

Reg. 1.1031(d)-2, Example 1

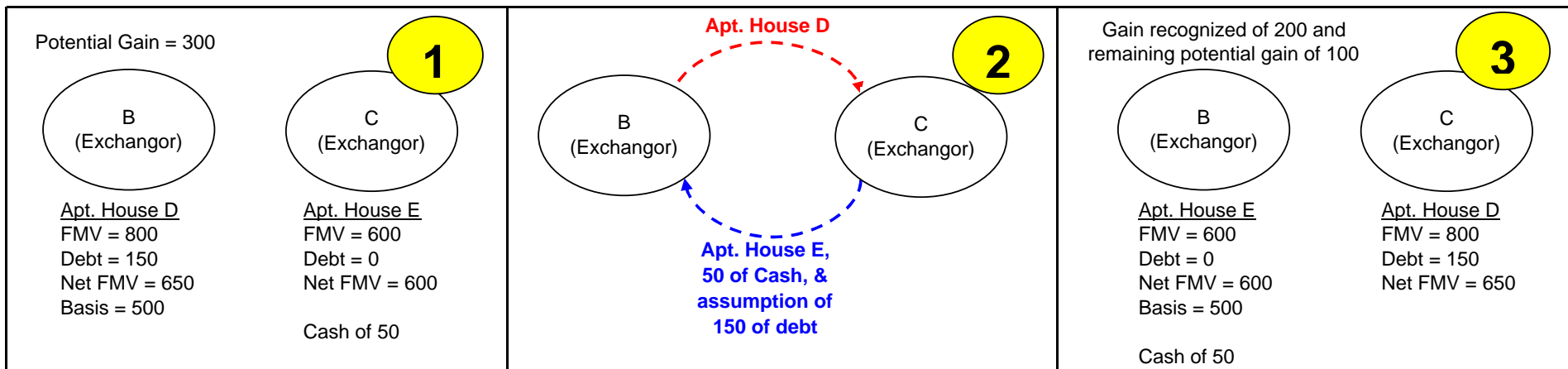
**Two Party Like-Kind Exchange:
Assumption of Liabilities**

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Initial Structure

Exchange

Ending Point



B, an individual, owns an apartment house (Apartment House D) which has an adjusted basis in his hands of \$500,000, but which is subject to a mortgage of \$150,000. On September 1, 1954, he transfers the apartment house to C, receiving in exchange therefor \$50,000 in cash and another apartment house (Apartment House E) with a fair market value on that date of \$600,000. The transfer to C is made subject to the \$150,000 mortgage. B realizes a gain of \$300,000 on the exchange.

Gain Realized

Value of property received	\$600,000
Cash received	50,000
Liabilities relieved	<u>150,000</u>
Total consideration received	800,000
Less: Adjusted basis of property transferred	<u>500,000</u>
Gain realized	<u>300,000</u>

Basis of Apt. House E

Adjusted basis of property transferred	\$500,000
Less: Amount of money received:	
Cash	50,000
Liabilities relieved	<u>150,000</u>
	200,000
	300,000
Plus: Amount of gain recognized upon the exchange	<u>200,000</u>
Basis of Apt. House E	<u>500,000</u>

Under section 1031(b), \$200,000 of the \$300,000 gain is recognized by B (the lesser of boot [200,000] or gain [300,000]). The basis of the apartment house acquired by B upon the exchange is \$500,000 as calculated above.