LIMITED LIABILITY AND CORPORATE MISUSE UNDER NIGERIAN COMPANY LAW*

Abstract

The doctrine of limited liability, based on two fundamental principles: one, the separate corporate personality and two, the corporate veil, is one of the most significant innovations of modern commercial law. It allows investors to invest money in an enterprise without risking their own personal property, thus encouraging entrepreneurship, industrialisation and economic development. The doctrine is enshrined in the Companies and Allied Matters Act 2020 (CAMA 2020) of Nigeria, which gives a legal personality to every validly incorporated company, separate and apart from that of its promoters, shareholders and directors. However, the advantages of limited liability, such as the separation of the member from the company's debts and the legal personality of the company, that allows it to own property, enter into contracts and sue in its own name, also provide fertile ground for abuse. At times, the corporate form has been used as a tool for fraud, a method of avoiding prior contractual or legal commitments, a means of tax evasion, a device for stripping assets from the company, a method of tunnelling between corporations and a means of carrying out various sharp practices; all in the name of the corporate veil, which is supposed to protect from personal liability. This article makes a thorough doctrinal analysis of limited liability and how it is misused in Nigerian company law. It explores the historical and jurisprudential origins of the concept of Corporate Personality from the famous case of Salomon v Salomon and Co Ltd, its reception and incorporation in Nigeria's judicial practice, and challenges the statutory framework of CAMA 2020 on incorporation and duties and personal liability of Directors. It also explores the equitable and statutory devices, known as 'lifting' or 'piercing' the corporate veil that Nigerian courts and regulators can employ to pierce the corporate veil and hold individual liable for fraudulent or improper corporate activities. The article, through doctrinal and analytical approach, considers decided cases, legislation and scholarly literature, and highlights the common mechanisms and trends of corporate misuse in Nigeria, as well as assessing the effectiveness of the existing protections. It finds that Nigerian law has a relatively strong theoretical and statutory framework to address corporate abuse but enforcement is lax, capacity gaps in regulatory authorities and judicial inconsistencies continue to make it ineffective and recommends for its improvement.

Keywords: Limited Liability, Corporate Personality, Corporate Veil, Corporate Misuse, Companies and Allied Matters Act 2020.

1. Introduction

The motor that drives the modern capitalist economy is the corporate enterprise and Nigeria is not an exception. The company has, over the years, become the preferred mode of structuring business in Nigeria, mainly due to one of its main advantages to its promoters, which is limited liability, a legal status introduced in Nigeria during the colonial era. Limited liability is a doctrine of the law that limits the liability of a shareholder to the amount that he has not paid for his shares in the company.[1] The doctrine of separate corporate personality means that, once incorporated, a company becomes a juristic person, distinct from the natural persons who own it, manage it or control it.[2]

Separate legal personality and the associated principle of limited liability was not an unchanging reality of English or Nigerian law. They developed in two ways: first, by the 19th century, through the promulgation of statutes, and second, through judicial elaboration, particularly in the case of *Salomon v Salomon & Co Ltd,* which is the origin of the modern common law treatment of companies worldwide, including Nigeria.[3] The Nigerian company law, which is today encapsulated primarily under the Companies and Allied Matters Act 2020, has received and incorporated the Salomon principle, which provides that from the time of incorporation a company is a body corporate with perpetual succession, that is it can sue and be sued and can hold property, and can be acquired and disposed of in its own name.[4]

But the same features which make the corporate form desirable—its separateness from its members, its perpetual existence and the liability of shareholders to the business limited to their capital contributions—provide opportunities for abuse. The company is a separate legal entity from those who control it and that can allow an unscrupulous party to use the corporate form to defraud creditors, avoid any existing contractual or statutory obligations, disguise beneficial ownership, commit tax evasion, drain the company of assets, or oppress minority shareholders, among other things, that wouldn't be tolerated if pursued in their own names. The conflict between the desirable policy goals that arise as a result of limiting liability and the opportunities for abuse that arise in the context of such limits has been the central theme of the present investigation.

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[1] Companies and Allied Matters Act 2020 (Nigeria), s.42; Orojo, J.O., *Company Law and Practice in Nigeria*, 5th edn, LexisNexis Butterworths, 2008, 34–40.

[2] 'Piercing the Corporate Veil in Nigeria: When Courts Ignore Separate Legal Personality'; Mondaq, 2025. https://www.mondaq.com/nigeria/shareholders/1790434, accessed 2 September 2026.

[3] *Salomon v Salomon & Co Ltd* [1897] AC 22 (HL).

[4] Companies and Allied Matters Act 2020 (Nigeria), s.42.

This article follows the structure below. Section two explains the basic tenets of corporate personality and limited liability. The historical and jurisprudential history of the doctrine is outlined in section three. Section four discusses the legal aspects of incorporation and limited liability as provided by CAMA 2020. Section five highlights and examines the main types of misuse of corporations in the Nigerian business environment. Section six looks at the judicial and statutory tools available for dealing with such misuses in Nigeria, including the doctrine of lifting/ piercing the corporate veil in light of reported cases. The problems of corporate groups are discussed in section seven, which is particularly interesting. Section eight pinpoints gaps and challenges in the existing framework, and section nine provides brief comparative reflections. Article ends in concluding paragraph and recommendations.

2. Conceptual Clarifications

Corporate Personality

A registered company is a 'creature' of the law. Once the incorporation requirements in CAMA 2020 are satisfied, and a certificate of incorporation issued by the Corporate Affairs Commission (CAC), the company obtains an independent legal personality.[5] This personality is sometimes referred to as 'artificial', because the company itself does not have a body, but acts through human agents, the directors, officers and members of the company; the acts of the directors, officers and members, if properly authorised, are treated in law as the acts of the company. The implications of separate personality are wide reaching: the company can own property which is not its own, but the property of the shareholders; it can sue and be sued in its own name, not the name of its members, even if one or more shareholders owns all or almost all of the company's shares; it can enter into contracts, including contracts with its controlling shareholder; its life is not bound up with that of its members (perpetual succession); and, crucially for present purposes, its debts and liabilities are separate and apart from those of its members or directors.[6]

Limited Liability

While separate corporate personality is a logical corollary, it is not an inevitable one, of limited liability. It refers to the structure in which a company's creditors can only seek reimbursement from the company, not from the member or each member, in the case of a limited liability company, to the amount unpaid on the shares that the member holds, or in the case of a guarantee company, to the amount that the member guaranteed to repay if the company becomes bankrupt.[7] Often limited liability has to be distinguished from the concept of separate personality; it may be realized that in theory, a company can be a company with separate personality but with unlimited liability of members, as this is contemplated in CAMA 2020 in relation to unlimited companies. A second cushion of personal insulation from business risk comes from the limited liability. Together with separate personality, limited liability is a further disincentive to a business's risks and a further incentive to attracting capital from a large number of investors who would otherwise be hesitant to invest because of the risk of unlimited personal liability.

Corporate Misuse

For the purposes of this article, 'corporate misuse' means using the corporate form – and in particular, the 'shield of separate personality' and the 'limited liability' protections provided by the corporate form – for an activity that the law does not authorize or in a way that fails to meet the legitimate expectations of creditors, contractual counterparties, minority shareholders, regulators, or the government or state itself. It normally includes some sort of misconduct, including fraud, unfair dealing, avoidance of an existing duty, or the use of the company as a cover or subsidiary of the controller itself, so that the fiction of separate personality would not serve justice.[8] The mischief that the doctrine of lifting the corporate veil, and a number of statutory measures, seek to remedy is the misuse of a corporation.

3. Historical and Jurisprudential Foundations

The definitive form of the modern doctrine of corporate personality was enunciated by the House of Lords in *Salomon v Salomon & Co Ltd*.[9] If so, the sole trader leather boot business, Aron Salomon, incorporated his business as a limited company, in which he, and members of his family, held shares, and in which he sold his business, part payment debentures being issued to him in exchange for the business, being secured by a floating charge over the company assets. The company later went into insolvent liquidation, at which point the liquidator, acting on behalf of the unsecured creditors, said the company was an agent or sham for Salomon and should be personally liable to pay the company's debts, and that his debentures should be put to the bottom of the list of claims. The House of Lords disagreed; it found that the company had been properly formed under the Companies Act and that, after incorporation, it was a legal entity totally separate

[5] Companies and Allied Matters Act 2020 (Nigeria), ss.18 and 41.

[6] 'Corporate Personality and Liability in Nigeria: Emerging Dynamics in Corporate Law'; Mondaq, 2025. https://www.mondaq.com/nigeria/corporate-governance/1697470, accessed 2 September 2026.

[7] Companies and Allied Matters Act 2020 (Nigeria), s.21.

[8] Muhammed-Mikaaeel, A.A; 'Piercing of Corporate Veil in the Nigerian and English Legal Systems: A Comparative Appraisal', *Al-Hikmah University Journal of Private and Business Law*, Vol 1, 2021.

[9] *Salomon v Salomon & Co Ltd* [1897] AC 22 (HL).

from Salomon, despite his owning almost all the shares and exercising his control over the company. The debts of the company, the House of Lords went on, were the company's debts and not Salomon's and his secured debentures were prior to the unsecured creditors just because he and the company were different in law.[10]

It was decided by Salomon's case that one-man control and even the formation of a company for the express purpose of obtaining the benefit of limited liability, are not in themselves grounds for ignoring the separate personality of a company. This principle has been incorporated into the Nigerian law and has been applied and re-stated by the Nigerian courts many times.[11] The Supreme Court of Nigeria in *Marina Nominees Ltd v Federal Board of Inland Revenue* reiterated the basic rule between a company and its shareholders, which is that a company is a separate legal entity from its shareholders and has rights and obligations separate from those of the shareholders.[12] In the same vein, the Nigerian courts restated that the obligations of a company are not, without more, the obligations of its directors or shareholders as in the case of *Union Bank of Nigeria Ltd v Penny-Mart Ltd*.[13]

But the case of Salomon, and the line of law flowing from it, did not fail to acknowledge, at least de facto, that the separate personality of a company is a legal fiction constructed for certain specific policy goals, foremost among them, the promotion of enterprise, and that a legal fiction of this sort cannot be allowed to become a source of fraud or injustice. This recognition gave rise to the extraordinary doctrine of piercing or lifting the corporate veil, as well as the common law and statutory doctrine.

4. The Statutory Framework under CAMA 2020

4.1 Incorporation and Separate Personality

The Companies and Allied Matters Act 2020 (CAMA 2020), which replaced the Companies and Allied Matters Act 1990 (as amended), is the main law regulating the establishment, registration, operation and winding up of companies in Nigeria.[14] Section 42 of CAMA 2020 reads almost verbatim the common law principles set out in Salomon, in that a company, from the moment of incorporation, becomes a body corporate with the powers and capacity to act like a natural person of full capacity, to sue and be sued in its corporate name, to acquire, hold and dispose of property and to enjoy perpetual succession and a common seal.[15] The statutory foundation of limited liability in Nigeria is that the company is a 'person different' from the shareholders/members and debts it incurs are its debts and the members' if any, exposure is limited to the amount of debts they have not paid off.

CAMA 2020 Innovations relevant To Limited Liability

Several innovations in CAMA 2020 have implications that can affect the ease of access to and misuse of the corporate form and the limited liability that it offers. The first change is that the Act now allows for a private company to be incorporated by one person, the previous requirement being two people.[16] This reform not only reduces the cost of doing business, it also increases the number of one-person companies where the risk of the corporate form being deemed by the promoter to be nothing more than an extension of the promoter's personal affairs, is raised to a higher level. Second, Limited Liability Partnerships and Limited Partnerships were new business entities introduced in CAMA 2020 that combine the benefits of limited liability with the benefits of tax transparency and flexibility of partnerships.[17] Third, and importantly, in the interest of preventing corporate misuse, Nigeria introduced the requirement for companies to disclose to the Corporate Affairs Commission the information on Persons with Significant Control (PSC), which refers to the natural persons who ultimately own or control a company, through section 119 of the CAMA 2020 in response to concerns over the use of corporate entities for the laundering of proceeds of crime and the concealment of beneficial ownership.[18]

Directors' Duties and Personal Liability

CAMA 2020 also expands the statutory obligations of directors and, as a result, the situations where they may be personally liable beyond the scope of the liability of the company they manage. It is a stated objective of the directors in

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[10] *Salomon v Salomon & Co Ltd* [1897] AC 22 (HL), 30–31 (Lord Halsbury LC and Lord Macnaghten).

[11] 'Piercing the Corporate Veil in Nigeria: When Courts Ignore Separate Legal Personality'; Mondaq, 2025. https://www.mondaq.com/nigeria/shareholders/1790434, accessed 2 September 2026.

[12] *Marina Nominees Ltd v Federal Board of Inland Revenue* [1986] 2 NWLR (Pt.20) 48 (SC).

[13] *Union Bank of Nigeria Ltd v Penny-Mart Ltd* [1992] 5 NWLR (Pt.240) 228.

[14] Adebayo, B.O; 'Juxtaposing the Repealed CAMA 1990 with CAMA 2020: An Effective Legislation to Govern Corporate Entities in the Ever-Dynamic Business Environment in Nigeria?', *Journal of the Redeemer's University Repository*, 2023.

[15] Companies and Allied Matters Act 2020 (Nigeria), s.42.

[16] Companies and Allied Matters Act 2020 (Nigeria), s.18; 'The Nigerian Companies and Allied Matters Act 2020'; Mondaq. https://mondaq.co.uk/nigeria/shareholders/977662, accessed 2 September 2026.

[17] Companies and Allied Matters Act 2020 (Nigeria), ss.746–810.

[18] Companies and Allied Matters Act 2020 (Nigeria), s.791(3); 'Emerging Trends in Subsidiary Governance and Liability: A Nigerian Perspective'; UUBO, 2025. https://uubo.org/wp-content/uploads/2025/12/Emerging-Trends-in-Subsidiary-Governance-and-Liability-A-Nigerian-Perspective.pdf, accessed 2 September 2026.

their duties of exercising those powers that they shall consider not only the interests of the shareholders but also the interests of the employees of the company, the need to maintain a good reputation in business relations with suppliers and customers, the impact of the company's activities on the community and the environment, and the desirability of maintaining a reputation for high standards of business conduct.[19] The definition of a director is found in section 269 and other sections in the Act, such as sections 305, 316 and 334, place fiduciary duties on directors as well as statutory duties of care and good faith, the breach of which could render the director personally liable to account to the company.[20] In particular, section 673(1) of the CAMA 2020, which is Nigeria's provision on wrongful and fraudulent trading, closely mirrors section 214 of the UK Insolvency Act 1986 which states that if, in the course of winding up, it appears that the company has been carried on having intended to defraud creditors or for any fraudulent purpose, or that any director knew or ought to have known that it was unlikely that the company would survive the winding up and failed to take reasonable steps to avoid a winding up, the court may make a declaration that the director shall be made personally liable, without limitation, for the debts of the company.[21] Other provisions which impose personal liability despite the separate personality of the company are, amongst others, section 433 (misfeasance), section 672 and 729(3) (misconduct and preference in the context of a company's insolvency), section 862 (inspection of the company's affairs), and section 567(1) of the (2015) Companies Act (Court of Directors).[22]

As a whole, the provisions suggest that limited liability is not a blanket right within Nigerian company law. Instead, the legislature has, in the design of CAMA 2020, included a series of safeguards to make sure that the limited liability protection attaches to those who carry out the activities of the company in good faith and in consideration of the best interests of all the company's stakeholders.

5. Corporate Misuse: Forms and Manifestations under Nigerian Law

There are several common trends of corporate misuse in Nigeria, some of which are explored in the following.

Use of the Company to Evade Existing Legal or Contractual Obligations

Where a company is formed in order to evade a contractual restriction, such as a covenant not to compete or not solicit customers, and the forming of the company is a sham to allow the contracting party to continue to do the same thing, but in a different form, this is one of the most frequent instances of corporate misuse. This is very evident in the case of the English authority which has been quoted in Nigeria with approval. In *Gilford Motor Co Ltd v Horne*, a former employer's employee covenanted not to entice its customers, an employee formed a company to undertake the same business as the employer and the court held it to be a cloak or sham, through which he could break his covenant, against both the company and himself.[23] In a similar way in Jones v Lipman, a land vendor who wanted to avoid the completion of the sale transferred the land to a company, which the court found to be a sham and a mere device, a mask which the defendant held before his eyes to escape equity's eye.[24] Such principles have been readily adopted by the Nigerian courts faced with similar cases of avoidance of antecedent obligations by a corporate vehicle.

Fraud and Sharp Practice

The corporate veil can be pierced in Nigerian courts and under CAMA 2020 when persons use or veil companies as devices for fraud, whether to defraud creditors, investors, regulators or business partners. The fraudulent trading provision of section 673(1) of CAMA 2020 focuses specifically on this mischief in the context of insolvency, and in general, the courts have equitable jurisdiction to lift the veil where the corporate form exists in order to avoid or cloak a fact that would otherwise lead to a different conclusion.[25]

Covering up Beneficial Ownership and Money Laundering

Nigeria's long track record of grand corruption and illicit financial flows has repeatedly led to the use of shell and nominee companies to hide the real, beneficial owners of money and the laundering of the proceeds of crime, including through complex layers of incorporation of companies both onshore and offshore. The mischief addressed by the PSC disclosure regime brought in by CAMA 2020 is no more mischief to be masked behind a chain of corporate nominees. It is this mischief that CAMA 2020 aims to address by introducing a PSC disclosure regime which aims to help companies identify

[19] Companies and Allied Matters Act 2020 (Nigeria), s.305 (1)–(3).

[20] Elebiju, A; 'Anomalies: The Illogics of Section 283(c) and 201(d) Companies and Allied Matters Act 2020 – Directors Removal/Disqualification Overkill'; Mondaq. https://webiis10.mondaq.com/nigeria/shareholders/1171616, accessed 2 September 2026.

[21] Companies and Allied Matters Act 2020 (Nigeria), s.673 (1); Liman, Y. and another; 'A Resilient Approach towards Wrongful Trading Liability under the Companies and Allied Matters Act, 2020, in Nigeria', *African Journal of International and Comparative Law*, Vol 32(3), 2024, 421.

[22] 'Piercing the Corporate Veil in Nigeria: When Courts Ignore Separate Legal Personality'; Mondaq, 2025. https://www.mondaq.com/nigeria/shareholders/1790434, accessed 2 September 2026. ss.305, 316, 334, 433, 672, 729(3) and 862.

[23] *Gilford Motor Co Ltd v Horne* [1933] Ch 935 (CA).

[24] *Jones v Lipman* [1962] 1 WLR 832 (Ch).

[25] Companies and Allied Matters Act 2020 (Nigeria), s.673 (1).

and register the natural person(s) who ultimately exercise significant control thereby making it more difficult but not impossible for these to be hidden.[26]

Abuse and Tunneling within Corporate Groups

The so-called 'tunneling' is a practice in which the related companies in corporate groups conduct transactions in such a way as to benefit the controlling shareholders or parent companies at the expense of the minority shareholders or creditors of the related companies. Each company within a group is, de facto, a separate legal entity under the Salomon principle and the parent company is therefore not automatically responsible for the debts of an insolvent subsidiary, nor a subsidiary automatically entitled to the assets of its parent company, a situation which can be and has been exploited to defraud creditors of the subsidiary while allowing the creditors of the parent to be excluded from the claims of the subsidiary.[27]

Tax Evasion

The Nigerian tax laws have also included anti-avoidance measures to prevent the use of the corporate form for transactions or to split the business units amongst several entities for the primary or sole purpose of reducing or avoiding taxes that tax planning would otherwise allow, which has led to the development of anti-avoidance provisions in the tax law and greater information sharing between the Federal Inland Revenue Service and the Corporate Affairs Commission.

Oppression of Minority Shareholders and Asset Stripping

In addition to the general fiduciary duties owed by directors, controllers of companies who know that the company is a separate entity and that assets of the company are not their own resources have, at times, used the corporate machinery to divert corporate opportunities, misapplied company funds for their personal gain, or otherwise conducted the affairs of the company in a manner which was unfairly prejudicial to the interest of the minority shareholders, and CAMA 2020 compliments this by providing statutory remedies for oppression and unfairly prejudicial conduct.

6. Corporate Misuse: Judicial and Statutory Reactions to Lifting the Corporate Veil

The Doctrine in Outline

The separate personality of a company is, as explained above, a legal fiction, maintained for good policy that courts will disregard, in exceptional circumstances, where the fiction would be used to evade or defraud obligations, or where an injustice would result. It is important to note that this jurisdiction is not a normal jurisdiction and that the mere fact that a company is controlled by one man or that the company was incorporated for 'limited liability' is, as in Salomon, not enough to pierce the corporate veil.[28]

Grounds for Lifting the Veil under Nigerian Law

There are multiple overlapping bases on which the courts in Nigeria can pierce the corporate veil, both in respect of local wisdom as well as persuasive English case law. The corporate veil is used to conceal fraud or improper conduct and is seen in the above-mentioned line of authority in Gilford Motor, where the company was used as a substitute for the owner, *Jones v Lipman*.[29] Second, if a company is determined to be a 'façade', or 'alter ego' or 'sham' concealing the truth, then the veil can be lifted, as the Court of Appeal in England did in *Adams v Cape Industries plc*, but with a much more narrow definition of what is sufficient to raise the veil.[30] Third, agency, in which a subsidiary is demonstrated to have been acting not in its own name, but as an agent of the parent, the courts have at times held the group to be a single economic unit, as in *DHN Food Distributors Ltd v Tower Hamlets London Borough Council*, but this again has been applied with caution in England.[31] Fourth, there is a jurisdiction of Nigerian courts to disregard corporate personality on grounds of interest of justice and public policy, under which Nigerian courts have jurisdiction to disregard corporate personality where its maintenance would be manifest injustice or cause injustice to the public.[32] Fifth, that the court, in a winding up, may impose unlimited personal liability on directors and others who were knowingly involved in the company's business with the intent to defraud its creditors under section 673(1) of CAMA 2020.[33]

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[26] Companies and Allied Matters Act 2020 (Nigeria), s.791 (3); 'Emerging Trends in Subsidiary Governance and Liability: A Nigerian Perspective'; UUBO, 2025. https://uubo.org/wp-content/uploads/2025/12/Emerging-Trends-in-Subsidiary-Governance-and-Liability-A-Nigerian-Perspective.pdf, accessed 2 September 2026.

[27] *Pan Bisbilder (Nig) Ltd v First Bank of Nigeria Ltd* [2000] 1 NWLR (Pt.642) 684 (SC).

[28] *Salomon v Salomon & Co Ltd* [1897] AC 22 (HL); *Marina Nominees Ltd v Federal Board of Inland Revenue* [1986] 2 NWLR (Pt.20) 48 (SC).

[29] *Gilford Motor Co Ltd v Horne* [1933] Ch 935; *Jones v Lipman* [1962] 1 WLR 832.

[30] *Adams v Cape Industries plc* [1990] Ch 433 (CA).

[31] DHN Food Distributors Ltd v Tower Hamlets London Borough Council [1976] 1 WLR 852 (CA).

[32] 'Piercing the Corporate Veil in Nigeria: When Courts Ignore Separate Legal Personality'; Mondaq, 2025. https://www.mondaq.com/nigeria/shareholders/1790434, accessed 2 September 2026.

[33] Companies and Allied Matters Act 2020 (Nigeria), s.673

Nigerian Case Law

The principles have been applied in a number of cases which have been heard by Nigerian courts. In the case of *Pan Bisbilder (Nig) Ltd v First Bank of Nigeria Ltd*, the Supreme Court of Nigeria reiterated the rule of the Salomon principle, that is, separate corporate personality is considered sacrosanct between related companies, as the assets and liabilities of one company in a group cannot be attributed to another company in the group without a strong reason to believe that there is any fraud or sham.[34] The general principle that a company is separate from its promoters was reaffirmed by the Nigerian courts in *Adeyemi v Lan & Baker (Nig) Ltd* where the court also noted that there is a residual jurisdiction to look through the corporate veil in 'fit and proper' cases involving fraud or improper conduct.[35] Once again in Alade v Alic (Nig) Ltd, the courts were forced to consider the circumstances in which the corporate veil may be lifted and warned that there should be no attempt to use the exception to the general rule of separate personality at the expense of the rule itself at any time.[36] More recently, in *Oboh & Anor v Nigeria Football League Ltd & Ors*, the court declared that the doctrine of the corporate veil would not be allowed to be abused to inveigle its way into the corporate, hence its continued vitality in today's Nigeria.[37]

These principles of corporate liability have also been extended in transnational litigation, and the historical case of oil pollution in the Niger Delta has seen a protracted dispute in the English courts for claims against a United Kingdom-domiciled company for the actions and inactions of its Nigerian subsidiary. *Okpabi v Royal Dutch Shell Plc* is a case in which the United Kingdom Supreme Court held a Nigerian claimant had an arguable case, to the extent that the parent company had a duty of care towards the claimant because it exercised a certain degree of control and oversight over the activities of its Nigerian subsidiary, even though it did not do so under Nigerian company law per se, but rather under English tort principles.[38]

Statutory and Regulatory Mechanisms Other than Veil-Lifting

In addition to the concept of veil lifting as developed in court, Nigerian law provides for many statutory and regulatory instruments to curtail company misuse without necessarily requiring the abandonment of the corporate personality doctrine. These include the powers of investigation of the Corporate Affairs Commission under CAMA 2020 into the affairs, membership and beneficial ownership of companies, the PSC disclosure regime discussed above, the statutory derivative action, the powers of the winding up jurisdiction to wind up companies on the ground of unfair prejudice and unfair oppressive conduct to the prejudice of the minority shareholders, powers of the Central Bank of Nigeria and sectoral regulators to investigate the affairs of companies in the course of economic and financial crimes investigation, the powers of the Economic and Financial Crimes Commission and other anti-corruption agencies to investigate the affairs of companies, disqualification of unfit directors and the powers of the winding up jurisdiction on the ground of unfair prejudice and unfair oppressive conduct to the prejudice of the minority shareholders.[39]

7. Corporate Groups and the Single Economic Unit Problem

When the parent company owns one or more subsidiaries, the tension between limited liability and corporate misuse is a serious issue, as is the proliferation of corporate groups. Under the orthodox Salomon doctrine, Nigerian law recognizes each separate company within a group as a separate legal entity, which means that, in the absence of fraud, sham or an express guarantee, the parent company will not be held liable for the debts of an insolvent subsidiary, nor will a creditor of the subsidiary have an immediate right to assert a claim against the parent company or other sister companies in the group.[40] This is sometimes said to make it easier for sophisticated corporate groups to move high risk activities into thinly capitalized subsidiaries and then to retain valuable assets in insulated affiliates, leaving involuntary creditors with an insolvent company to pursue their claims against and the group overall to be highly profitable.[41] As the Nigerian courts have been at pains to emphasize, Nigerian authorities, like those in England, have been extremely hesitant to accept a group as a single economic enterprise where the circumstances are presented as a subsidiary being a mere façade or agent of its parent, and will only do so when the traditional group liability lifting criteria (namely fraud, sham, agency in the strict sense) are satisfied independently of each other.[42] This conservative stance is doctrinally in line with the concept of the sanctity of separate personality, but it does not fully regulate the misuse of groups when it does not constitute fraud, but rather does cause a real prejudice to creditors and minority stakeholders.

[34] *Pan Bisbilder (Nig) Ltd v First Bank of Nigeria Ltd* [2000] 1 NWLR (Pt.642) 684 (SC).
[35] *Adeyemi v Lan & Baker (Nig) Ltd* [2000] 7 NWLR (Pt.663) 33.
[36] *Alade v Alic (Nig) Ltd* [2010] 19 NWLR (Pt.1226) 111.
[37] *Oboh & Anor v Nigeria Football League Ltd & Ors,* cited in 'Corporate Personality and Liability in Nigeria' (n 6).
[38] *Okpabi v Royal Dutch Shell Plc* [2021] UKSC 3; 'Corporate Personality and Liability in Nigeria' (n 6).
[39] Companies and Allied Matters Act 2020 (Nigeria), ss.862–869.
[40] *Pan Bisbilder (Nig) Ltd v First Bank of Nigeria Ltd* (n 27).
[41] Muhammed-Mikaaeel, A.A
[42] *Adams v Cape Industries plc* [1990] Ch 433 (CA).; DHN Food Distributors Ltd v Tower Hamlets London Borough Council [1976] 1 WLR 852 (CA).

8. Challenges and gaps in the Nigerian Framework

Despite the rather elaborate statutory and judicial structure outlined, a number of obstacles remain to hinder the ability of the Nigerian legal system to prevent such corporate abuse. First, despite the apparent strength of the PSC disclosure rules on paper, there are significant limitations on the capacity of the Commission to enforce them, so that as yet the PSC rules have failed to turn the huge volume of paper-based disclosures into full, accurate and public records of beneficial ownership that would help to curb the use of nominee and shell companies.[43] Second, the costs, delay and complexity of civil litigation in Nigeria make the equitable jurisdiction to pierce the corporate veil – which is normally only available where there is cogent proof of fraud or sham – in practice unobtainable for many ordinary creditors and minority shareholders, who tend to be the primary victims of the misuse of the corporate vehicle.[44] Third, Nigerian appellate courts have not always been consistent in their analysis of these cases and some of the decisions seem to have merged various grounds (for example, agency, sham and single economic unit grounds) and created a certain degree of doctrinal uncertainty to make it difficult for litigants and their counsel to predict the outcome of a case with any degree of confidence.[45] Fourth, the provisions of section 673 of CAMA 2020 on wrongful and fraudulent trading, which is a welcome innovation, have been little used in reported Nigerian decisions, perhaps because of their cost or because insolvency practitioners and liquidators have been reluctant to use them.[46] Fifth, cross-border corporate misuse, which is characterized by the use of shell (offshore) companies and multiple jurisdictions to hide ownership or to obscure assets, is outstripping the ability of the Nigerian domestic regulatory and enforcement framework, necessitating greater cooperation and mutual legal assistance amongst nations.[47]

9. Comparative Reflections

A quick comparative look is illuminating. Nigeria courts, as they try to apply the doctrine of evasion, which forms part of their doctrinal inheritance from Company Law in the United Kingdom, would do well to recognize but not necessarily mechanically follow, the narrow approach taken by the Supreme Court in *Prest v Petrodel Resources Ltd*, which limited the doctrine of 'evasion' to situations where the person is 'under an existing legal obligation which he deliberately evades or frustrates', and rejected an all-encompassing 'concealment' rationale for disregarding personality, a tendency to accept a broader principle.[48] In the United States, courts also employ an 'alter ego' or 'instrumentality' test, which looks at the level of control and domination that a parent is able to exert over a subsidiary and whether there has been any fraud or injustice, a test conceptually akin to the Nigerian test but not the same.[49] Similarly, India, whose company's legislation also has its roots in English law, has a comparatively wide range of statutory grounds for lifting the veil, such as reduction of the company's membership below the statutory minimum, or mis-description of the company's name, which may be a model for Nigeria to explicitly codify the grounds for lifting the veil.[50] The above comparative experiences indicate that the general concept of the grounds for lifting the veil are comparable to international best practice in their fundamental principles, but there is the need for a more explicit and definitive statutory description of the grounds for lifting of the veil, similar to some of the comparators, to ease the burden of the inherent uncertainty of case-by-case equitable adjudication.

10. Conclusion

This article has explored the doctrine of limited liability in the Nigerian company law and how the corporate form, despite its positive economic objectives, has and is vulnerable to abuse by those who control the company. The discussion has demonstrated that limited liability and separate corporate personality, introduced in Nigeria under section 42 of the Companies and Allied Matters Act, 2020, and entrenched jurisprudentially in Nigeria, through the House of Lords' decision in *Salomon v Salomon & Co Ltd,* continues to be a feature of the Nigerian commercial law landscape that encourages capital formation, risk-taking, entrepreneurship and a number of benefits that a system of unlimited personal liability cannot offer. The very characteristics which make the corporate form attractive to decent businessmen are equally available to promoter and controllers of companies to the detriment of creditors, minority shareholders, employees, tax authorities and the general public; and Nigerian commercial history provides no lack of instances in which promoters and controllers have taken advantage of the duality to the detriment of the parties interested in the company.

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[43] 'Emerging Trends in Subsidiary Governance and Liability: A Nigerian Perspective'; UUBO, 2025. https://uubo.org/wp-content/uploads/2025/12/Emerging-Trends-in-Subsidiary-Governance-and-Liability-A-Nigerian-Perspective.pdf, accessed 2 September 2026.

[44] Muhammed-Mikaaeel, A.A

[45] 'Piercing the Corporate Veil in Nigeria: When Courts Ignore Separate Legal Personality'; Mondaq, 2025. https://www.mondaq.com/nigeria/shareholders/1790434, accessed 2 September 2026.

[46] Liman, Y. and another; 'A Resilient Approach towards Wrongful Trading Liability under the Companies and Allied Matters Act, 2020, in Nigeria', *African Journal of International and Comparative Law*, Vol 32(3), 2024, 421.

[47] 'Emerging Trends in Subsidiary Governance and Liability: A Nigerian Perspective'; UUBO, 2025. https://uubo.org/wp-content/uploads/2025/12/Emerging-Trends-in-Subsidiary-Governance-and-Liability-A-Nigerian-Perspective.pdf, accessed 2 September 2026.

[48] *Prest v Petrodel Resources Ltd* [2013] UKSC 34.

[49] Muhammed-Mikaaeel, A.A

[50] Ibid

The article has, moreover, shown the Nigerian law to be rich with means to meet this mischief. It is important to note that there are other important corrective mechanisms in place, including the judicially developed doctrine of lifting the corporate veil, which is appropriately limited to cases of fraud, sham or other comparable improper conduct, but is an important corrective feature, and the new regime of personal liability for directors and controllers regarding wrongful trading, misfeasance and related conduct in CAMA 2020, as well as the new disclosure process for persons with significant control. However, their practical utility is undermined by a number of factors, including the lack of institutional capacity to implement the mechanisms effectively, the high cost and complexity of the litigation process required to enforce veil lifting claims, the inconsistent application of veil lifting principles in different fact situations, the relative sparsity of statutory wrongful and fraudulent trading remedies, and the increasing sophistication of schemes that involve multiple corporate layers and jurisdictions to defeat accountability.

Overall, from the above, the Nigerian law in relation to limited liability companies and their abuse can be described as good in its theory and less than satisfactory in its application. The future challenge for Nigerian company law will not be to eliminate or water down the fundamental requirements of limited liability, as essential as it is for a functioning market economy, but to make the process of discovery, investigation and redress of abuses as the law presumes exceptional cases more effective and focused, leaving it to play its legitimate economic role and not providing criminals, sharp operators and those whose injustice can be laid at their door a hiding place.

This study recommends that the Persons with Significant Control regime should be strengthened by providing more funding for the Corporate Affairs Commission, its investigative capacity and powers, including through data-matching with other government agencies like the Federal Inland Revenue Service, the Nigerian Financial Intelligence Unit and the Economic and Financial Crimes Commission, and that the National Assembly should consider amending CAMA 2020 to incorporate the main bases for the lifting of the corporate veil in explicit statutory language to reduce the doctrinal uncertainty that presently flows from purely judge-made and increase predictability for litigants, courts and corporate advisers.

More still, this article calls for greater awareness, on the part of Nigerian insolvency practitioners, the liquidators and the judiciary, of the provisions of wrongful and fraudulent trading in section 673 of the CAMA 2020 and suggests that a specific fund or a simplified procedure be put in place to cover the liquidator's costs and expenses in the prosecution of meritorious wrongful and fraudulent trading claims on behalf of the general body of creditors of a company, thereby ensuring that the cost of litigation does not effectively immunize errant directors from a remedy that Parliament provides. There should be stronger and well-resourced specialized courts tasked with the adjudication of veil lifting and other corporate misuse cases in the Federal High Court to ensure timely and consistent adjudication of such claims in a manner that does not create undue delay for aggrieved creditors and minority shareholders to enforce their legitimate claims against the company.

Again, Nigeria's involvement in international beneficial ownership transparency initiatives and mutual legal assistance agreements must be strengthened for the purposes of tracking assets and piercing corporate veil that operates across multiple jurisdictions; and, the implementation of a more coordinated intelligence-based approach to the monitoring of related party transactions within corporate groups by regulators like SEC and CBN, with a view towards the early detection of any tunneling and/or asset stripping arrangements within the corporate group, as opposed to after a corporate group has gone into insolvency proceedings. All these measures will together help reduce the room for the corporate form to be misused under Nigerian law without fear of massive consequences to the company's shareholders.