The inheritance tax (G.S. 105-2 through 105-32) was repealed effective January 1, 1999, and applied to the estates of decedents dying on or after that date. The inheritance tax was assessed on property or interest over which the State had jurisdiction when the title passed by will, contract, entirety, or by descent and distribution. The property was taxed based on one of three graduated rate scales determined by the relationship of the beneficiary to the decedent. Certain tax credits applied to property passing to lineal ancestors or descendants. [Property passing to a surviving spouse was exempt, along with other types of property.] When the combined total of inheritance taxes was less than the credit allowed under the basic rates of the federal estate tax, a supplementary estate tax was imposed equal to the difference between the total North Carolina inheritance tax and the maximum state death tax credit allowed by the Federal Estate Tax Act. When the inheritance tax was repealed, the estate tax was retained. The estate tax is the amount of the state death tax credit that (as of December 31, 2001) would have been allowed under section 2011 of the IRC against federal taxable income and is limited to the amount of federal estate tax determined without regard to the deduction for state death taxes allowed under sections 2011-2015 of the IRC. Effective January 1, 2006, the State increased the allowable exemption from $1.5 to $2.0 million to conform with the federal estate tax. The 2002 General Assembly conformed North Carolina exclusion amounts to the federal exclusion amounts, but amended G.S. 105-32.2(b), electing not to adopt the phase-out provision.

For decedents dying on or after January 1, 2005, the North Carolina estate tax is the amount of the state death tax credit that (as of December 31, 2001) would have been allowed under section 2011 of the IRC against federal taxable income and is limited to the amount of federal estate tax determined without regard to the deduction for state death taxes allowed under section 2058 of the IRC and the tax credits allowed under sections 2011-2015 of the IRC. Effective January 1, 2006, the State increased the allowable exemption from $1.5 to $2.0 million to conform with the federal estate tax.

1994-95 through 1998-99

Estate taxes are due to be filed nine months from the date of death, as were inheritance taxes. Since the repeal became effective for estates of decedents dying on or after January 1, 1999, the effect of the law change was first reflected in 1999-00 collections. The 1999-00 collections also include revenue generated from estates subject to the inheritance tax statutes.

![Figure 5.1 Estate Tax and Inheritance Tax Net Collections to General Fund and % Change](image-url)