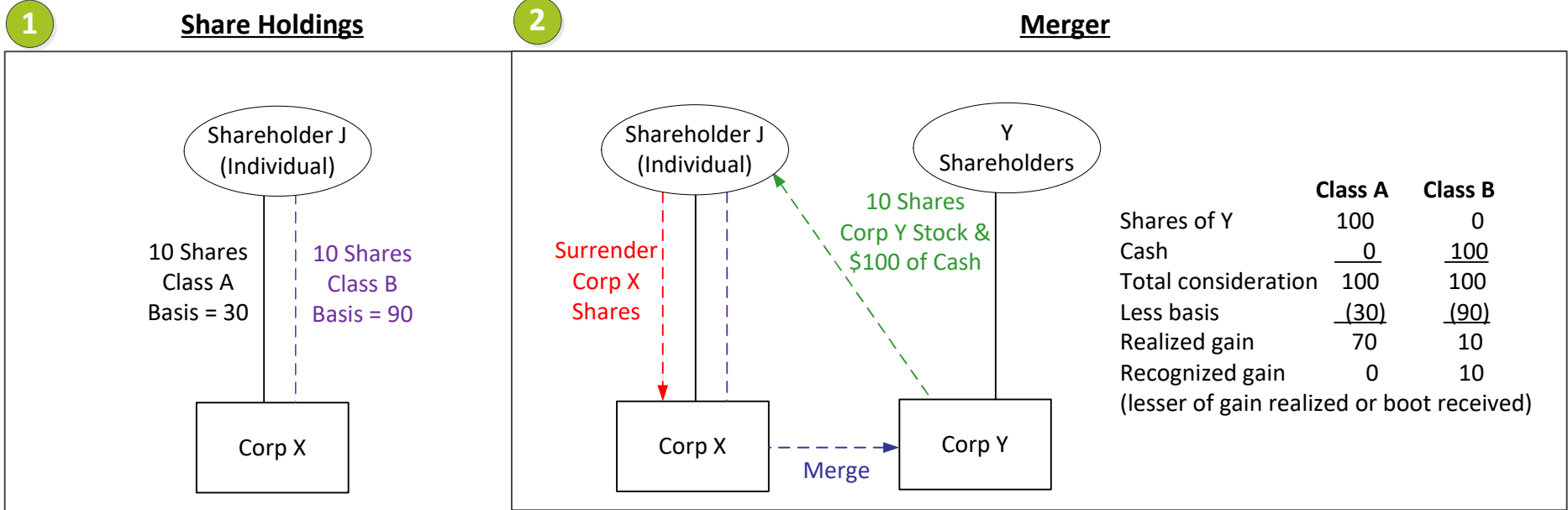


**Boot Allocation in Merger –  
Terms Specified**



(i)Facts. 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 receives 10 shares of stock of Corporation Y in exchange for J's shares of Class A stock of Corporation X and \$100 of cash in exchange for J's shares of Class B stock of Corporation X. 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.

(ii)Analysis. Because the terms of the exchange specify that J receives 10 shares of stock of Corporation Y in exchange for J's shares of Class A stock of Corporation X and \$100 of cash in exchange for J's shares of Class B stock of Corporation X and such terms are economically reasonable, such terms control. J realizes a gain of \$70 on the exchange of shares of Class A stock, none of which is recognized under section 356 and paragraph (a) of this section, and J realizes a gain of \$10 on the exchange of shares of Class B stock of Corporation X, all of which is recognized under section 356 and paragraph (a) of this section.