar & another*, AIR 1986 SC 1 that where the acts of the company are opposed to workmen the corporate veil may be lifted. In this case, a new company was created wholly by the principal company with no assets of its own except those transferred to it by the principal company with no, business or income of its own except receiving dividends from share transferred to it by the principal company i.e. only for the purpose of splitting the profits into two hands and thereby reducing the obligation to pay bonus. The Supreme Court held that the new company was formed as a device to reduce the gross profits of the principal company and thereby reduce the amount to be paid by way of bonus to workmen. The amount of dividends received by the new company should, therefore be taken into account in assessing the gross profit of the principal company. The corporate veil, therefore was lifted in this case.

## **CS Executive Programme (Module II)**

## SHORT NOTES

**2008 - Dec [5]** (b) Write short note on the following :

- (ii) The separate personality of a company is a statutory privilege and it must be used for legitimate business purposes only . (4 marks)

**Answer:**

**Correct :** As separate personality of the company is a statutory privilege. It must be used for legitimate business purposes only. Where a fraudulent and dishonest use is made of the legal entity, the individuals concerned will not be allowed to take shelter behind the corporate personality. The **Court/Tribunal** will break through the corporate shell and applies the principle of what is known as “lifting of or piercing through the corporate veil”.

**2010 - June [8]** Write a note on the following:

- (i) Disadvantages of corporate form of enterprise (4 marks)

**Answer:**

Disadvantages of corporate form of enterprises :

There are certain disadvantages of a corporate form of enterprise. Some of these disadvantages are:

- (a) Formalities and expenses:-** Formation of a company is coupled with difficult and detailed legal formalities and procedure involving considerable amount of time and money.
- (b) Greater tax burden:-** In few circumstances, the tax burden on a company is more than that in comparison to other form of business organization.
- (c) Greater social responsibility:-** Having regard to the enormous powers wielded by the companies and the impact they have on the society, the companies are called upon to show greater social responsibility in their working.
- (d) Detailed winding up procedure:-** The **Companies Act, 2013** provides elaborate and detailed procedure for winding - up of companies which is more expensive and more time consuming.

**2013 - June [6]** Write a note on the following:

- (v) Illegal association. (4 marks)

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**Answer:**

*Please refer 2008 - Dec [8] (a) on page no. 32*

**DISTINGUISH BETWEEN**

**2010 - June [6]** Distinguish between the following:

- (i) 'Company' and 'corporation'. (4 marks)

**Answer:**

**Distinction between Company and Corporation.**

The term body corporate is much wider in concept than the word company because it includes:

- (a) Companies formed and registered under the **Companies Act, 2013** that is all Indian Companies.
- (b) Companies incorporated outside India that is foreign companies.
- (c) Public financial Institution.
- (d) Nationalized bank.
- (e) Corporations formed under Acts of Parliament.
- (f) Limited Liability partnership registered under the Limited Liability **Partnership Act, 2008.**

As per **Section 2 (11) of Companies Act, 2013**, the term body corporate does not include :

- (a) Co-operative Society Registered under any law relating to Co-operative Societies.
  - (b) Any other body corporate (not being a company as defined in this Act), which the Central Government may, by notification in the Official Gazette Specify in this behalf.
- ⇒ Whereas, company only is the form of business registered under company law in force for the time being. All companies are corporations, all corporations are not companies.

**2011 - June [3]** Distinguish between the following :

- (i) 'Company' and 'corporation'. (4 marks)

**Answer:**

*Please refer 2010 - June [6] (i) on page no. 30*

## DESCRIPTIVE QUESTIONS

.2008 - Dec [1] {C} Comment on the following :

- (i) Common seal of a company will have to be affixed on all the letters and documents of the company. (5 marks)

**Answer:**

It is incorrect to say that common seal of a company will have to be affixed on all the letters and documents of the company. Resolution of Board is required for affixing common seal (if any) of the company on deed and contracts. Common seal is affixed only in presence of two directors and Company Secretary or such other person as the Board may appoint for the purpose in accordance with the articles of association

**Amendment Made by Companies (Amendment) Act, 2015****Amendment of Section 9:**

*In Section 9 of the Principal Act, the words “and a common seal” shall be omitted.*

**Amendment of Section 22:**

*In Section 22 of the Principal Act, —*

- (i) *In sub-section (2),—*
- (a) *for the words “under its common seal”, the words “under its common seal, if any,” shall be substituted;*
  - (b) *the following proviso shall be inserted, namely:—*  
*“Provided that in case a company does not have a common seal, the authorisation under this sub-section shall be made by two directors or by a director and the Company Secretary, wherever the company has appointed a Company Secretary.”*
- (ii) *In sub-section (3), the words “and have the effect as if it were made under its common seal” shall be omitted.*

**Amendment of Section 46:**

*In Section 46 of the Principal Act, in sub-section (1), for the words “issued under the common seal of the company”, the words “issued under the common seal, if any, of the company or signed by two directors or by a director and the Company Secretary, wherever the company has*

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*appointed a Company Secretary” shall be substituted.*

**Seal- when to be used :** The article of association of a company provide for affixing the seal of the company on documents. The company seal may be affixed on the following documents after authorisation from AOA & Board resolution:

- (i) Power of attorney.
- (ii) Deed of lease
- (iii) Share certificate
- (iv) Debentures
- (v) Deed of mortgage
- (vi) Promissory notes. etc.

**2008 - Dec [8]** (a) What do you understand by the term 'illegal association' ?  
What are the rights and liabilities of a member of illegal association?

(8 marks)

**Answer:**

As per the provisions of **Section 464 of the Companies Act, 2013**, no association or partnership consisting of more than such number of persons as may be prescribed shall be formed for the purpose of carrying on any business that has for its object the acquisition of gain by the association or partnership or by the individual members thereof, unless it is registered as a company under this Act or is formed under any other law for the time being in force. The number of persons which may be prescribed under this section shall not exceed 100.

**Exception:** This section does not apply to:

- (a) Hindu Undivided Family or
- (b) An association or partnership formed by professionals who are governed by special Acts like LLP.

As per rule 10 of Companies (Miscellaneous) Rules, 2014 as notified on 1<sup>st</sup> April, 2014 prescribes 50 persons. Therefore, the any unregistered association shall be treated as illegal association provided such association has more than 50 members.

**Maximum Number of a Partnership Firm:** CA 2013 prescribes maximum number of partners (i.e. 50) for a partnership formed under the Partnership

Act, 1932 other than LLP. No limit for partners in the “Limited Liability Partnership (LLP)”. As per the CA 2013, no separate limit specified for banking or other business. Earlier, this limit was 10 in case of banking business & 20 in case of other business in accordance with the Companies Act, 1956.

**Note:** If two or more joint Hindu family firms carry on business together and the combined number of major members exceeds 50, then their association will become illegal. In computing the number for illegal association, minor members of joint families are to be ignored. If by reason of minor members of such joint families on attaining majority, the number of persons exceeds the statutory limit, it will become an illegal association.

**2009 - Dec [1] {C}** Attempt the following :

- (v) “Common seal of a company will have to be affixed on all the letters and documents of the company.” Discuss. (5 marks)

**Answer:**

*Please refer 2008 - Dec [1] {C} (i) on page no. 31*

**2011 - June [1] {C}** Comment on the following :

- (ii) The managing director and other directors of a company are not liable to be sued for dues against a company. (5 marks)
- (iii) The competent **Court/Tribunal** of law can entertain a petition for winding-up of an illegal association under company law. (5 marks)
- (iv) A company can be regarded as having enemy character under certain circumstances. (5 marks)

**Answer:**

- (ii) A company being a juristic person, it can sue and can be sued by others in its own name. In **Abdul Haq Vs. Das Mal**, an employee was not paid his salary for several months. He filed a suit against the director of the company for the recovery of the amount of salary due to him. It was held that he will not succeed because the remedy lies against the company and not against the directors or members of the company.
- (iii) The law does not recognize illegal association and therefore cannot be wound up by order of **Court/Tribunal**. The **Court/Tribunal** cannot entertain a petition for the winding up of a company formed in

contravention of **Companies Act, 2013**.

- (iv) The facts in question are similar to the facts in ***Daimler Co. Ltd. Vs. Continental Tyre and Rubber Co. Ltd.*** a company was incorporated in England to sell tyres manufactured by a German Company. The bulk of the shares of the English Company were held by Germans and all the directors were Germans. During world war, the English Company filed a suit to recover a trade debt. It was held that the company through incorporated in England was an enemy company; and the company was not allowed to proceed with the action to recover its debts. It was laid down that a company may assume an enemy character when persons in defacto control of its affairs are residents of an enemy country or, wherever resident, are acting under the control of enemies.

**2012 - June [1] {C}** Comment on the following:

- (ii) A shareholder who holds 99% of the share capital of a company can be held liable for the acts of the company. (5 marks)

**Answer:**

A company is an artificial person. It is formed and registered under the Companies Act. It has distinct legal entity. Its personality is separate and distinct from its members. In some cases company is treated as a natural person.

- (a) It can make contracts.
- (b) Open a bank account.
- (c) Can sue and be sued by others.
- (d) It can also own property.

The company's money and property belong to the company and not to the of members of company.

Similarly, the members' personal property can not be held liable to pay the creditors of the company. LEADING CASE in this point is ***Saloman Vs. Saloman Company Ltd.*** has clearly established the principle that once a company has been validly constituted under the **Companies Act, 2013**, it becomes a legal person distinct from its members and for this purpose, it is immaterial whether any member has a large or small proportion of the share



capital, and whether he holds those shares beneficially or as a mere trustee.  
Hence, shareholders can not be held liable for the acts of the company.

### PRACTICAL QUESTIONS

**2010 - June [5]** (b) Rani is a wealthy lady enjoying large dividend and interest income. She has formed three private companies and agreed with each of them to hold a block of investment as an agent for it. Income received was credited in the accounts of the company but the company handed back the amount to her as a pretended loan. This way, she divided her income in three parts in a bid to reduce her tax liability. Discuss the legality of the purpose for which the three companies were formed.

(5 marks)

#### Answer:

If a company is used as a means to evade tax, the **Court/Tribunal** may disregard the corporate veil. In [*Re: Sir Dinshaw Maneckjee Petit, A.I.R 1927 Bombay 371*], the Supreme Court held that the **Court/Tribunal** is entitled to lift the mask of corporate entity, if it is used for tax evasion or to circumvent tax obligations.

In such cases individual shareholders may be held liable to pay income tax.

In the given case, the facts are similar to the above mentioned case. The reason to which the companies were formed by the assessee was purely and simply as a means of avoiding tax liability and the companies were nothing more than the assessee herself.

Therefore, the **Court/Tribunal** disregarded the corporate veil and found that the companies were formed by the assessee for the purpose of avoiding tax.

## CS Inter Gr. II

### SHORT NOTES

**2007 - Dec [8]** (a) Write short note on the following :

(iv) Illegal association.

(4 marks)

**Answer:**

Please refer 2008 - Dec [8] (a) on page no. 32

**DESCRIPTIVE QUESTIONS**

**2006 - Dec [1] {C}** Comment on the following :

- (i) Prof. Grower rightly said, "Members may come and go, but the company can go on forever." (5 marks)

**Answer:**

An incorporated company never dies, except when it is wound up as per law. Company has a legal death & not natural death. According to Prof - LCB Gower, "Members may come and go, but the company can go forever."

It takes into consideration that membership of a company may change either because one shareholder has sold or transferred his shares to another (in case of public companies). The concept of perpetual succession demerits the ability of company under to maintain its existence.

In a situation in England, during the war all the members of one company, while in general meeting were killed by a bomb, but the company survived not even a hydrogen bomb could have destroyed an incorporated company.

**2007 - Dec [7]** (a) What is 'corporate veil'? State the circumstances when it can be lifted. (8 marks)

**Answer:**

Company is a legal person and is distinct from its members. Its assets are separate and distinct from those of its members. Since a company being an artificial person, is not capable of doing anything illegal or fraudulent. Only members of the company can do such fraudulent work. Therefore, a company has to identify the person who are really guilty. This is known as lifting of corporate veil.

The circumstances under which, the **Court/Tribunal** may lift the corporate veil are mentioned under the following two heads.

**(a) Under Statutory Provision****Statutory Recognition of Lifting of Corporate Veil**

The **Companies Act, 2013** itself contains some provisions [Sections

**7(7), 251(1) and 339]** which lift the corporate veil to reach the real forces of action. **Section 7(7)** deals with punishment for incorporation of company by furnishing false information; **Section 251(1)** deals with liability for making fraudulent application for removal of name of company from the register of companies and **Section 339** deals with liability for fraudulent conduct of business during the course of winding up.

**1. Section 7(7) Punishment for incorporation of Company by furnishing false Information:-**

Without prejudice to the provisions of **sub-section (6)**, where a company has been got incorporated by furnishing any false or incorrect information or representation or by suppressing any material fact or information in any of the documents or declaration filed or made for incorporating such company or by any fraudulent action, the Court/Tribunal may, on an application made to it, on being satisfied that the situation so warrants, -

- (a) pass such orders, as it may think fit, for regulation of the management of the company including changes, if any, in its memorandum and articles, in public interest or in the interest of the company and its members and creditors; or
- (b) direct that liability of the members shall be unlimited; or
- (c) direct removal of the name of the company from the register of companies; or
- (d) pass an order for the winding up of the company; or
- (e) pass such other orders as it may deem fit:

**2. Section 251(1) Fraudulent application for removal of name:-**

1. where it is found that an application by a company under sub-section
2. of **section 248** has been made with the object of evading the liabilities of the company or with the intention to deceive the creditors or to defraud any other persons, the persons in charge of the management of the company shall, notwithstanding that the company has been notified as dissolved -
  - (a) be jointly and severally liable to any person or persons who had incurred loss or damage as a result of the company

being notified as dissolved; and  
(b) be punishable for fraud in the manner as provided in **section 447**.

- (2) Without prejudice to the provisions contained in **sub-section (1)**, the Registrar may also recommend prosecution of the persons responsible for the filing of an application under **sub-section (2)** of **section 248**.

**3. Section 339 Liability for fraudulent conduct of business:-**

- (1) If in the course of the winding up of a company, it appears that any business of the company has been carried on with intent to defraud creditors of the company or any other persons or for any fraudulent purpose, the Court/Tribunal, on the application of the Official Liquidator, or the Company Liquidator or any creditor or contributory of the company, may, if it thinks it proper so to do, declare that any person, who is or has been a director, manager, or officer of the company or any persons who were knowingly parties to the carrying on of the business in the manner aforesaid shall be personally responsible, without any limitation of liability, for all or any of the debts or other liabilities of the company as the Court/Tribunal may direct.
- (2) Where the Court/Tribunal makes any such declaration, it may give such further directions as it thinks proper for the purpose of giving effect to that declaration and, in particular, -
- (a) make provision for making the liability of any such person under the declaration a charge on any debt or obligation due from the company to him, or on any mortgage or charge or any interest in any mortgage or charge on any assets of the company held by or vested in him, or any person on his behalf or, any person claiming as assignee from or through the person liable or any person acting on his behalf;
- (b) make such further order as may be necessary for the purpose of enforcing any charge imposed under this sub-section.
- (3) Where any business of a company is carried on with such intent or for such purpose as is mentioned in **sub-section (1)**, every

person who was knowingly a party to the carrying on of the business in the manner aforesaid, shall be liable for action under **section 447**.

- (4) This section shall apply, notwithstanding that the person concerned may be punishable under any other law for the time being in force in respect of the matters on the ground of which the declaration is to be made.

**(b) Judicial Interpretation :**

- (i) **For the protection of revenue :** If a company makes effort to evade tax the **Court/Tribunal** may disregard the corporate veil. As in the case of *Sir Dinshaw Maneckjee Petit*.
- (ii) **For determination of enemy character of company :** When there is suspicion that the company is controlled or owned by enemies of the country, then the Court/Tribunal\* may lift the corporate veil and examine the character of a person. As in the Case of *Daimler Company Ltd. Vs. Continental Tyre and Rubber Company Ltd.*
- (iii) **Where company is formed for some illegal or improper object:** If a company has been formed for some illegal or improper object, the **Court/Tribunal** may disregard, the corporate veil. Here, the illegal object is related with defraud with creditors or to avoid legal obligation.
- (iv) **Company acting as agent of shareholders :** Generally, a company is not an agent of its shareholders but under certain circumstances a company may be operating as an agent or trustee of its members.

**2008 - June [6]** (b) Two companies are incorporated with the same set of shareholders. Are they same or distinct under the **Companies Act, 2013**? Discuss. (4 marks)

**Answer:**

On incorporation, a company becomes a separate legal person in the eyes of law. The company is vested with a corporate personality distinct from individuals who are its members. Being a separate legal entity, it bears its own name and acts under a distinct corporate name. Its assets are separate and distinct from those of its members. It is also different 'person' from the

