

Data brief

Business Formations in Wisconsin

Junjie Guo
 Center for Research on the Wisconsin Economy
 University of Wisconsin – Madison
 May 15, 2023

Executive summary

Business applications for April 2023, adjusted for seasonal variation, were 5,229, **a decrease of 1.88% from a month ago**.

374 business applications are projected to have their first instance of payroll tax liabilities, an indication of business formation, within four quarters, **a decrease of 7.65% from a month ago**.

Actual business formations were last observed for December 2019, when business applications were 3,805 and 287 of them had their first instance of payroll tax liabilities within four quarters.

Among them, the average time between business application and formation is 1.53 quarters, compared to 1.59 quarters for the Midwest and 1.62 quarters for the United States.

Business Formations in Wisconsin

	Value	Monthly growth (%)
Business applications, 4/2023		
Total	5,229	-1.88
High propensity	1,526	-8.51
With planned wages	647	-10.14
From corporations	264	-15.92
Payroll taxes within 4 quarters (projected)	374	-7.65
Business applications, 12/2019		
Total	3,805	
Payroll taxes within 4 quarters (actual)	287	
Quarters from application to formation	1.53	
Quarters from application to formation: Midwest	1.59	
Quarters from application to formation: US	1.62	

Data briefs are short, timely reports that use data to highlight economic issues of importance to policy makers, business leaders, and the public. This brief, and the data and code that underlie it, are available at crowe.wisc.edu. The views expressed herein are those of the authors and not necessarily those of the Center for Research on the Wisconsin Economy, the Department of Economics, or the University of Wisconsin.

Business Applications

One of the first steps to start an employer business is to apply for an Employer Identification Number (EIN) with the IRS.¹ Figure 1 plots the seasonally adjusted monthly business applications in Wisconsin. Business applications were 5,229 for April 2023, a decrease of 1.88% from a month ago.

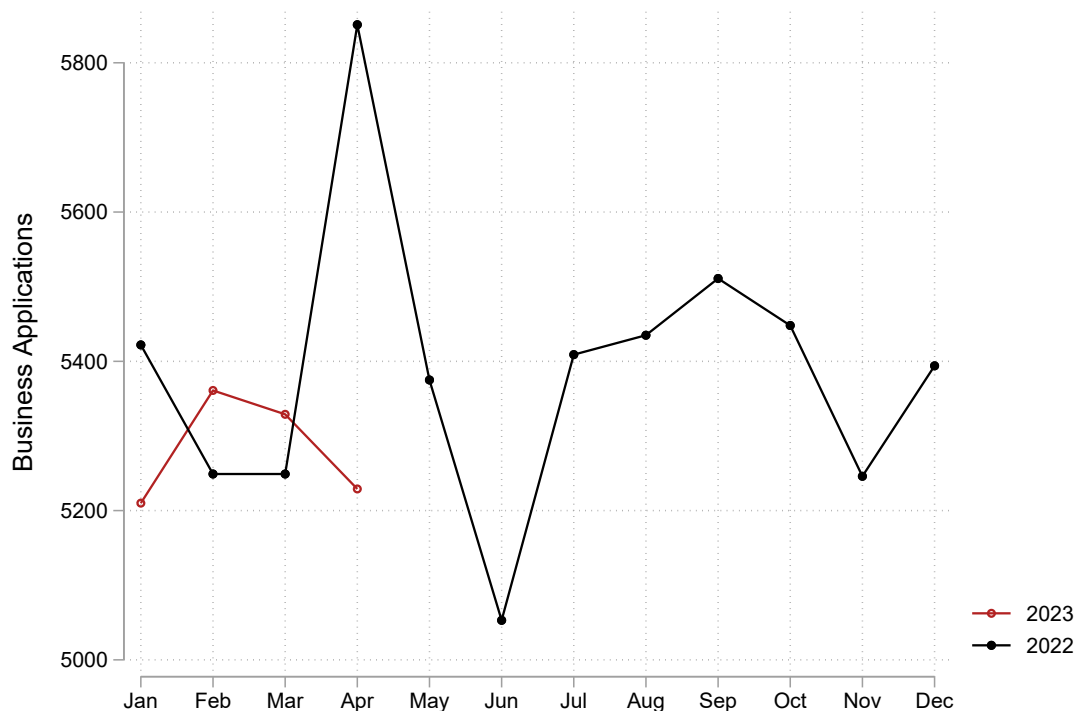


Figure 1: Total Business Applications in Wisconsin

Not all business applications have the same chance of becoming an employer business. To better understand the implications for business formations discussed below, the Census Bureau highlights three subsets of business applications:

- **High-Propensity Business Applications (HBA):** Business applications that have a high propensity of turning into businesses with payroll. The identification of high-propensity applications is based on the characteristics of applications revealed on the IRS Form SS-4 that are associated with a high rate of business formation. High-propensity applications include applications: (a) for a corporate entity, (b) that indicate they are hiring employees, (c) that provide a first wages-paid date (planned wages); or (d) that have a NAICS industry code in

¹Not all EIN applications are intended for employer businesses. For Business Formation Statistics (BFS), the U.S. Census Bureau defines *business applications* as all applications for an EIN, except for applications for tax liens, estates, trusts, or certain financial filings, applications outside of 50 states and DC or with no state-county geocodes, applications with certain NAICS codes in sector 11 (agriculture, forestry, fishing and hunting) or 92 (public administration) that have low transition rates, and applications in certain industries (e.g. private households, civic and social organizations).

accommodation and food services (72) or in portions of construction (237, 238), manufacturing (312, 321, 322, 332), retail (44, 452), professional, scientific, and technical services (5411, 5413), educational services (6111), and health care (621, 623).

- **Business Applications with Planned Wages (WBA):** High-propensity business applications that indicate a first wages-paid date on the IRS Form SS-4. The indication of a wages-paid date is associated with a high likelihood of transitioning into a business with a payroll.
- **Business applications from Corporations (CBA):** High-propensity business applications from a corporation or personal service corporation, based on the legal form of organization stated in the IRS Form SS-4. Similar to business applications with planned wages, this series is important primarily because it consists of a set of applications that have a high rate of transitioning into businesses with payroll.

Figures 2–4 plot the three subsets of business applications in Wisconsin. For April 2023, HBA were 1,526, a decrease of 8.51% from a month ago; WBA were 647, a decrease of 10.14% from a month ago; CBA were 264, a decrease of 15.92% from a month ago.

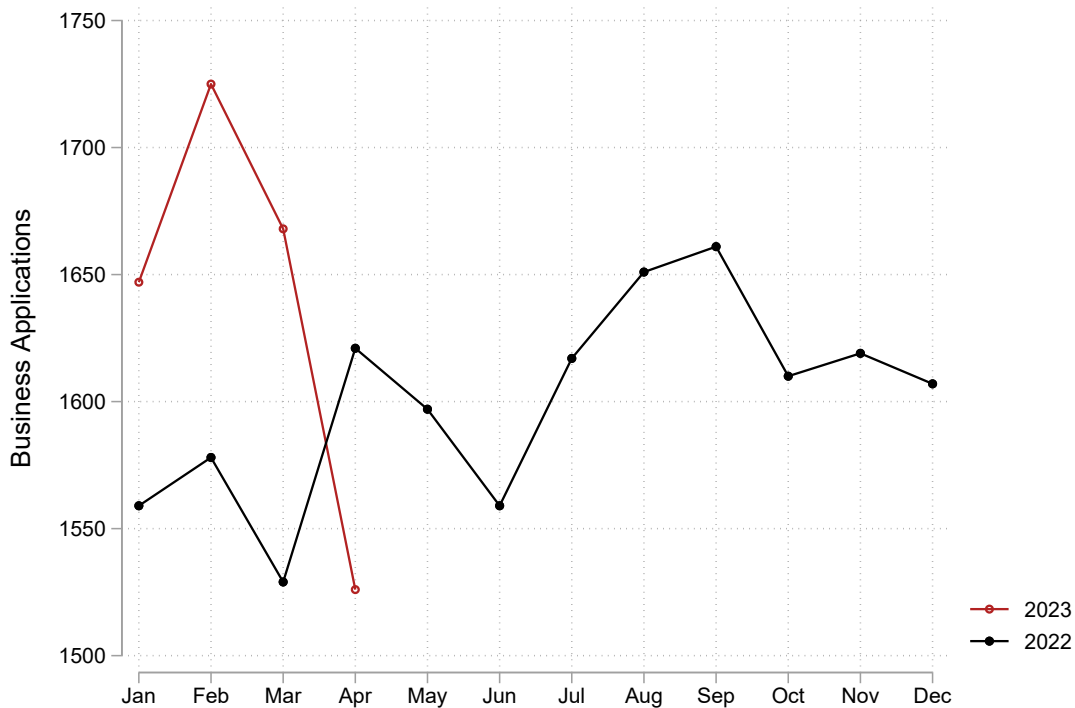


Figure 2: High-Propensity Business Applications in Wisconsin

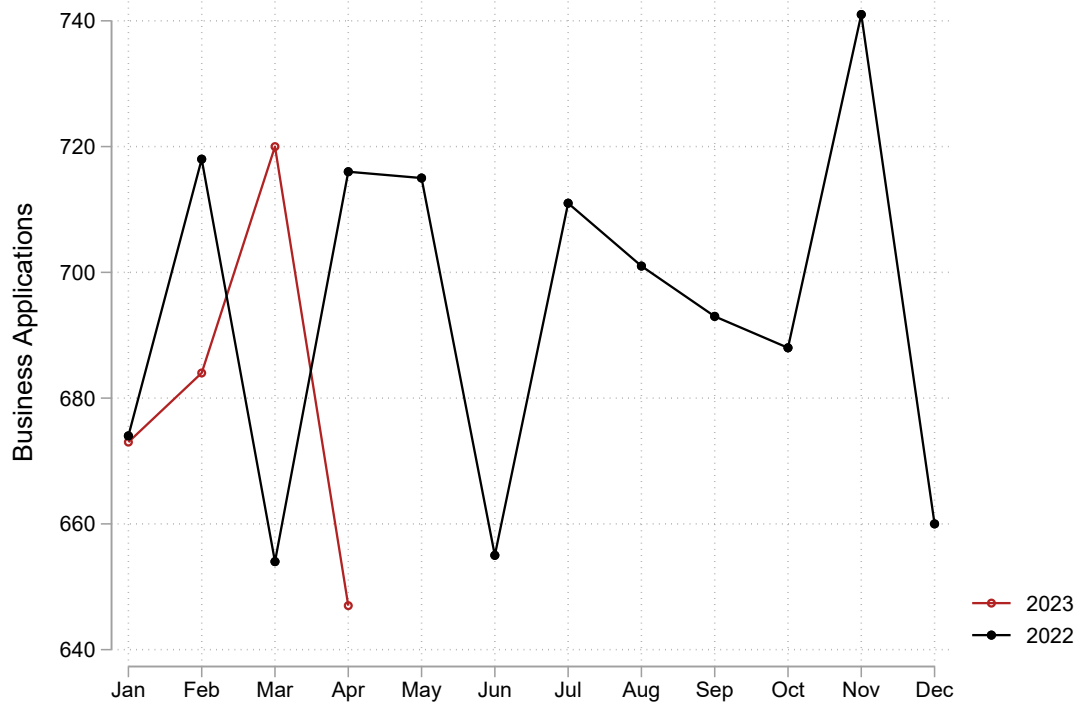


Figure 3: Business Applications with Planned Wages in Wisconsin

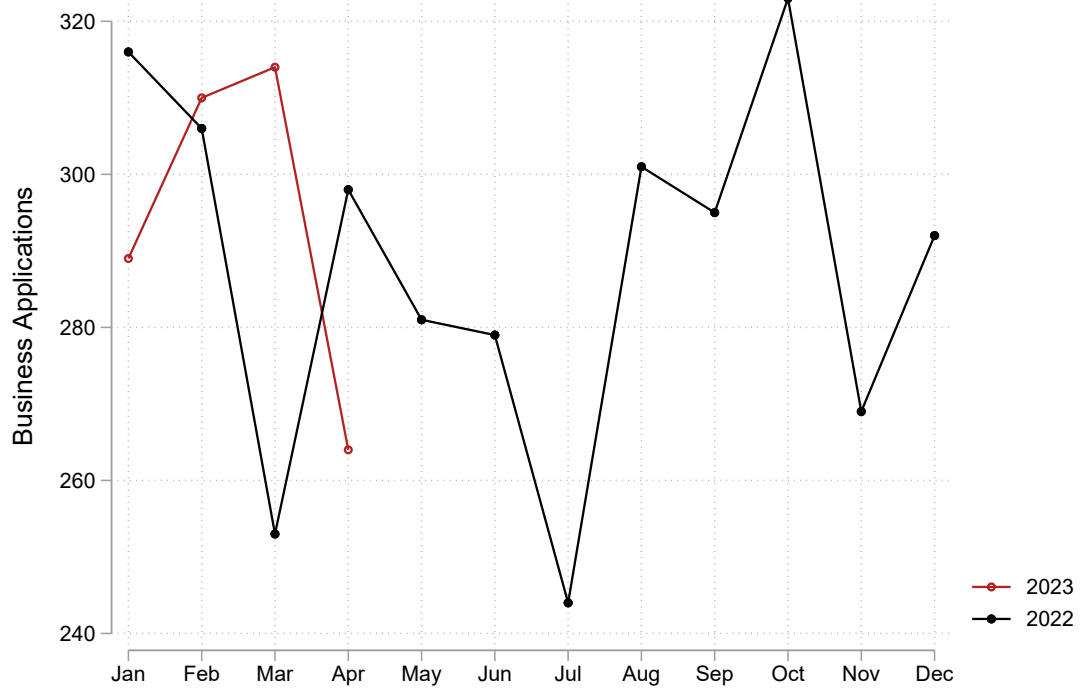


Figure 4: Business Applications from Corporations in Wisconsin

Business Formations

The formation of an employer business is indicated by the first incidence of payroll tax liabilities. Using this definition, the Census Bureau publishes a series of monthly *business formations*, defined as the number of employer businesses that originate from business applications within four quarters from the month of application. In addition to actual business formations originated from business applications in the not-so-recent past, the Census Bureau also uses an econometric model to project business formations that originate from recent business applications for which the relevant data on payroll taxes are not yet available.

Figure 5 plots the seasonally adjusted monthly business formations in Wisconsin. 374 employers businesses are projected to form within four quarters from the business applications in April 2023, a decrease of 7.65% from a month ago. Actual business formations were 287 when last observed for December 2019, significantly lower than the value of 374 projected for April 2023. Business applications were 3,805 for December 2019, also significantly lower than the value of 5,229 for April 2023.

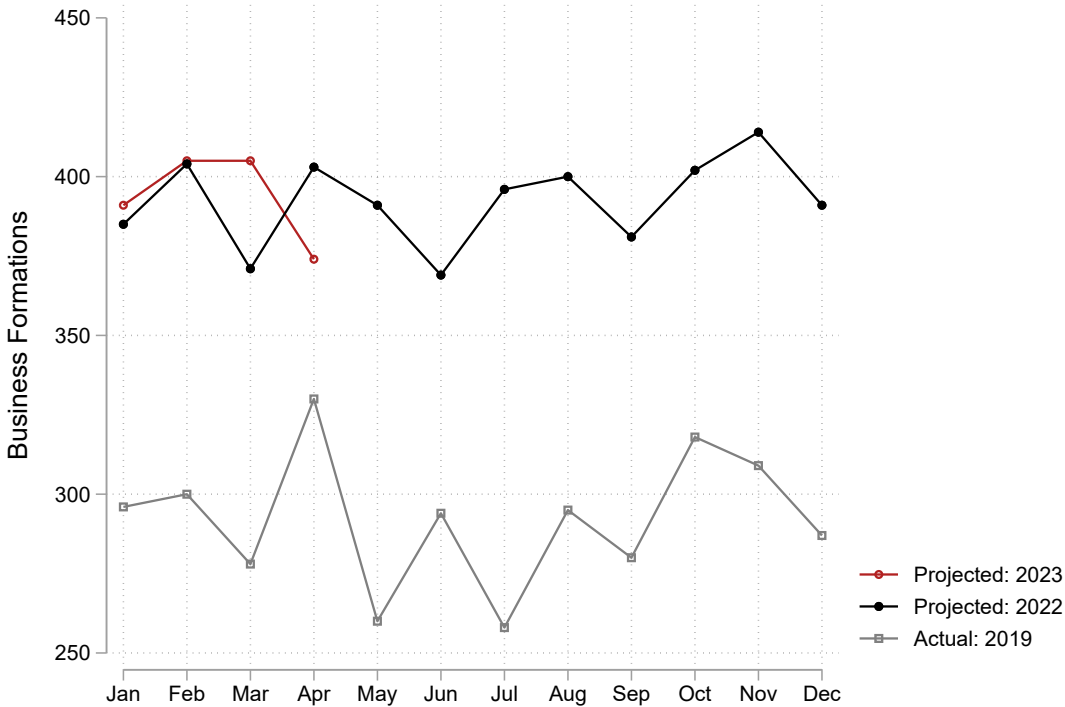


Figure 5: Business Formations in Wisconsin

A measure of delay between business application and formation is the average duration (in quarters) between the quarter in which the month of business application falls and the quarter of business formation, conditional on business formation within four quarters.

Figure 6 plots the measure of delay in 2019, the last year when data on actual business forma-

tions are available. Different from previous measures, this one is not seasonally adjusted. For December 2019, the last month when the data are available, the average time between business application and formation is 1.53 quarters for Wisconsin, compared to 1.59 quarters for the Midwest and 1.62 quarters for the U.S.

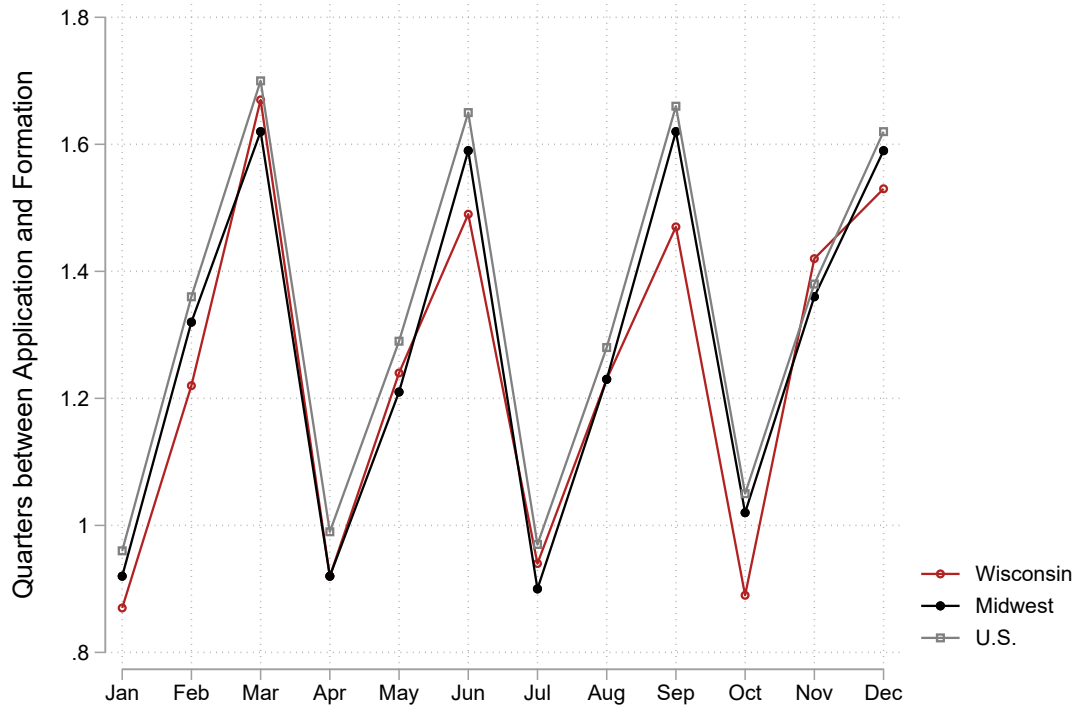


Figure 6: Quarters Between Business Applications and Formations