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Data brief

Business Formations in Wisconsin

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Executive summary

Business formation in Wisconsin remains stable in 2023, continuing its trend from 2022. Business applications have been hovering around 5,300, and projected business formations have been hovering around 390.

For June 2023, business applications were 5,474, **an increase of 3.46% from a month ago**. The corresponding growth rates for the Midwest and the U.S. are 6.70% and 6.18%, respectively.

405 of the 5,474 applications are projected to have their first instance of payroll tax liabilities, an indication of business formation, within four quarters, **an increase of 6.30% from a month ago**. The corresponding growth rates for the Midwest and the U.S. are 4.10% and 3.98%, respectively, which are lower due to the slower growth in the number of high-propensity business applications.

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	Midwest	US
Business applications, 6/2023				
Total	5,474	3.46%	6.70%	6.18%
Payroll taxes within 4 quarters (projected)	405	6.30%	4.10%	3.98%
Business applications, 12/2019				
Total	3,805			
Payroll taxes within 4 quarters (actual)	287			
Quarters from application to formation	1.53		1.59	1.62

Data briefs are short, timely reports that 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 5,474 for June 2023, an increase of 3.46% from a month ago. The corresponding growth rates for the Midwest and the U.S. are 6.70% and 6.18%, respectively.

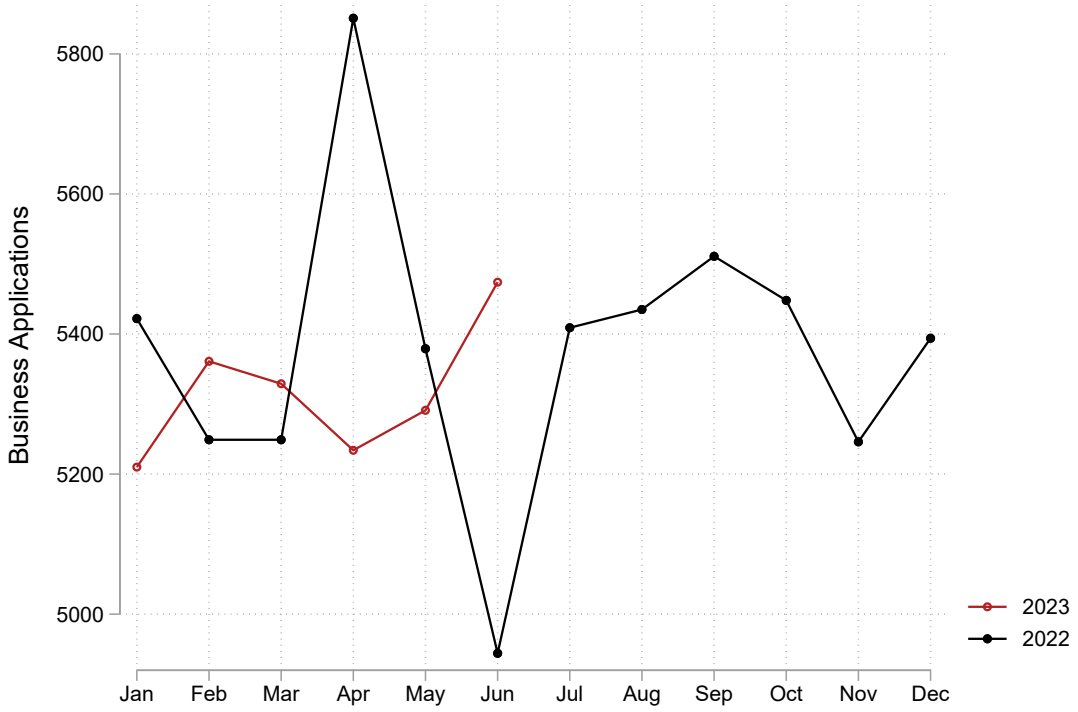

Figure 1: Total Business Applications in Wisconsin

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

[1] 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 June 2023, HBA were 1,749, an increase of 8.16% from a month ago; WBA were 692, an increase of 9.84% from a month ago; CBA were 306, an increase of 5.88% from a month ago. The corresponding growth rates for the Midwest are: 4.70% for HBA, 6.80% for WBA, and -0.03% for CBA. The corresponding growth rates for the U.S. are: 5.99% for HBA, 3.94% for WBA, and 0.79% for CBA.

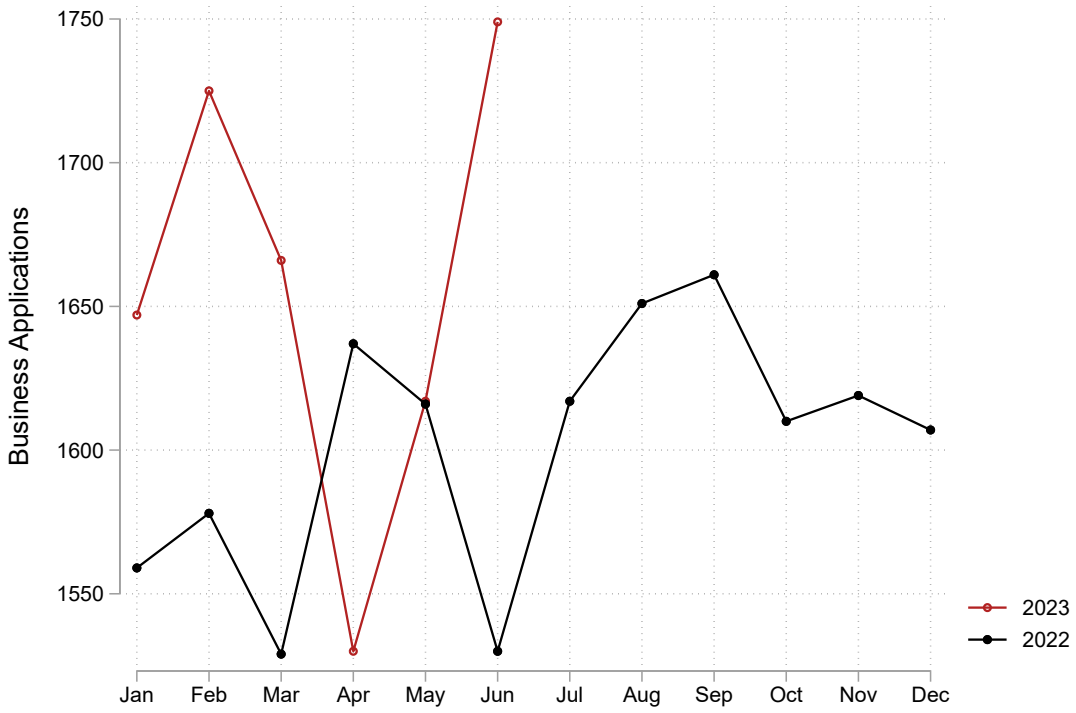

Figure 2: High-Propensity Business Applications in Wisconsin

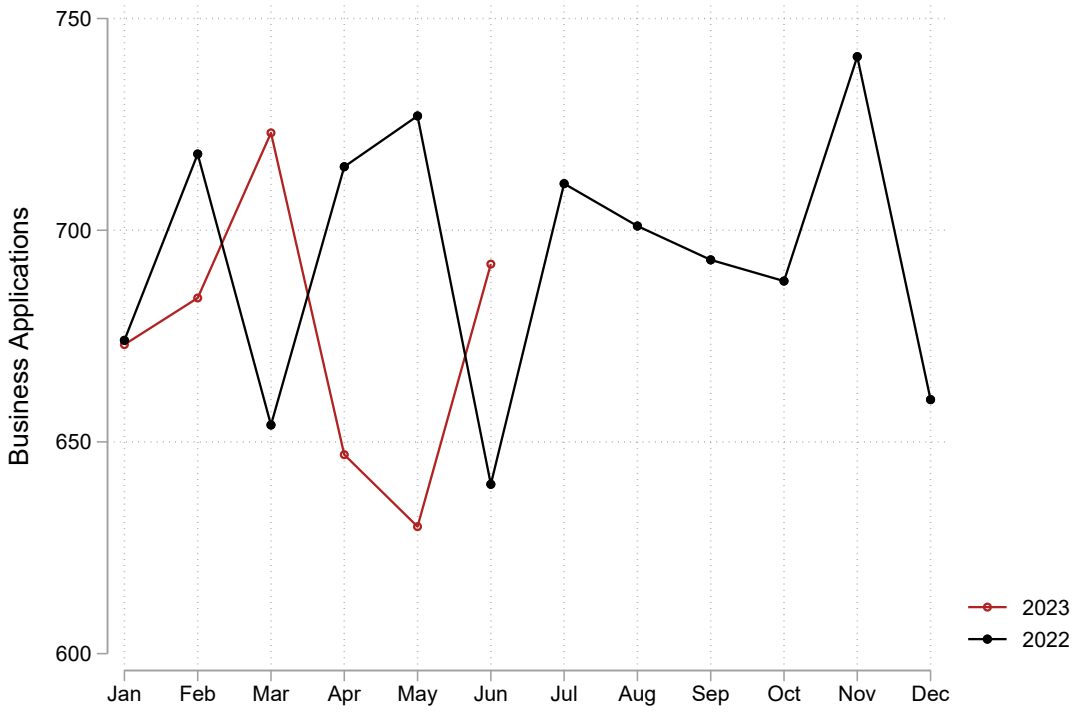

Figure 3: Business Applications with Planned Wages in Wisconsin

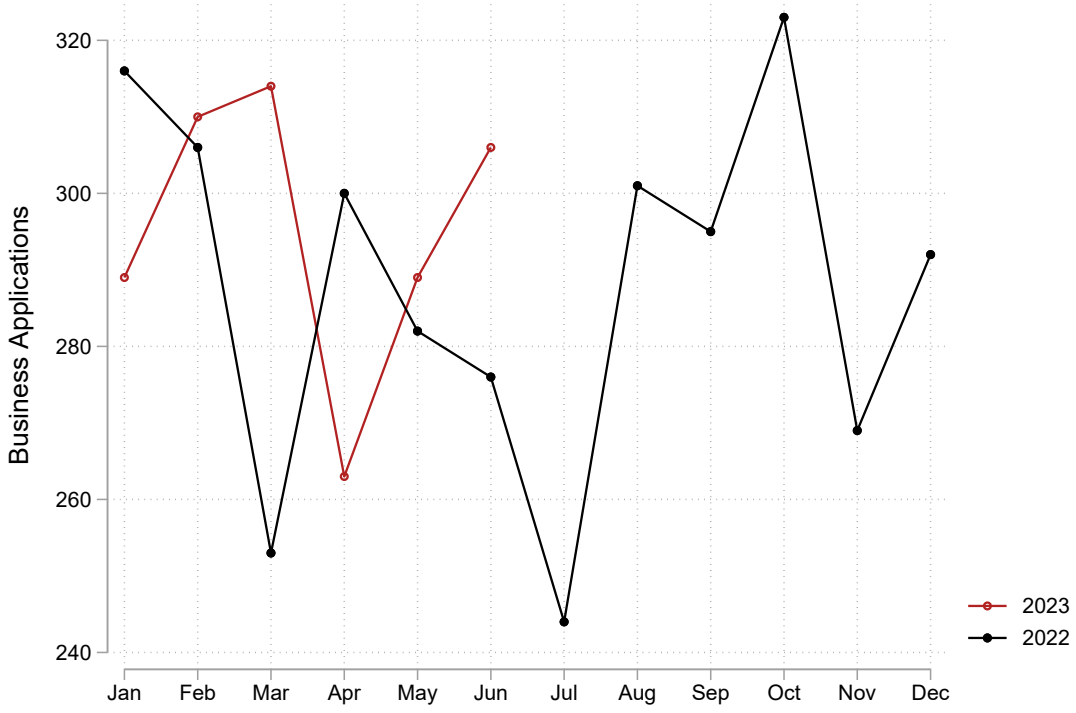

Figure 4: Business Applications from Corporations in Wisconsin

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. 405 employers businesses are projected to form within four quarters from the business applications in June 2023, an increase of 6.30% from a month ago. The corresponding growth rates for the Midwest and the U.S. are 4.10% and 3.98%, respectively.

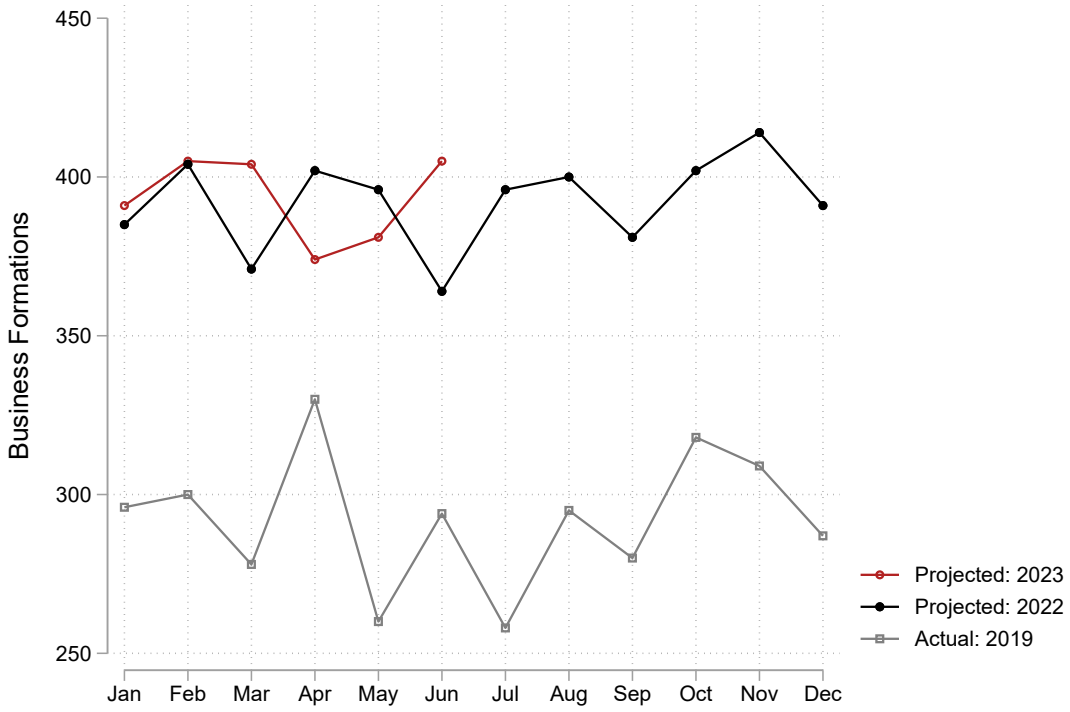

Figure 5: Business Formations in Wisconsin

Actual business formations were 287 when last observed for December 2019, significantly lower than the value of 405 projected for June 2023. Business applications were 3,805 for December 2019, also significantly lower than the value of 5,474 for June 2023.

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 formations 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.

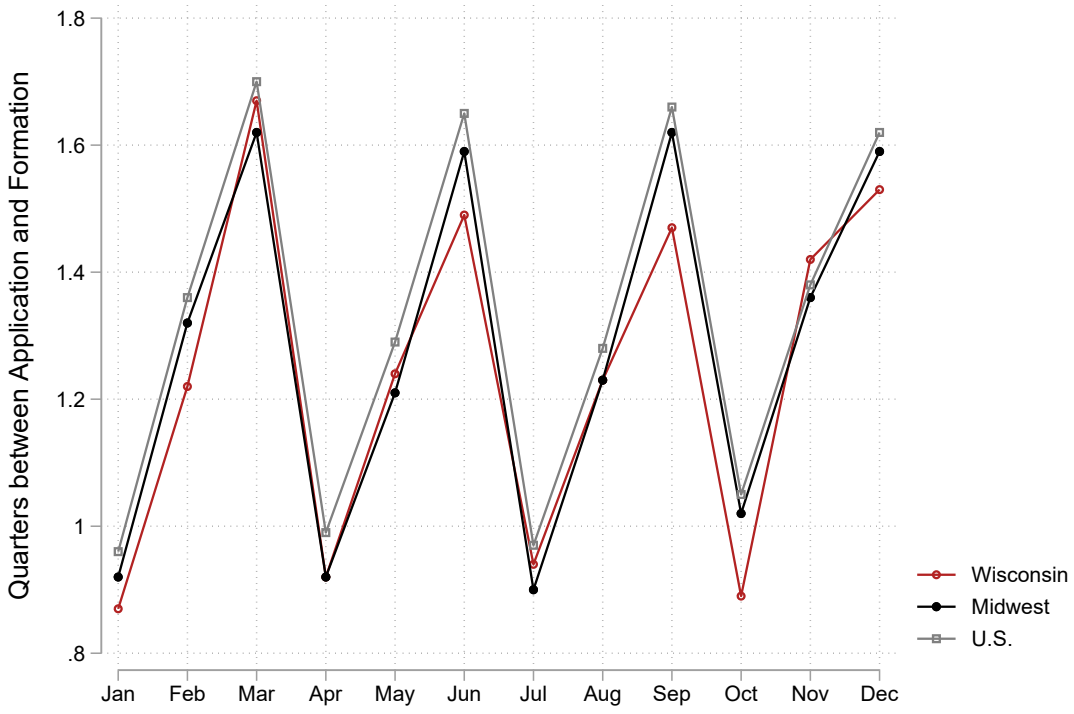

Figure 6: Quarters Between Business Applications and Formations