

(c) The application of paragraphs (a) and (b) of this section may be illustrated by the following examples:

Example (1). A, an individual, owns stock in Corporation X with an adjusted basis of \$1,000. In a transaction qualifying under section 356 (so far as such section relates to section 354), he exchanged this stock for 20 shares of stock of Corporation Y worth \$1,200 and securities of Corporation Y worth \$400. A realizes a gain of \$600 of which \$400 is recognized. The adjusted basis in A's hands of each share of the stock of Corporation Y is \$50 determined by allocating the basis of the stock of Corporation X ratably to the stock of Corporation Y received in the exchange. The securities of Corporation Y have a basis in the hands of A of \$400.

Example (2). B, an individual, owns a security in the principal amount of \$10,000 with a basis of \$5,000. In a transaction to which section 354 is applicable, he exchanges this security for four securities in the principal amount of \$750 each, worth \$800 each, four securities in the principal amount of \$750 each, worth \$600 each, class A common stock worth \$1,000, and class B common stock worth \$400. B realizes a gain of \$2,000, none of which is recognized. The basis of his original security, \$5,000, will be allocated 32/70ths to the four securities worth \$800, 24/70ths to the four securities worth \$600, 10/70ths to the class A common stock, and 4/70ths to the class B common stock.

Example (3). C, an individual, owns stock of Corporation Y with a basis of \$5,000 and owns a security issued by Corporation Y in the principal amount of \$5,000 with a basis of \$5,000. In a transaction to which section 354 is applicable, he exchanges the stock of Corporation Y for stock of Corporation Z with a value of \$6,000, and he exchanges the security of Corporation Y for stock of Corporation Z worth \$1,500 and a security of Corporation Z in the principal amount of \$4,500 worth \$4,500. No gain is recognized to C on either exchange. The basis of the stock of Corporation Z received for the stock of Corporation Y is \$5,000. The bases of the stock and security of Corporation Z received in exchange for the security of Corporation Y are \$1,250 and \$3,750, respectively.

Example (4). D, an individual, owns stock in Corporation M with a basis of \$15,000, worth \$40,000, and owns a security issued by Corporation M in the principal amount of \$5,000 with a basis of \$4,000. In a transaction qualifying under section 356 (so far as such section relates to section 355), he exchanges the security of Corporation M for a security of Corporation O (a controlled corporation) in the principal amount of \$5,000, worth \$5,000, and exchanges one-half of his stock of Corporation M for stock of Corporation O worth \$15,000 and a security of Corporation O in the principal amount of \$5,000, worth \$5,000. All

of the stock and securities of Corporation O are distributed pursuant to the transaction. D realizes a gain of \$12,500 on the exchange of the stock of Corporation M for the stock and security of Corporation O of which \$5,000 is recognized. D also realizes a gain of \$1,000 on the exchange of a security of Corporation M for a security of Corporation O, none of which is recognized. The basis of his stock of Corporation M held before the transaction is allocated 20/35ths to the stock of Corporation M held after the transaction and 15/35ths to the stock of Corporation O. The basis of the security of Corporation O received in exchange for his security of Corporation M is \$4,000, the basis of the security of Corporation M exchanged. The basis of the security of Corporation O received with respect to D's stock of Corporation M is \$5,000, its fair market value.

[T.D. 6500, 25 FR 11607, Nov. 26, 1960, as amended by T.D. 7616, 44 FR 26869, May 8, 1979; T.D. 8648, 60 FR 66079, Dec. 21, 1995]

§ 1.358-3 Treatment of assumption of liabilities.

(a) For purposes of section 358, where a party to the exchange assumes a liability of a distributee or acquires from him property subject to a liability, the amount of such liability is to be treated as money received by the distributee upon the exchange, whether or not the assumption of liabilities resulted in a recognition of gain or loss to the taxpayer under the law applicable to the year in which the exchange was made.

(b) The application of paragraph (a) of this section may be illustrated by the following examples:

Example (1). A, an individual, owns property with an adjusted basis of \$100,000 on which there is a purchase money mortgage of \$25,000. On December 1, 1945, A organizes Corporation X to which he transfers the property in exchange for all the stock of Corporation X and the assumption by Corporation X of the mortgage. The capital stock of the Corporation X has a fair market value of \$150,000. Under sections 351 and 357, no gain or loss is recognized to A. The basis in A's hands of the stock of Corporation X is \$75,000, computed as follows:

Adjusted basis of property transferred	\$100,000
Less: Amount of money received (amount of liabilities assumed)	—25,000
	75,000
Basis of Corporation X stock to A	75,000

Example (2). A, an individual, owns property with an adjusted basis of \$25,000 on which there is a mortgage of \$50,000. On December 1, 1954, A organizes Corporation X to

which he transfers the property in exchange for all the stock of Corporation X and the assumption by Corporation X of the mortgage. The stock of Corporation X has a fair market value of \$50,000. Under sections 351 and 357, gain is recognized to A in the amount of \$25,000. The basis in A's hands of the stock of Corporation X is zero, computed as follows:

Adjusted basis of property transferred	\$25,000
Less: Amount of money received (amount of liabilities)	—50,000
Plus: Amount of gain recognized to taxpayer	25,000
Basis of Corporation X stock to A	0

§ 1.358-4 Exceptions.

(a) *Plan of reorganization adopted after October 22, 1968.* In the case of a plan of reorganization adopted after October 22, 1968, section 358 does not apply in determining the basis of property acquired by a corporation in connection with such reorganization by the exchange of its stock or securities (or by the exchange of stock or securities of a corporation which is in control of the acquiring corporation) as the consideration in whole or in part for the transfer of the property to it. See section 362 and the regulations pertaining to that section for rules relating to basis to corporations of property acquired in such cases.

(b) *Plan of reorganization adopted before October 23, 1968.* In the case of a plan of reorganization adopted before October 23, 1968, section 358 does not apply in determining the basis of property acquired by a corporation in connection with such reorganization by the issuance of stock or securities of such corporation (or by the issuance of stock or securities of another corporation which is in control of such corporation) as the consideration in whole or in part for the transfer of the property to it. The term *issuance of stock or securities* includes any transfer of stock or securities, including stock or securities which were purchased or were acquired as a contribution to capital. See section 362 and the regulations pertaining to that section for rules relating to basis to corporations of property acquired in such cases.

[T.D. 7422, 41 FR 26569, June 28, 1976]

§ 1.358-5 [Reserved]

§ 1.358-6 Stock basis in certain triangular reorganizations.

(a) *Scope.* This section provides rules for computing the basis of a controlling corporation in the stock of a controlled corporation as the result of certain reorganizations involving the stock of the controlling corporation as described in paragraph (b) of this section. The rules of this section are in addition to rules under other provisions of the Internal Revenue Code and principles of law. See, e.g., section 1001 for the recognition of gain or loss by the controlled corporation on the exchange of property for the assets or stock of a target corporation in a reorganization described in section 368.

(b) *Triangular reorganizations—(1) Nomenclature.* For purposes of this section—

(i) *P* is a corporation—

(A) That is a party to a reorganization,

(B) That is in control (within the meaning of section 368(c)) of another party to the reorganization, and

(C) Whose stock is transferred pursuant to the reorganization.

(ii) *S* is a corporation—

(A) That is a party to the reorganization, and

(B) That is controlled by *P*.

(iii) *T* is a corporation that is another party to the reorganization.

(2) *Definitions of triangular reorganizations.* This section applies to the following reorganizations (which are referred to collectively as *triangular reorganizations*):

(i) *Forward triangular merger.* A forward triangular merger is a statutory merger of *T* and *S*, with *S* surviving, that qualifies as a reorganization under section 368(a)(1)(A) or (G) by reason of the application of section 368(a)(2)(D).

(ii) *Triangular C reorganization.* A triangular C reorganization is an acquisition by *S* of substantially all of *T*'s assets in exchange for *P* stock in a transaction that qualifies as a reorganization under section 368(a)(1)(C).

(iii) *Reverse triangular merger.* A reverse triangular merger is a statutory merger of *S* and *T*, with *T* surviving,