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**: 150,000
- **Total consideration received**: 800,000
- **Less: Adjusted basis of property transferred**: 500,000
- **Gain realized**: 300,000

### Basis of Apt. House E

- **Adjusted basis of property transferred**: $500,000
- **Less: Amount of money received:**
  - **Cash**: 50,000
  - **Liabilities relieved**: 150,000
- **Total consideration received**: 200,000
- **Plus: Amount of gain recognized upon the exchange**: 200,000
- **Basis of Apt. House E**: 500,000

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.