



## Potential Tax Revenue from a Regulated Cannabis Market: Illinois

Every day across Illinois, individuals purchase cannabis on the unregulated, illegal market. Cannabis prohibition not only fails to stop these sales, it also prevents the state from realizing tax revenue on them. This brief analysis estimates the tax revenue Illinois stands to gain if it replaces cannabis prohibition with a system of regulation and taxation. These figures are based on a \$50 per ounce excise tax and Illinois' standard 6.25% sales tax. We use federal data to estimate the amount of marijuana consumed in the state.

**Annual consumption:** Because the adult-use cannabis market in Illinois is currently unregulated, it's impossible to precisely quantify how much marijuana is consumed. This projection uses federally gathered information to develop an estimate of marijuana consumption. Based on a February 2014 White House report,<sup>1</sup> Americans consume between 4,198 metric tons (MT) and 8,396 MT of cannabis each year.<sup>2</sup>

According to a 2014 survey conducted by the National Survey on Drug Use and Health (NSDUH), 750,000 adults in Illinois reported consuming marijuana in the past month.<sup>3</sup> Nationwide, the NSDUH reported that 19,203,000 adults used marijuana on a monthly basis.<sup>4</sup> Thus, Illinois' proportion of marijuana consumers is 3.91% of the total in the U.S.

By applying the proportion of marijuana consumers who live in Illinois to the nationwide estimate of total consumption, we estimate that between 163.96 MT (5,783,481 ounces) and 327.92 MT (11,566,962 ounces) of cannabis are consumed each year in Illinois.

Importantly, this figure includes only Illinois' own residents and excludes the potential tax windfall that could take place should Illinois become the first state in the region to regulate marijuana for adult use. As a 2015 report from the RAND Corporation found, states that are among the first to make marijuana legal in a region could realize far more tax revenue — perhaps even exponentially more — due to the influx of tourists.<sup>5</sup> Those estimates are not included here.

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<sup>1</sup> "What America's Users Spend on Illegal Drugs: 2000-2010." Prepared for the Office of National Drug Control Policy by the RAND Corporation. February 2014.

<sup>2</sup> *Id.* at figure 5.5 (p. 58).

<sup>3</sup> <https://www.samhsa.gov/data/sites/default/files/1/1/NSDUHsaellinois2014.pdf>

<sup>4</sup> <https://www.samhsa.gov/data/sites/default/files/NSDUHsaeNational2014.pdf>

<sup>5</sup> Caulkins, Kilmer, Kleiman, MacCoun, Midgette, Oglesby, Pacula, Reuter, Considering Marijuana Legalization, Insights for Vermont and Other Jurisdictions, RAND Corporation, 2015.

*Excise tax revenue:* This estimate assumes a \$50-per-ounce excise tax will apply, and it excludes current medical marijuana sales, which would presumably not be subject to the tax. Accordingly, the annual consumption rate for adults is adjusted to remove registered patients from adult-use figures.

Of the 750,000 past-month consumers in Illinois, approximately 16,000 are currently registered patients,<sup>6</sup> or roughly 2.13%. Reducing the projected amount of marijuana consumed in Illinois by that figure leaves 5,660,100 to 11,320,200 ounces that would be taxed.

Based on a \$50 per ounce excise tax and using the low and high US annual marijuana consumption rates from above, Illinois could expect between roughly **\$283 million to \$566 million** in excise taxes once regulated businesses are fully ramped up and meeting current demand.

*Sales tax revenue:* In order to calculate sales tax, it is necessary to know the price of nonmedical cannabis. The average price of marijuana in Colorado – which has a fully implemented legal market, unlike Illinois illicit market – is around \$187 per ounce.<sup>7</sup>

Using Colorado’s marijuana prices, and Illinois’ 6.25% marijuana sales tax, each ounce sold legally in the state would yield around \$11.71 in retail taxes. Based on low and high-end annual estimates for marijuana consumption in Illinois – and excluding registered patients – the potential range of revenue would fall between **\$66 million and \$133 million** per year.

*Additional revenue sources:* Taxed and regulated marijuana markets also create additional revenue sources for the state, such as additional income taxes, license and registration fees, and ancillary businesses such as construction, testing labs, suppliers, professionals, and many others. The calculation of the net revenue from these sources is beyond the scope of this estimate.

*Total Estimated Tax Revenue:* Once legal marijuana production and stores are fully up and running in a regulated system, we believe **Illinois could realize between \$349 million and \$699 million** in new excise tax revenue and sales tax revenue each year.

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<sup>6</sup> <http://www.chicagotribune.com/business/ct-medical-marijuana-growing-pains-0205-biz-20170203-story.html>

<sup>7</sup> <http://www.priceofweed.com/prices/United-States/Illinois.html>

<sup>8</sup> Jack Kaskey “As pot prices plunge, growers scramble to cut their costs,” *Bloomberg News*, January 21, 2017.