

# Data brief

## Business Formations in Wisconsin

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### Executive summary

Business formation in Wisconsin started to drop below its trend from 2023, when business applications hovered around 5,400, and projected business formations hovered around 360.

For May 2024, business applications were 4,898, **a decrease of 1.51% from a month ago**. The corresponding growth rates for the Midwest and the U.S. are -2.68% and -1.54%, respectively.

334 of the 4,898 applications are projected to have their first instance of payroll tax liabilities, an indication of business formation, within four quarters, **an increase of 2.14% from a month ago**. The corresponding growth rates for the Midwest and the U.S. are -0.31% and 0.50%, respectively.

Actual business formations were last observed for December 2020, when business applications were 4,218 and 263 of them had their first instance of payroll tax liabilities within four quarters. Among them, the average time between business application and formation is 1.60 quarters, compared to 1.59 quarters for the Midwest and 1.62 quarters for the United States.

### Business Formations in Wisconsin

|   | Value | Monthly Growth | Midwest | US     |
|---|-------|----------------|---------|--------|
| <b>Business applications, 5/2024</b>        |       |                |         |        |
| Total                                       | 4,898 | -1.51%         | -2.68%  | -1.54% |
| Payroll taxes within 4 quarters (projected) | 334   | 2.14%          | -0.31%  | 0.50%  |
| <b>Business applications, 12/2020</b>       |       |                |         |        |
| Total                                       | 4,218 |                |         |        |
| Payroll taxes within 4 quarters (actual)    | 263   |                |         |        |
| Quarters from application to formation      | 1.60  |                | 1.59    | 1.62   |

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# Business Applications

One of the first steps to start an employer business is to apply for an Employer Identification Number (EIN) with the IRS.<sup>1</sup> Figure 1 plots the seasonally adjusted monthly business applications in Wisconsin. Business applications were 4,898 for May 2024, a decrease of 1.51% from a month ago. The corresponding growth rates for the Midwest and the U.S. are -2.68% and -1.54%, respectively.

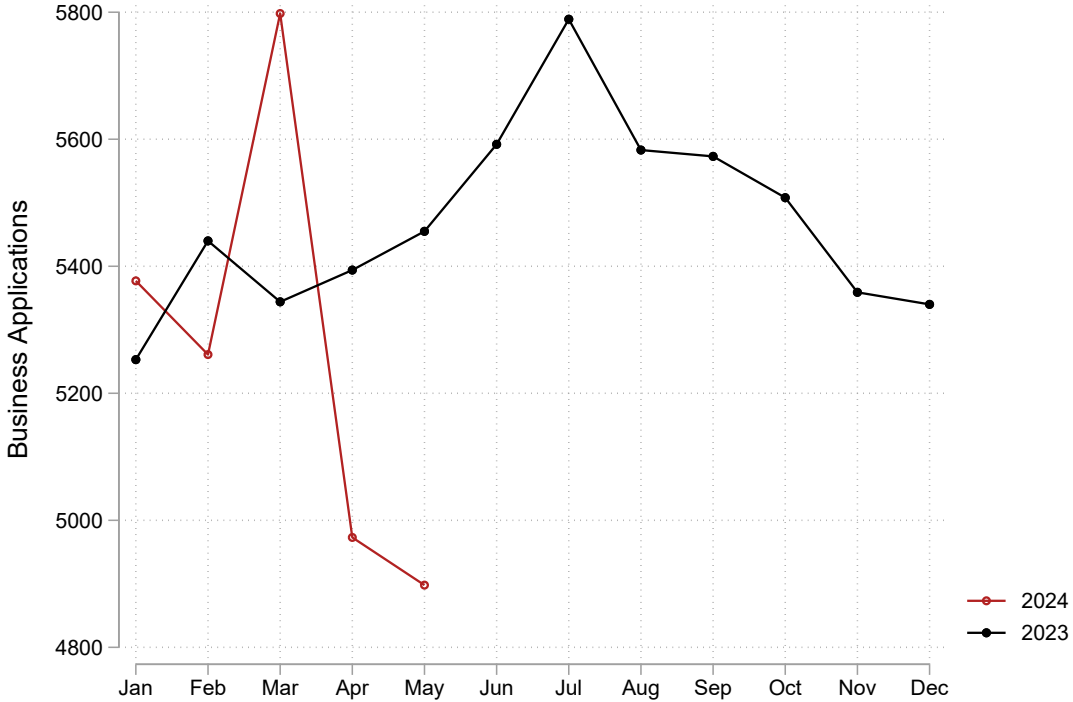


Figure 1: Total Business Applications in Wisconsin

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

<sup>1</sup>Not 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).

provide a first wages-paid date (planned wages); or (d) that have a NAICS industry code in 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 May 2024, HBA were 1,487, an increase of 0.20% from a month ago; WBA were 585, a decrease of 1.68% from a month ago; CBA were 265, a decrease of 6.36% from a month ago. The corresponding growth rates for the Midwest are: 1.29% for HBA, -0.66% for WBA, and -0.10% for CBA. The corresponding growth rates for the U.S. are: -0.75% for HBA, 3.51% for WBA, and -4.51% for CBA.

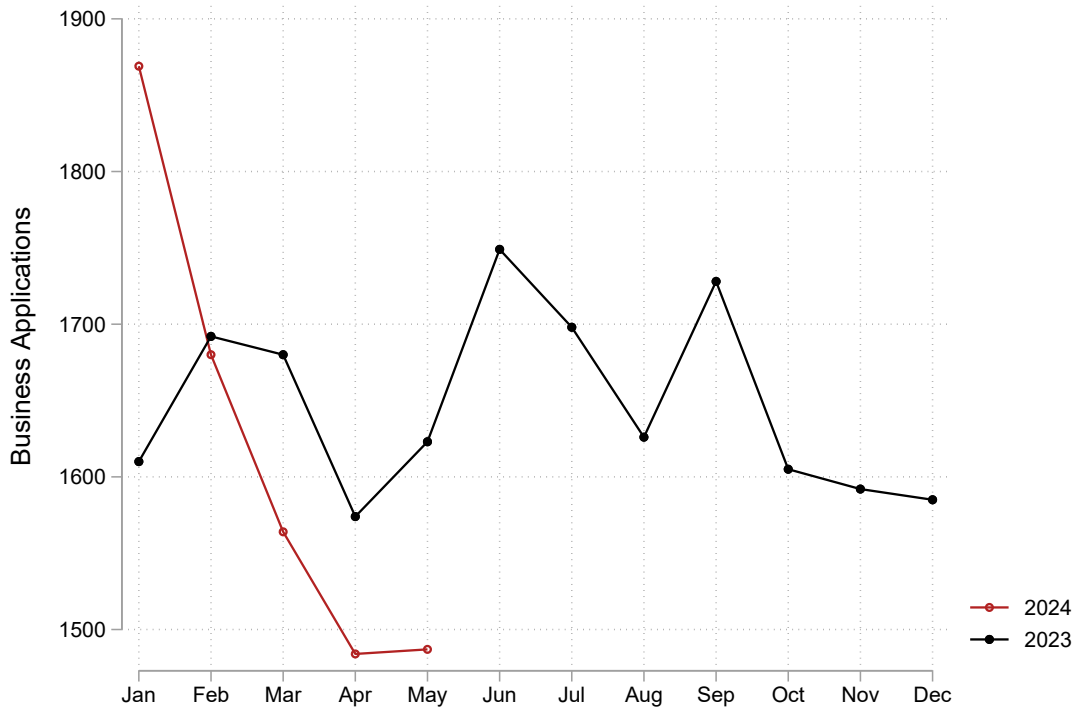


Figure 2: High-Propensity Business Applications in Wisconsin

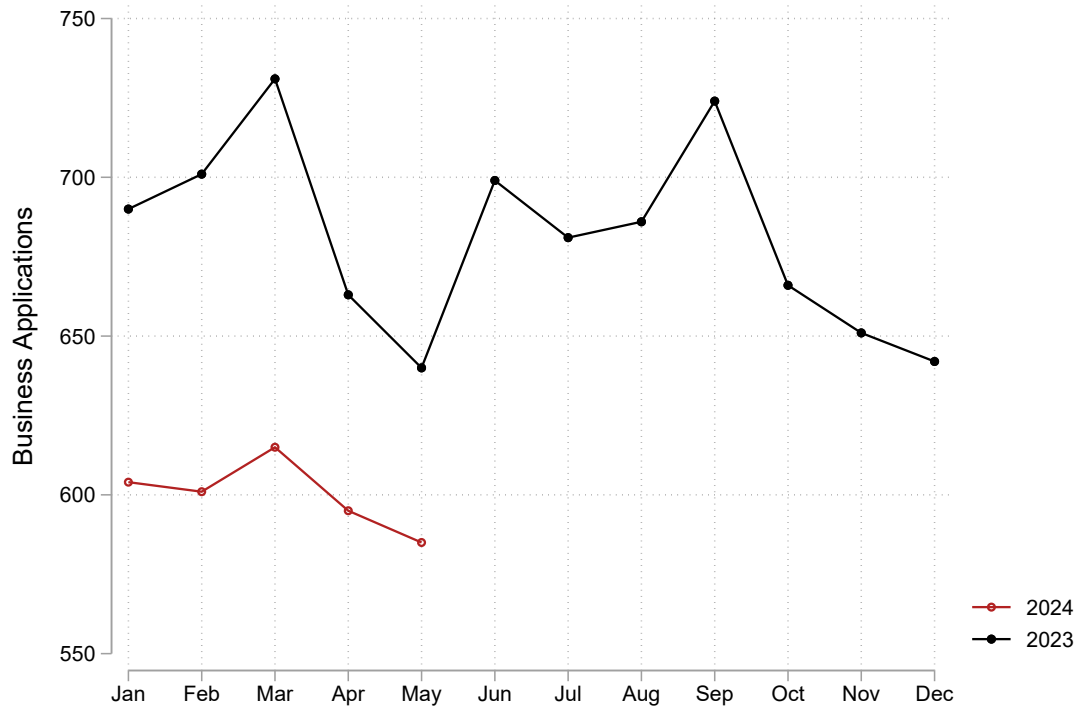


Figure 3: Business Applications with Planned Wages in Wisconsin

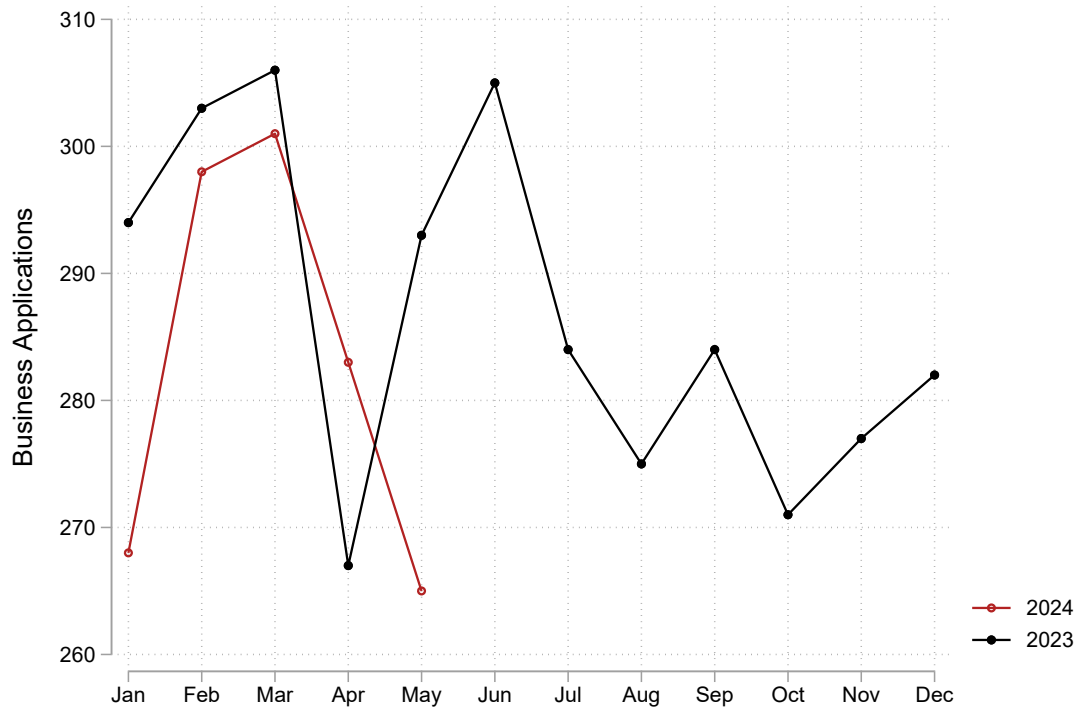


Figure 4: Business Applications from Corporations in Wisconsin

# 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. 334 employers businesses are projected to form within four quarters from the business applications in May 2024, an increase of 2.14% from a month ago. The corresponding growth rates for the Midwest and the U.S. are -0.31% and 0.50%, respectively.

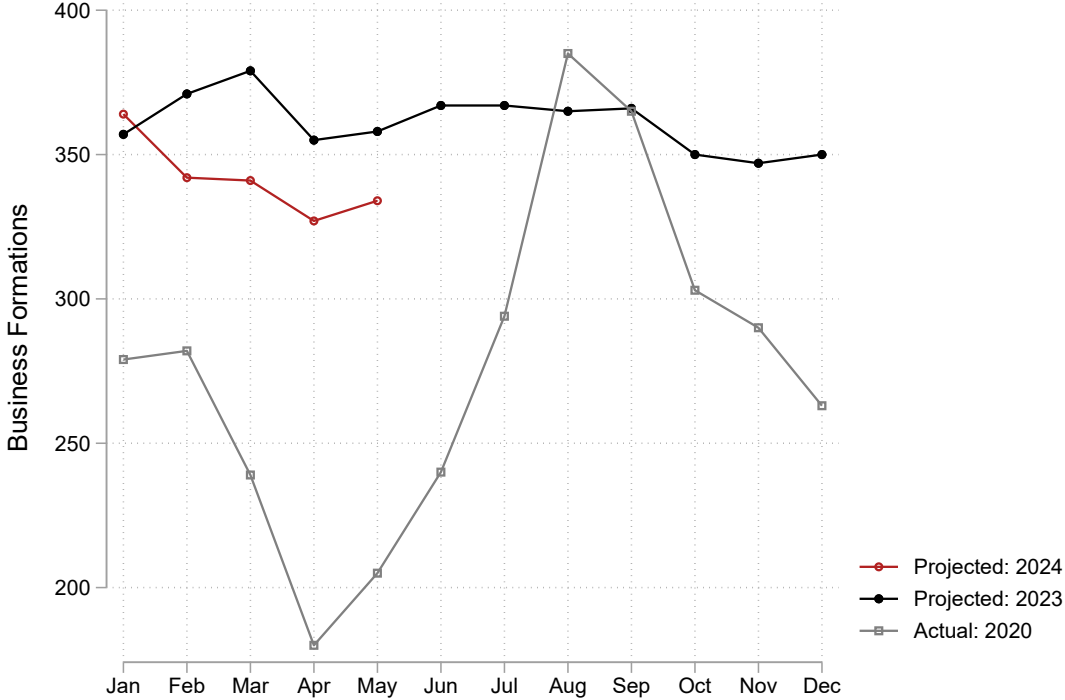


Figure 5: Business Formations in Wisconsin

Actual business formations were 263 when last observed for December 2020, significantly lower than the value of 334 projected for May 2024. Business applications were 4,218 for December 2020, also significantly lower than the value of 4,898 for May 2024.

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 2020, the last year when data on actual business formations are available. Different from previous measures, this one is not seasonally adjusted. For December 2020, the last month when the data are available, the average time between business application and formation is 1.60 quarters for Wisconsin, compared to 1.59 quarters for the Midwest and 1.62 quarters for the U.S.

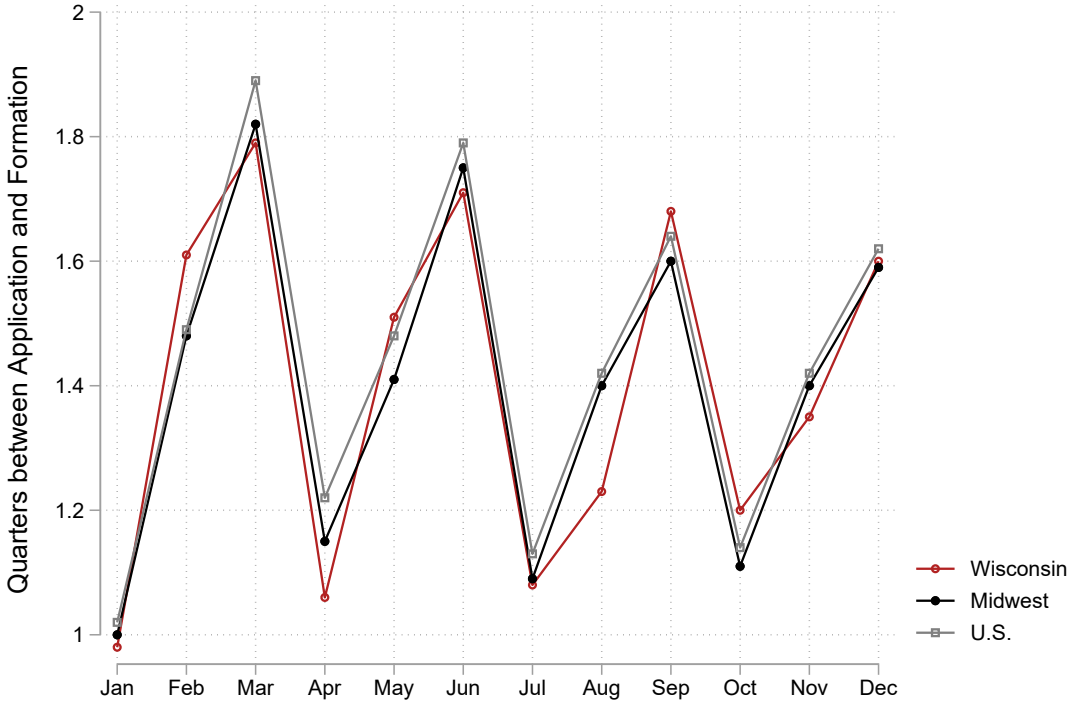


Figure 6: Quarters Between Business Applications and Formations