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From Land To Riches, The Power Of The 1031 Tax Deferred Exchange

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If you own vacant land, by now you have received your tax notice; that pesky bit of mail that shows up yearly instructing you to send in your check. As Northern Colorado continues to grow, the demand and prices for buildable vacant land has increased. Through the power of a 1031 Tax Deferred Exchange, land owners are turning their vacant land from an expense into monthly profits.

The 1031 provision of the tax code allows an investor to sell a property and reinvest in a "like-kind" investment without paying Uncle Sam the capital gains taxes which can average 20% of the profits. Many people misunderstand this and think you must exchange vacant land for vacant land. In fact, the rules are quite liberal. You can exchange dryland pasture for a townhouse or farmland for an office building. Through the 1031 process, what once was vacant land sitting idle, transforms into a residential or commercial rental bringing in significant monthly rental income.

As with anything with the IRS, you must follow the rules. You must be certain that the property you are selling qualifies for a 1031 Exchange and there are strict timelines to find and close on a replacement property. Most importantly, you will need to enlist the help of a Qualified Intermediary to handle the exchange, as you may not receive the funds from your sale. It may seem overwhelming, but a qualified tax professional and real estate professional can help you simplify the process and navigate the details.

