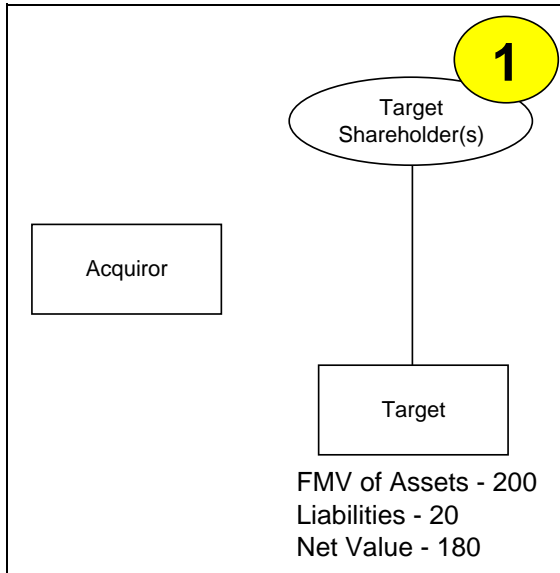


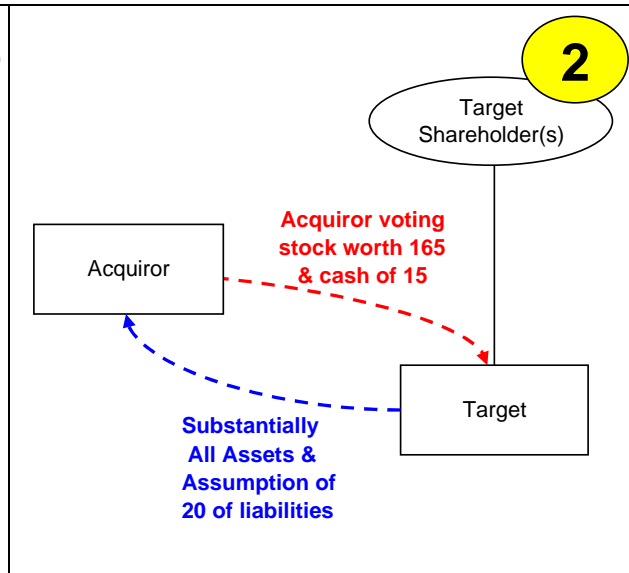
# 368(a)(2)(B) - C Reorganization - Boot Relaxation Rule

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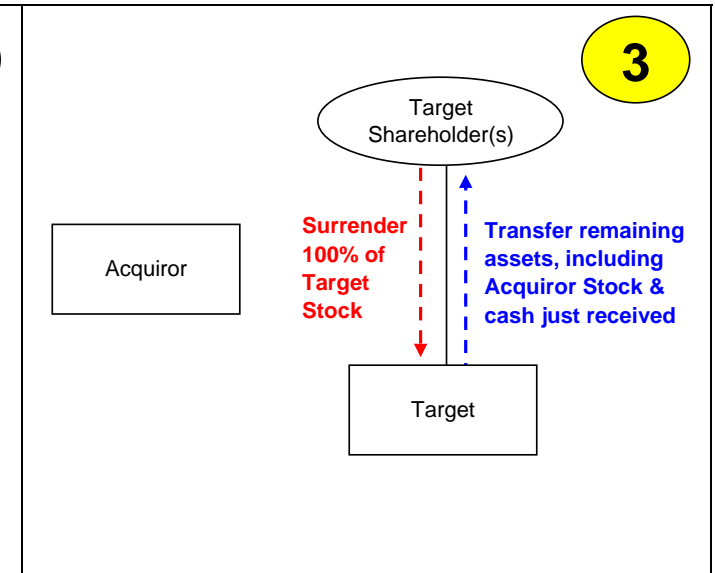
## Initial Structure



## Target Asset Transfer



## Target Liquidation



Boot Relaxation Rule (section 368(a)(2)(B)): "If . . . one corporation acquires substantially all of the properties of another corporation, . . . the acquisition would qualify under paragraph (1)(C) but for the fact that the acquiring corporation exchanges money or other property in addition to voting stock, and . . . the acquiring corporation acquires, solely for voting stock described in paragraph (1)(C), property of the other corporation having a fair market value which is at least 80 percent of the fair market value of all of the property of the other corporation, then such acquisition shall . . . be treated as qualifying under paragraph (1)(C). . . . [T]he amount of any liability assumed by the acquiring corporation shall be treated as money paid for the property."

In the above example, the amount of the boot equals 35 (cash of 15 and liabilities assumed of 20). Non-boot equals 165. Total consideration was 200. Boot was 17.5% of total consideration. Thus, the boot relaxation rule applies (less than 20%) and the transfers qualify as a C reorganization.

If Target has substantial liabilities, then the boot relaxation rule cannot be used.

## Ending Point

