


POLICY CONSIDERATIONS FOR CANNABIS REGULATION IN INDIANA



It has been more than 50 years since Oregon became the first U.S. state to decriminalize possession of cannabis. Decriminalization does not make cannabis legal, but it does make possession of small amounts for personal consumption a non-criminal offense, typically like a traffic ticket. Most states have gone much further than decriminalizing cannabis and legalized some form of cannabis supply. Today, roughly half of U.S. states allow legal supply and possession of recreational cannabis for adults ages 21 and older, and 40 states allow cannabis to be supplied and used for certain medical conditions.

Policy conversations about cannabis regulation have been taking place in Indiana for the last several years. As these discussions evolve, the Richard M. Fairbanks Foundation commissioned RAND to conduct a study to provide information about different policy options and their implications. [This summary captures key highlights from the full report.](#)



WHERE INDIANA STANDS TODAY

Indiana is one of the most restrictive states in the country when it comes to cannabis policy, yet most Hoosiers can easily access intoxicating hemp products and/or marijuana.

While Indiana is the most restrictive in the nation when it comes to cannabis policy, three of its four neighboring states — Illinois, Michigan, and Ohio — now allow recreational cannabis sales, and the fourth, Kentucky, allows medical use and sales.

Further, intoxicating hemp products — some of which include the main psychoactive compound in cannabis, delta-9 THC — are widely sold in Indiana with minimal regulation. Since 2023, both Republican and Democratic Indiana lawmakers have introduced bills to loosen certain cannabis restrictions, fueled in part by the ease of access created by Indiana's landscape factors, but these efforts have not resulted in policy change.

Given the policy environments in bordering states and the proliferation of intoxicating hemp products, Indiana's policy questions are more complex than those faced by some other states that have legalized or otherwise relaxed their approach to marijuana. Indiana also has more options to consider because the state does not have an existing licensed medical cannabis industry.



POLICY OPTIONS FOR INDIANA

If Indiana chooses to evaluate and potentially shift its cannabis policy, it has several options. Policy design features have significant consequences, so these decisions should be weighed carefully and considered in relation to the state's goals.

OPTION 1: MAINTAIN THE STATUS QUO OF ILLEGALITY

Possessing, supplying, and distributing cannabis are illegal in Indiana, and one path forward would be to keep the status quo. To better understand the state's current approach, the availability of cannabis in Indiana, and key facts about usage rates, criminal justice, public health, and consumer spending, please see the companion to this summary brief, *Indiana's Cannabis Landscape*.

OPTION 2: REDUCE CRIMINAL PENALTIES FOR POSSESSION

Indiana could reduce some of the impacts of criminalizing cannabis possession without legalizing sales and use. This could occur through any of the following approaches:

- ▶ **Deprioritize:** Direct law enforcement to treat cannabis possession as a low or the lowest priority.
- ▶ **Depenalize:** Reduce fines or jail time for possession.
- ▶ **Decriminalize:** Remove criminal penalties for small amounts of cannabis possession and issue civil citations.

Indiana could also ease the burden of past cannabis offenses by making it easier to expunge or seal past records. The state could, for example, shorten the timeline to be eligible for expungement, provide support for record-clearing, or automatically expunge or seal certain convictions after a set period.



OPTION 3: CREATE A REGULATED RECREATIONAL MARKET

Indiana could choose to allow and regulate cannabis sales to adults. If the state were to legalize cannabis, it would be necessary to make major policy decisions about how to structure the system. These decisions can be grouped into key policy levers known as the “14 Ps.” They include:

- 1 PRODUCTION** Who can grow cannabis, under what rules, and how much?
- 2 PROFIT MODEL** What types of entities – for-profit, government, non-profit, home producers – can produce and sell cannabis?
- 3 POWER TO REGULATE** Which state agency oversees the market?
- 4 PROMOTION** Which advertising and marketing mechanisms are allowed?
- 5 PREVENTION & TREATMENT** Will new revenue fund public health programs?
- 6 POLICING & ENFORCEMENT** How stringently will violations be enforced, especially with respect to the illegal market?
- 7 PENALTIES** What consequences and sanctions apply to those who violate cannabis regulations post-legalization?
- 8 PRIOR CRIMINAL RECORDS** Should past cannabis convictions be cleared, and if so, for which offenses?
- 9 PRODUCT TYPES** What forms are allowed (e.g., flower, edibles, vapes)?
- 10 POTENCY LIMITS** Should THC levels be capped?
- 11 PRODUCT TESTING & SAFETY** How will products be tested and labeled?
- 12 PRICE & TAXATION** How heavily should cannabis be taxed, and how should taxes be structured (e.g., taxing as a percentage of price, taxing based on THC content)?
- 13 PREFERENCES FOR LICENSES** How many licenses will be made available, and how should they be allocated?
- 14 PERMANENCY** Should legalization include a sunset clause allowing policymakers to revisit decisions and potentially change course?

These decisions will influence a variety of outcomes, including public health, public safety, and state costs and revenues.

OPTION 4: LEGALIZE MEDICAL CANNABIS

Every state that has legalized recreational cannabis first legalized medical cannabis. If Indiana were to consider legalization for medical use only, the state would still confront many — if not most — of the 14 Ps associated with adult-use markets, along with at least four additional considerations:

- ▶ **Who can make medical cannabis recommendations?** Some states allow only licensed physicians to make recommendations, while others allow licensed medical professionals, such as nurse practitioners, to make recommendations.
- ▶ **What medical conditions qualify for use?** Some states only allow medical cannabis to be used for a limited number of conditions or symptoms, while others are less restrictive.
- ▶ **How much does it cost to get a medical cannabis recommendation?** States often require patients to register with the state and pay a fee for a medical recommendation card that they can present to suppliers and law enforcement officials.
- ▶ **Who can serve as a caregiver?** Since some medical cannabis patients are unable to travel to dispensaries or grow cannabis at home, states typically allow individuals to serve as designated caregivers who can grow or otherwise procure cannabis for patients.

Medical programs vary widely in restrictiveness. More restrictive policies tend to generate less tax revenue, but they may also limit industry growth and reduce unintended consequences — for example, youth access to cannabis.

COSTS AND REVENUE ASSOCIATED WITH LEGALIZATION

Government costs do not go away when cannabis becomes legal. Law enforcement costs may decrease, but those savings can be offset or even exceeded by increases in regulatory costs. Both costs and revenue estimates are shaped by specific policy design choices (see Section 2).

POTENTIAL COSTS

Cannabis prohibition carries measurable costs. Under Indiana's current system of illegalization, the estimated cost to Indiana's criminal justice system is \$10 million to \$20 million per year. This includes costs for policing, court processing, incarceration, and probation.

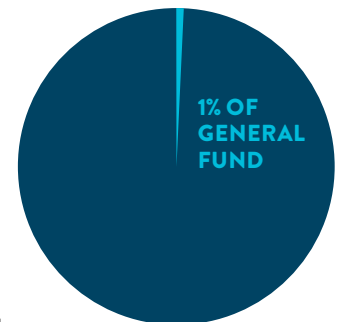


However, legalizing adult cannabis use would not eliminate costs for the state. For example, cannabis-related DUIs and underage possession would likely still be prohibited. Costs related to regulating a legal adult-use cannabis market could include licensing, inspections and compliance, testing, data tracking and analysis, and illegal market enforcement. Potential costs to the state would depend heavily on the regulatory model chosen and would likely be in the low tens of millions of dollars annually, not including startup costs. At the high end, these regulatory costs could exceed existing criminal justice costs related to cannabis prohibition. Minimizing regulation could reduce some costs, but it would also risk poor compliance.

POTENTIAL REVENUE

Based on estimates of Hoosiers' current cannabis spending across illegal purchases, intoxicating hemp product purchases, and purchases made in neighboring states, if Indiana were to legalize adult recreational cannabis sales, it would generate an estimated \$180 million annually in tax revenue five years out.

That amounts to roughly 1% of Indiana's \$18 billion general fund.



The revenue reality could be higher or lower, depending on factors such as potential changes in spending after legalization, the amount of revenue captured by licensed and taxed Indiana vendors, and the effective tax rate. In a conservative scenario, the estimated annual tax revenue would be approximately \$100 million. In a scenario where there are greater increases in cannabis use and most of that spending takes place at licensed Indiana vendors, annual tax revenue could be up to \$270 million. These projections do not account for potential savings elsewhere in state and local budgets, such as reduced criminal justice spending (described above), or potential impacts on public health spending, which are unclear.

AFTER LEGALIZATION: LESSONS LEARNED FROM OHIO AND ARIZONA

Researchers examined the implications of legalization in two states with similar political landscapes to Indiana's: Arizona and Ohio. Policy considerations emerging from that review include:

▶ **Medical legalization can affect adult-use rollout.**

In both Arizona and Ohio, existing medical cannabis businesses helped drive adult-use legalization and were favored in retail licensing processes. If Indiana legalizes for-profit medical cannabis, especially via dispensaries, it may strongly influence — or accelerate — future adult-use expansion.

▶ **Unlicensed intoxicating hemp poses challenges.**

To prevent competition with licensed dispensaries, both states have recently cracked down on unregulated intoxicating hemp products.

▶ **Wholesale prices drop significantly after legalization.** After a state legalizes adult cannabis use, there will likely be decreases in production costs and wholesale prices, especially if the state does not impose limits on total cannabis production.

▶ **State and local control shape retail markets.**

Arizona and Ohio both capped the number of retail dispensaries statewide. Both allowed local governments to opt out of allowing retail cannabis stores within their borders. However, even where stores are banned locally, adult possession and home growing is still legal.

▶ **Litigation is likely.** Legal challenges related to license denials and regulatory decisions should be anticipated and incorporated into projected regulatory and administrative costs.

FEDERAL LAW CONSIDERATIONS

Indiana's current intoxicating hemp marketplace may change significantly within the next year. New federal legislation that is scheduled to go into effect in November 2026 will close the legal loophole that allows most intoxicating hemp sales; however, federal bills have been introduced to delay or repeal this ban. If it does go into effect, the impact on the market will depend upon federal, state, and local enforcement.

