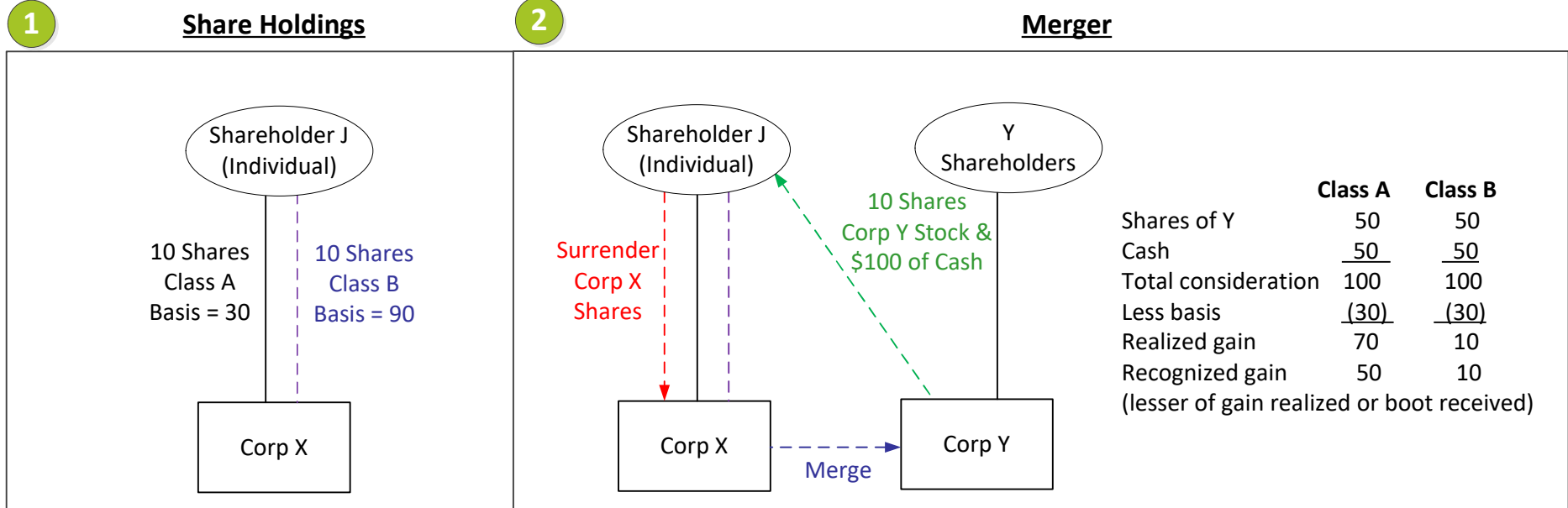


Boot Allocation in Merger - Terms Not Specified



(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 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.

(ii) Analysis. Under paragraph (b) of this section, 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 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. 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.