

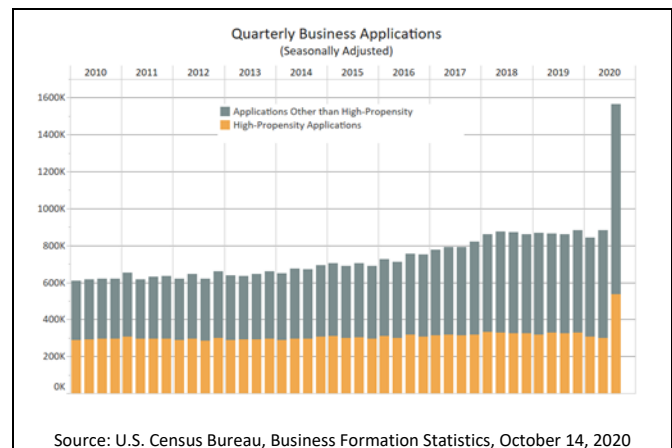
BUSINESS FORMATION STATISTICS, THIRD QUARTER 2020

Release Number: CB20-156






Notice: The annual update of data from the Longitudinal Business Database (LBD), a critical component used to model the Projected Business Formation Statistics (BFS) Series, has been delayed. As a result, The Census Bureau is suppressing the projected BFS series beginning with the first quarter 2020, released on April 15, 2020. We will continue to monitor progress of the LBD and will provide updates as more information becomes available.

October 14, 2020 — The U.S. Census Bureau announced the following seasonally adjusted business application and formation statistics for the third quarter of 2020. The Business Application Series describe the business applications for tax IDs as indicated by applications for an Employer Identification Number (EIN) through filings of the IRS Form SS-4. The Business Formation Series describe employer business formations as indicated by the first instance of payroll tax liabilities for the corresponding business applications.

BUSINESS APPLICATIONS		
U.S. Business Applications:	2020 Q3	2020 Q3 / 2020 Q2
Total	1,566,373	77.4%°
High-Propensity	537,355	79.0%°
With Planned Wages	178,662	70.1%°
From Corporations	184,822	67.1%°
Next release: January 14, 2021		
(*) Statistical significance is not applicable or not measurable.		
Data adjusted for seasonality.		
Source: U.S. Census Bureau, Business Formation Statistics, October 14, 2020		



Business Applications - At a Glance

		 US	 Northeast	 Midwest	 South	 West
Total	2020 Q3	1,566,373	230,127	283,336	737,622	315,288
	2020 Q3 / 2020 Q2	+77.4%	+86.0%	+88.0%	+79.4%	+59.7%
High-Propensity	2020 Q3	537,355	84,634	96,473	236,232	120,016
	2020 Q3 / 2020 Q2	+79.0%	+97.5%	+92.0%	+79.2%	+59.4%
With Planned Wages	2020 Q3	178,662	24,635	34,793	77,984	41,250
	2020 Q3 / 2020 Q2	+70.1%	+89.6%	+83.4%	+69.3%	+52.7%
From Corporations	2020 Q3	184,822	38,769	24,983	68,032	53,038
	2020 Q3 / 2020 Q2	+67.1%	+101.9%	+74.5%	+59.0%	+54.8%

Details may not equal totals due to rounding. Regions defined by Census Bureau Geography Program. Statistical significance is not applicable or not measurable. Data adjusted for seasonality. **Green** Percentage changes are greater than zero (+). **Red** Percentage changes are less than zero (-). Z = absolute value < 0.05.

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Business Applications

Business Applications for the third quarter of 2020, adjusted for seasonal variation, were 1,566,373, an increase of 77.4 percent compared to the second quarter of 2020.

GENERAL INFORMATION

The processing of the quarterly Business Formation Statistics through 2020 Q3 included updated North American Industry Classification System (NAICS) code for some EIN applications. The Census Bureau periodically receives updated NAICS code information for EIN applications from administrative sources and updates are applied to the BFS data. Changes to application and formation counts may be observed when comparing to data that was published in previous quarters.

On May 13, 2019, the IRS implemented a change in Form SS-4 requiring a social security number (SSN) or an individual taxpayer identification number (ITIN) for the responsible party indicated in the EIN application. The change will prevent entities using their existing EINs to apply for additional EINs. For more information on the requirement change, please visit <<https://www.irs.gov/newsroom/irs-revises-ein-application-process-seeks-to-enhance-security>>. The form field that the change applies to is not one that the Census Bureau receives and it is not used in the analysis. As a result, we cannot necessarily draw any conclusions on the impact of this change on the BFS.

Release Schedule

The fourth quarter 2020 Business Formation Statistics Report is scheduled for release on January 14, 2021.

View the full schedule in the Economic Briefing Room: <www.census.gov/economic-indicators/>. Further information on BFS, including additional series and the full time span of the series listed above, can be found at <www.census.gov/econ/bfs>.

EXPLANATORY NOTES

The Business Formation Statistics (BFS) are a product of the U.S. Census Bureau developed in research collaboration with economists affiliated with Board of Governors of the Federal Reserve System, Federal

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Reserve Bank of Atlanta, University of Maryland, and University of Notre Dame.

The Business Formation Statistics (BFS) provide timely and high-frequency data on business applications and employer business formations. The BFS measure business initiation activity (Business Application Series) as indicated by applications for an Employer Identification Number (EIN) on the IRS Form SS-4. The BFS also provide information on actual and projected employer business formations (Business Formation Series) that originate from these applications, based on the record of first payroll tax liability for an EIN. In addition, the BFS contain measures of delay in business starts as indicated by the average duration between the application for an EIN and the transition to an employer business.

The BFS currently cover the period starting from the third quarter of 2004 (2004 Q3) onwards at a quarterly frequency. The data are available nationally, regionally, and by individual states.

Business Application Series

These series describe the business applications for tax IDs as indicated by applications for an Employer Identification Number (EIN) through filings of IRS Form SS-4. Business applications are presented in four different series reflecting different subsets of the applications for an EIN. All business applications series cover the period from 2004 Q3 onwards.

- **Business Applications (BA):** The core business applications series that correspond to a subset of all applications for an EIN. This series includes all applications for an EIN, except for applications for tax liens, estates, and trusts, applications outside of the 50 states and the District of Columbia or those with no state-county geocodes, applications with a NAICS sector code of 11 (agriculture, forestry, fishing and hunting) or 92 (public administration), and applications in certain industries (i.e. private households, certain financial services, civic and social organizations).
- **High-Propensity Business Applications (HBA):** Business Applications (BA) 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, purchasing a business or changing organizational type, (c) that provide a first wages-paid date (planned wages); or (d) that have a NAICS industry code in manufacturing (31-33), retail stores (44), health care (62), or restaurants/food service (72).
- **Business Applications with Planned Wages (WBA):** High-Propensity Business Applications

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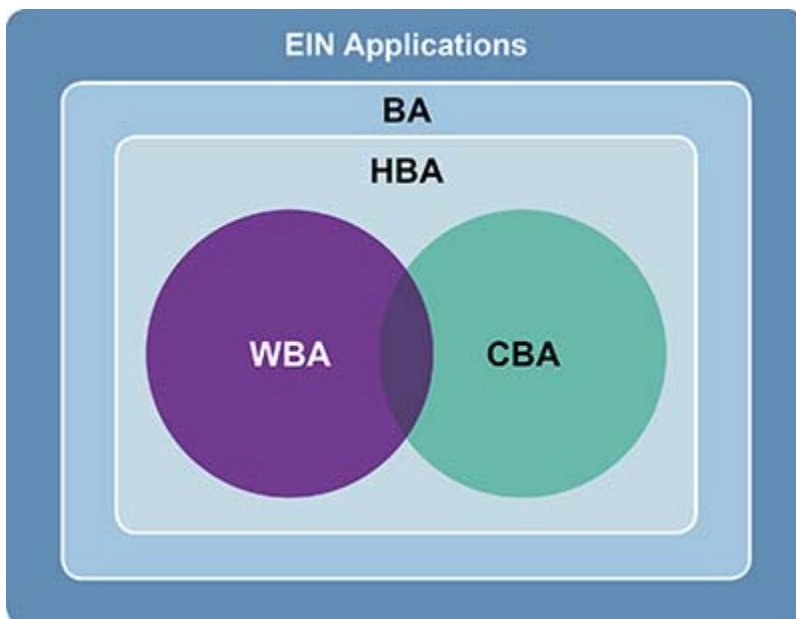
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(HBA) that indicate a first wages-paid date on the IRS Form SS-4. The indication of a wages-paid date is associated with a high likelihood of transitioning into a business with payroll.

- **Business Applications from Corporations (CBA):** High-Propensity Business Applications (HBA) from a corporation or personal service corporation, based on the legal form of organization stated in the IRS Form SS-4. Similar to the WBA series, this series is important primarily because it consists of a set of applications that have a high rate of transitioning into businesses with payroll.

The following is a graphical representation (Venn diagram) of the relationship between the four business applications series (BA, HBA, WBA, CBA) and EIN applications. This graph does not represent the actual relative sizes of different groups.



Business Formation Series

These series describe employer business formations as indicated by the first instance of payroll tax liabilities for the corresponding business applications. The business formation series are forward-looking in the sense that they measure new business formations from the time of business application in any given quarter. Two series are provided: the first describes transitions within the next four quarters, and the second within the next eight quarters. All business formation series start in 2004 Q3, the earliest quarter

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for which the data on business applications are available.

- **Business Formations within 4 Quarters (BF4Q):** This series provide the number of employer businesses that originate from Business Applications (BA) within four quarters from the quarter of application. By definition, the end-point of this series is determined by the most recent quarter for which the administrative data are available on payroll.
- **Projected Business Formations within 4 Quarters (PBF4Q):** The projected number of employer businesses that originate from Business Applications (BA) within four quarters from the quarter of application. The projections are based on an econometric model that generates estimates of the likelihood that a business application turns into an employer business. For the details of the model, see the working paper <https://www.census.gov/library/working-papers/2018/adrm/bfs_FEB2018.html>. The projected business formation series cover the period for which the actual number of quarterly business formations is not yet available. Combining the projected series with the actual business formations (the BF4Q series) results in an up-to-date, forward-looking business formation series.
- **Spliced Business Formations within 4 Quarters (SBF4Q):** This series combines (splices) BF4Q and PBF4Q to provide the entire time series for the actual and projected business formations within 4 quarters.
- **Business Formations within 8 Quarters (BF8Q):** The number of employer businesses that originate from Business Applications (BA) within eight quarters from the quarter of application, similar to the BF4Q series. Again, the end-point of this series is determined by the most recent quarter for which the administrative data on payroll is available.
- **Projected Business Formations within 8 Quarters (PBF8Q):** The projected number of employer businesses that originate from Business Applications (BA) within eight quarters from the quarter of application, similar to the PBF4Q series. The projected business formation series cover the period for which the actual business formations are not yet available.
- **Spliced Business Formations within 8 Quarters (SBF8Q):** This series combines (splices) BF8Q and PBF8Q to provide the entire time series for the actual and projected business formations within 8 quarters.
- **Average Duration (in Quarters) from Business Application to Formation within 4 Quarters (DUR4Q):** A measure of delay between business application and formation, measured as the average duration (in quarters) between the quarter of business application and the quarter of

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business formation, conditional on business formation within four quarters. These series span the same period as BF4Q.

- **Average Duration (in Quarters) from Business Application to Formation within 8 Quarters (DUR8Q):** A measure of delay between business application and formation, similar to the DUR4Q series. The difference is that the window for business formation is eight quarters, rather than four. The series span the same period as BF8Q.

Description of Seasonal Adjustment

Because of strong seasonality detected in most of the business application and formation series, all series are provided with and without seasonal adjustment. In the case of the duration series (DUR4Q and DUR8Q), seasonality is not significant in general. Therefore, no seasonally adjusted duration series are provided. All data is seasonally adjusted at the state level and summed to create seasonally adjusted United States total and regional data. Seasonal adjustment is performed using the X-13ARIMA-SEATS seasonal adjustment program of the US Census Bureau. Users can implement their own seasonal adjustment methods using the unadjusted data.

Reliability of Estimates

The statistics presented in this release are based on administrative data and therefore are not subject to sampling error. There is also projection error associated with the projected business formation series. The statistics may also be subject to non-sampling error. Non-sampling error occurs because accurate information cannot always be obtained. There are many potential contributors to nonsampling error – misreporting, mistakes in recording and coding responses, misinterpretation of questions, and other errors of collection, response, coverage, or processing. Though nonsampling error is not measured directly, the Census Bureau employs quality control procedures throughout the process to minimize this type of error.

Notes

Technical documentation for these experimental statistics and specific recommendations for interpreting these statistics are described on the product's webpage <www.census.gov/econ/bfs>. The Census Bureau invites users to provide feedback on how to improve this experimental product.

RESOURCES

API

The Census Bureau's application programming interface lets developers create custom apps to reach new

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users and makes key demographic, socio-economic and housing statistics more accessible than ever before.

<www.census.gov/developers/>

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