CASE LAW UPDATES

Important Cases of Company Law (Part 4): Corporate Personality and Lifting of Corporate Veil.

Hanspal Bakul · 14 Aug 2026

Introduction

A company holds a legal identity separate from its members, yet this separation never stays absolute. *Courts have repeatedly examined two linked questions: whether a corporation can claim citizenship, and when judges should look beyond the corporate mask to the people controlling it.*

These doctrines matter because they decide how far corporate independence can stretch before law demands accountability. The four cases below trace this journey from constitutional citizenship to modern tax jurisprudence ***relevant to CLAT PG 2027.***

State Trading Corporation of India Ltd. v. Commercial Tax Officer 1963 AIR 1811

Facts

The Government of India **held the entire share capital** of State Trading Corporation, a company registered under the Companies Act. Tax authorities in Andhra Pradesh and Bihar assessed sales tax against STC, prompting a writ petition. STC claimed citizenship status, arguing its **capital originated entirely from the Union. It invoked Article 19(1)(f) and (g), the rights to hold property and conduct trade**.

Issues

1. Whether a company incorporated under the Companies Act, 1956, qualifies as a "citizen" within the meaning of Article 19 of the Constitution.

2. Whether STC, despite formal incorporation, functioned in substance as a department of the Government of India, entitling it to enforce fundamental rights under Part III against the State.

Judgment

A nine-judge bench rejected STC's claim by majority. *Part II of the Constitution and the Citizenship Act together define citizenship exhaustively, and both apply only to natural persons. Government ownership of shares does not dissolve a company's separate legal personality or convert it into a state organ.*

The ratio confined Article 19 rights strictly to individuals, allowing corporations nationality but never citizenship.

Bennett Coleman & Co. v. Union of India 1973 AIR 106

Facts

The Union Government's **Newsprint Policy for 1972–73 imposed strict page limits and quotas on newspapers, regardless of actual demand.** Bennett Coleman & Co., along with shareholders, editors, and readers, challenged the policy as an **unconstitutional restriction on the press.** The petitioners argued that the quotas indirectly controlled newspaper content and circulation.

Issues

1. Whether shareholders and editors could invoke Article 19(1)(a) individually, given that a company itself cannot claim fundamental rights as a citizen.
2. Whether the Newsprint Policy's quantitative restrictions violated freedom of speech and expression, and whether they created an unreasonable classification under Article 14.

Judgment

Justice Ray, writing for the majority, held that courts may look behind the corporate structure to the real individuals affected. Shareholders and editorial staff *exercised genuine speech and expression rights through the publication.*

The bench ***struck down the quantitative newsprint restrictions*** as an unjustified curb on press freedom, making this a founding authority for ***protecting individual rights within***

corporate structures.

Life Insurance Corporation of India v. Escorts Ltd. 1986 AIR 1370

Facts

A Foreign Exchange Regulation Act scheme allowed **non-resident companies with sixty per cent Indian-origin beneficial ownership to invest in Indian shares.** Swaraj Paul used this route to acquire substantial shareholding in Escorts Ltd. through thirteen separate Caparo companies. **LIC, itself a major shareholder in Escorts, then sought to requisition a meeting to remove certain directors.**

Issues

1. Whether the corporate veil of the thirteen Caparo companies could be pierced to treat their purchases as a single acquisition by Swaraj Paul, breaching investment ceilings.
2. Whether LIC's requisition to remove directors was arbitrary or mala fide, and whether Article 14 could constrain a private company law right exercised by a state-owned shareholder.

Judgment

The Supreme Court reaffirmed the *Salomon principle but laid down clear grounds for lifting the veil: statutory contemplation, prevention of fraud, evasion of a taxing or beneficial statute, or group companies functioning as one concern.*

LIC's requisition was upheld as an ordinary shareholder right, establishing India's leading precedent on veil-piercing. (However, the veil was not pierced in this case as the 13 companies of Swaraj were legally registered companies.)

Vodafone International Holdings BV v. Union of India (2012) 6 SCC 613

Facts

Vodafone International Holdings BV, a Dutch company, acquired CGP Investments, a Cayman Islands entity, from the Hutchison group. This gave Vodafone a controlling interest in Hutchison

Essar Ltd., an Indian telecom company. The Income Tax Department demanded roughly eleven thousand crore rupees, treating the offshore transfer as a transfer of Indian assets.

Issues

1. Whether Indian tax authorities held jurisdiction over an offshore transaction executed between two non-resident entities through foreign holding companies.
2. Whether the corporate veil of the Cayman Islands holding structure could be pierced to tax the underlying Indian business interest, and where legitimate tax planning ends and evasion begins.

Judgment

The Supreme Court held that Revenue can invoke the ***"****substance over form" or veil-piercing test only after proving a transaction is a sham or tax-avoidance device.* Vodafone's structure *served genuine commercial purposes, showing no colourable intent.*

The Court *quashed the tax demand, though Parliament later reversed its practical effect through a retrospective amendment to the Finance Act, 2012.*

(*The Court had adopted the* ***"Look-At" approach in this case.)***