

Piercing the Corporate Veil Can Mean Double Trouble for New York and New Jersey Businesses

by Dan Brecher

Several weeks ago, we talked about [piercing the corporate veil](#) in the context of business litigation. As we noted in that post, piercing the corporate veil usually arises when a plaintiff claims that an LLC or corporation is not a distinct entity, but rather an “alter-ego” being used by the owners, members, and/or shareholders to advance their own personal interests or perpetrate a fraud. The doctrine allows courts to hold a business’s owners, members, and/or shareholders personally liable for business debts.

In a recent article in the *New Jersey Law Journal*, our colleague, Frank L. Brunetti, the Chair of our [Tax, Trusts and Estates Group](#), explained how the Internal Revenue Service (IRS) also uses alter-ego analysis in their collection efforts. As in business litigation, IRS tax lawyers will focus on whether two entities that are formally separate should be regarded as one for the purposes of collecting a debt.

Specifically, under the veil piercing or alter-ego doctrine, the IRS may levy on all of the property or rights to property of an alter-ego entity, such as a trust, corporation or LLC, to collect the liability of a taxpayer if, for example, “the separate corporate entity is merely a sham, i.e., it does not exist independent of its controlling shareholder and that it was established for no reasonable business purpose or for fraudulent purposes.” *Oxford Capital Corp. v. United States*, 211 F.3d 280, 284 (5th Cir. 2000).

The Message for New York and New Jersey Businesses

As this post highlights, piercing the corporate veil can lead to serious liability when it comes to debts owed to business partners as well as the federal government.

Therefore, it is important for New York and New Jersey businesses owners, members, and shareholders to maintain a formal legal separation between their business and their personal matters. This means observing corporate formalities like holding annual meetings, maintaining separate business bank accounts, and avoiding any commingling of funds.

The full *New Jersey Law Journal* article is available [here](#), although a subscription is required.