

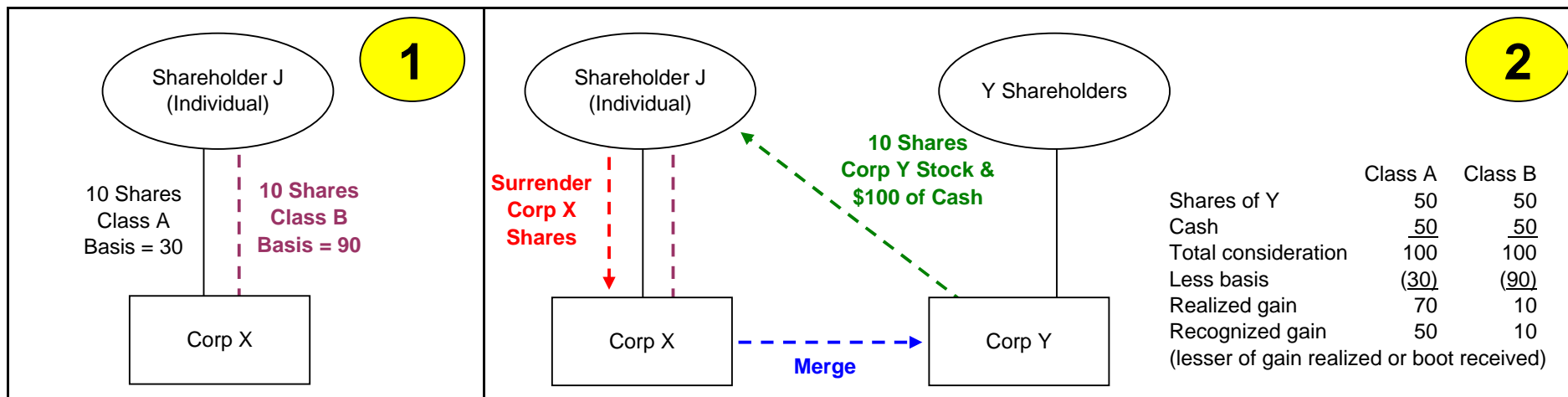
**Reg. 1.356-1(d),  
Example 3**

**Boot Allocation in Merger -  
Terms Not Specified**

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**Share Holdings**

**Merger**



J, an individual, acquired 10 shares of Class A stock of Corporation X on Date 1 for \$3 each and 10 shares of Class B stock of Corporation X on Date 2 for \$9 each. On Date 3, Corporation Y acquires the assets of Corporation X in a reorganization under section 368(a)(1)(A). Pursuant to the terms of the plan of reorganization, J surrenders all of J's shares of Corporation X stock for 10 shares of Corporation Y stock and \$100 of cash. On the date of the exchange, the fair market value of each share of Class A stock of Corporation X is \$10, the fair market value of each share of Class B stock of Corporation X is \$10, and the fair market value of each share of Corporation Y stock is \$10. The terms of the exchange do not specify that shares of Corporation Y stock or cash are received in exchange for particular shares of Class A stock or Class B stock of Corporation X.

Because the terms of the exchange do not specify that the cash is received in exchange for shares of Class A or Class B stock of Corporation X, a pro rata portion of the cash received is treated as received in exchange for each share of Class A stock of Corporation X and each share of Class B stock of Corporation X based on the fair market value of the surrendered shares. Therefore, J is treated as receiving shares of Corporation Y stock with a fair market value of \$50 and \$50 of cash in exchange for its shares of Class A stock of Corporation X and shares of Corporation Y stock with a fair market value of \$50 and \$50 of cash in exchange for its shares of Class B stock of Corporation X. J realizes a gain of \$70 on the exchange of shares of Class A stock, \$50 of which is recognized and J realizes a gain of \$10 on the exchange of shares of Class B stock of Corporation X, all of which is recognized. Assuming that J's gain recognized is not treated as a dividend under section 356(a)(2), such gain shall be treated as gain from the exchange of property.

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