

**POLICY BRIEF**

# Massachusetts at Risk: Business Formation Plummets Despite Surge in Growth Nationwide

By Aidan Enright

## Key Points

- After a surge in business formation among employer businesses during 2020 and 2021, Massachusetts had the lowest average rate of net business formation of any state in 2022, 2023, through three quarters of available data in 2024, and for the full period from Q1 2020 to Q3 2024.
- The Commonwealth had net-negative business formation for the last nine quarters of available data, from Q3 2022 to Q3 2024, and lost a net total of 17,549 employer businesses during that period.
- From Q1 2010 to Q4 2019, Massachusetts trailed only Utah for the highest quarterly average business formation rate.
- From Q1 2020 to Q3 2025, Massachusetts had the country's ninth slowest total establishment growth rate, which includes some zero employment businesses.
- The recent slowdown in establishment growth was most concentrated in the private education and health care sectors, where there was a decline of nearly 1,800 establishments between Q1 2022 and Q3 2025.
- The rate of establishment growth for the professional, technical, and scientific services sector remained positive in recent years but has slowed and trails national growth.
- From 2019 to 2025, Massachusetts' rate of business application growth, a leading indicator of business formation, was nearly half the national rate.
- Massachusetts lost 70 firms to other states in 2023—its highest single year loss since at least 1994—and lost a total of 149 firms to other states from 2020 to 2023, fifth most of any state.
- More recent data on business openings and closings and total establishments, including some non-employer businesses, from different sources for Q3 2024 to Q3 2025, provide limited optimism but could be fragile considering shifting federal policy pressures.

## Introduction

Massachusetts entered 2020 as one of the country's most innovative economies, anchored by world-class universities, dense industry clusters, and a vibrant small business sector. Employment was high, the labor force was growing, and businesses were more optimistic about the direction of the state than they had been at any point since before the Great Recession.<sup>1</sup>

The pandemic and policies that followed it disrupted that foundation. While many firms adapted or relied on federal relief, the shock created or accelerated structural shifts that have continued to reverberate throughout the state. Remote work, rising interest rates, inflation, demographic headwinds, and cost of living challenges shifted consumer demand and increased the cost of doing business.

Unemployment and remote work, however, also created opportunities for entrepreneurs. Newfound freedom, time, and resources led to a surge in business applications in Massachusetts and across the country. In 2020, business applications were 65 percent higher nationally than they were in 2019 and have remained elevated ever since. And while a significant number of those new applicants were self-employed sole proprietors without any intention of hiring employees, there was also a 49 percent increase in 2020 relative to 2019 in “likely employer” business applications.<sup>2</sup>

These new businesses had the potential to spur significant economic growth and innovation, especially in a state with as many highly educated minds as Massachusetts. But the Commonwealth’s experience diverged from the national narrative as the recovery progressed. While startup activity initially spiked alongside the national surge and a historic degree of investment in the life sciences, the momentum proved fragile.<sup>3</sup> As federal stimulus faded, office districts struggled to regain foot traffic, housing costs grew to unsustainable levels, and regulatory and tax burdens weighed on small and medium-sized enterprises—including the passage of a surtax on annual incomes greater than \$1 million, even as dozens of other states moved to lower tax rates. Business formation growth slowed markedly, and—according to some metrics—fell below pre-pandemic trends even as other states sustained higher levels of entrepreneurial activity.

The fallout has led the Massachusetts economy to become stuck in neutral—its sluggish GDP growth has trailed the national growth rate for multiple quarters and for the entire period of Q1 2020 to Q3 2025.<sup>4</sup> The decline in business formation has weakened private sector employment and labor force growth, as new business formation has historically been the primary driver of job creation and employment gains.<sup>5</sup> Massachusetts is one of just six states to have yet to recover to pre-pandemic levels of employment and has lost roughly 35,000 private sector jobs from January 2020 to December 2025.

The stakes could not be higher. In a 2024 survey, job availability was found to be one of the top two variables people between the ages of 20 and 30 were considering in their decision to stay or leave the state. With more than 180,000 net domestic residents leaving Massachusetts from April 2020 to July 2025 and international migration for 2026 set to decline nearly 90 percent from 2024 highs, retaining young talent has become ever more important. A continued surge of out-migration coupled with anemic firm creation could weaken Massachusetts’ growth formula for years to come.<sup>6</sup>

This paper examines these troubling trends in business formation, how the Commonwealth has compared to other states, how faltering business growth weakens Massachusetts competitiveness, and how the state might alleviate cost pressures on businesses and spur entrepreneurship.

## Net Business Formation Rates and Levels

There are several different sources of data that can be used to provide a picture of overall business formation by state. One of the best suited and most reliable is the Business Employment Dynamics (BED) dataset from the Bureau of Labor Statistics. It uses unemployment insurance records to track establishment births and deaths over time along with related employment statistics.<sup>7</sup> While establishments are not the same

## Important Terminology

### Establishment/

**business:** this paper refers to establishments and businesses interchangeably. They include franchises, subsidiaries, and single enterprises. In contrast, **firms** denote the entirety of a business, i.e. the total business of Dunkin rather than any individual Dunkin location (an establishment).

### Net Business Formation

**Rate:** this rate is derived from the rate of both business births and deaths in a state. BLS calculates each rate by taking the total number of births or deaths in a quarter as a percentage of total employer establishments. For example, if there are 200,000 total establishments and 2,400 opened in the last quarter, then the birth rate for that quarter would be 1.2 percent (2,400 divided by 200,000 times 100). Net formation is the rate of business births minus the rate of business deaths.

### Births and Deaths vs.

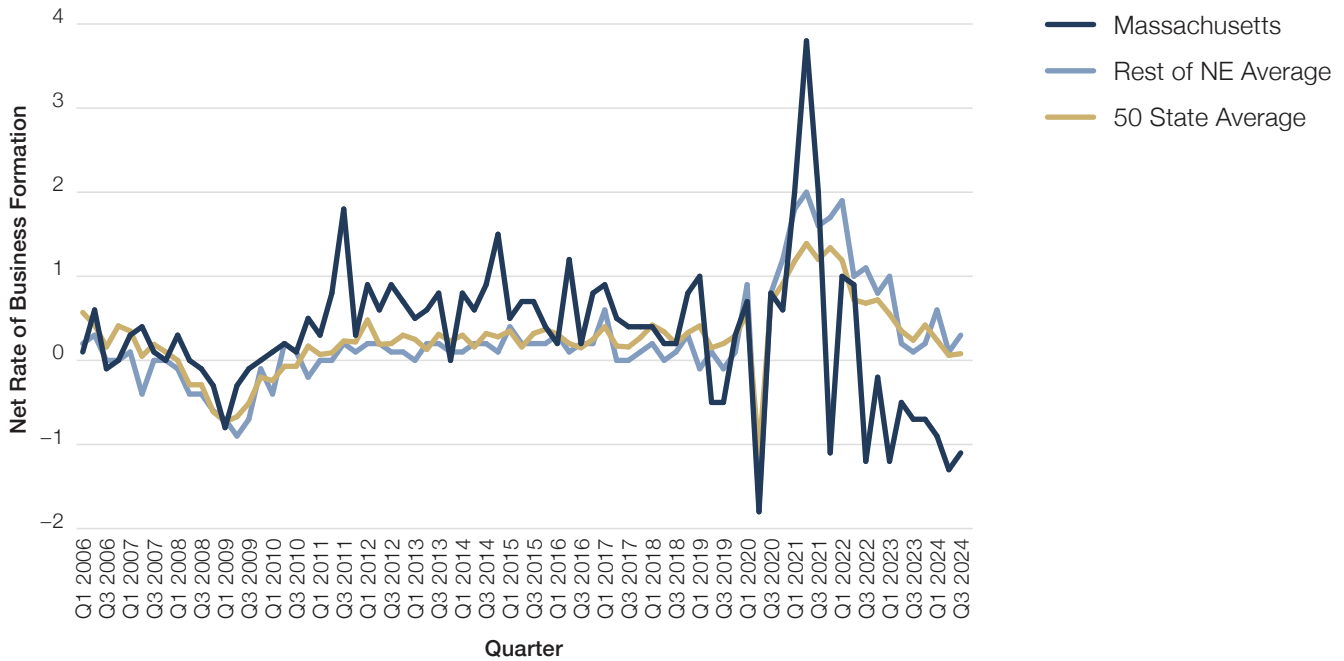
### Openings and Closings:

births and deaths are a subset of all openings and closings. Some firms will cease operations for a quarter or two before reopening. Therefore, during an individual quarter if a business reopens it is considered an opening but not an establishment birth, and if an establishment closes but has yet to be determined a death (must have zero employment for four consecutive quarters) it is only considered a closing.

as firms,<sup>8</sup> the rate of establishment growth is a key indicator for the direction in which business formation and growth is moving.

As can be seen in Figure 1 below, the trend in Massachusetts is clear. While there was an initial surge in business formation rates in 2020 and 2021, when Massachusetts had the nation's 31<sup>st</sup> and 12<sup>th</sup> highest average rates of net growth, its rate of establishment growth has since fallen considerably below the 50-state average and even that of its New England neighbors.

**Figure 1: Net Business Formation Rate for Select Geographies, Q1 2006 to Q3 2024**



Note: Rate refers to the percentage of all establishments that were either births or deaths during the quarter. For example, in Q1 2024 2.2 percent of all establishments were births and 3.1 percent of all total establishments were deaths, and thus the net business formation rate was -0.9 percent. The data is sourced from the Bureau of Labor Statistics' *Business Employment Dynamics* datasets.

In fact, from Q1 2020 to Q3 2024, Massachusetts had the lowest average quarterly net establishment growth rate of any state (0.06 percent), and in nine consecutive quarters from Q3 2022 to Q3 2024 there was a negative rate of business formation—equating to a loss of 17,549 net employer businesses during that period. For the full period, starting in Q1 2020, Massachusetts grew by 2,285 establishments—the second smallest gross gain, ahead of only New Mexico, a much less populous state.

This trend was in stark contrast to the pre-pandemic years when the Bay State was a national leader in net establishment formation. Between the first quarter of 2010, post-Great Recession, and the last quarter of 2019, Massachusetts had the second highest average quarterly business formation rate in the country (0.54 percent). The only state with a higher rate of business formation during that period was Utah (0.66 percent). Even during the Great Recession, Massachusetts maintained a rate of business formation that was above the national average.

The change is surprising both because it differs so greatly from how Massachusetts has performed in the recent past but also because it has occurred during a period in which formation rates have been especially high across the country. Looking at each state's net establishment rate from Q1 2010 to Q4 2019 and comparing it to Q1 2020 to

**From Q3 2022 to Q3 2024 Massachusetts had a negative rate of business formation—equating to a loss of 17,549 net employer businesses.**

Q2 2024, the average rate for all but six states has either stayed the same or increased. States like Tennessee, South Carolina, and Connecticut have increased their average rates by over 0.80 percentage points. Of the states that have declined (New York, California, Massachusetts, Nebraska, North Dakota, and Washington), Massachusetts had a decline over five times greater than the state that dropped second most quickly, California (-0.48 vs. 0.09 percentage points).<sup>9</sup>

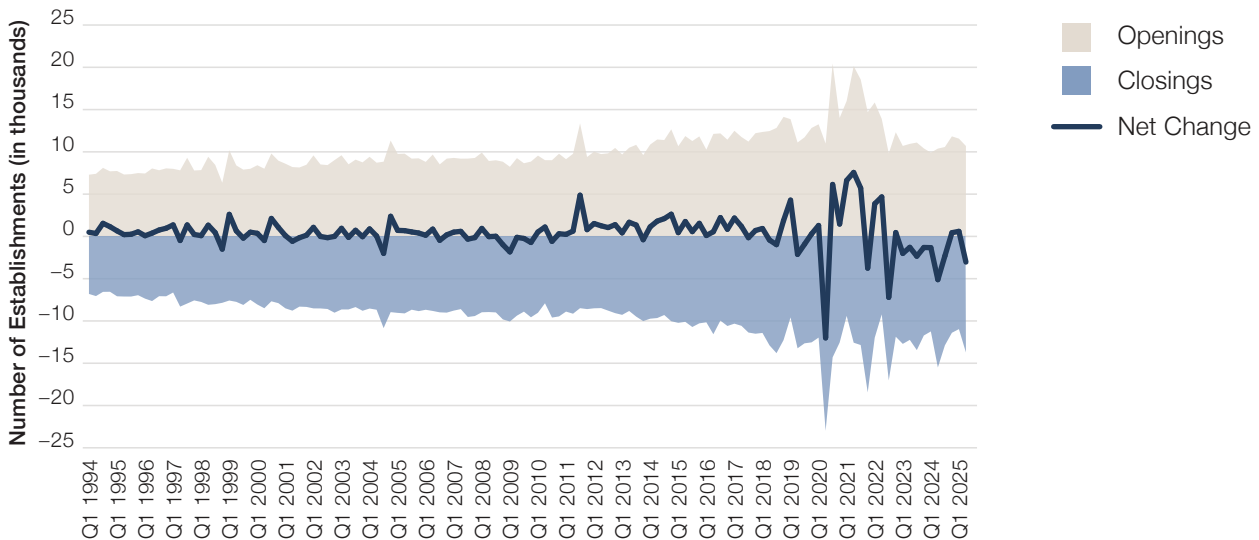
It's important to note that increased formation during and since the pandemic has shifted the goal posts to a degree. The average quarterly net business formation rate across all 50 states and D.C. during the 2010 to 2019 period was 0.23 percent, while it was nearly three times greater from 2020 to 2024 (0.60 percent). However, at its current average net rate, Massachusetts would have performed poorly even during the 2010 to 2019 period. Its average rate of 0.06 percent would have been just the 44<sup>th</sup> highest rate in the nation—or 7<sup>th</sup> lowest. Thus, its poor performance since the pandemic is both poor compared to historical standards and compared to other states during this unprecedented surge in business formation.

Many of the highest performing states from Q1 2020 to Q3 2024 were Massachusetts' closest competitors: Florida (0.87 percent), North Carolina (0.84 percent), New Hampshire (0.79 percent), and Texas (0.60 percent). Every other New England state also overperformed the 50-state average during that period, even though they each underperformed it from 2010 to 2019: Connecticut (0.94 percent), Rhode Island (0.86 percent), Maine (0.78 percent), and Vermont (0.75 percent). The relative change in New England compared to Massachusetts potentially indicates that establishments that would have otherwise been created in Massachusetts instead were created in nearby states.

## Openings and Closings

However, some recent data is more mixed. The BED dataset also provides data on establishment openings and closings, which can provide a snapshot of trends up until Q2 2025.<sup>10</sup> The BED takes several quarters to distinguish births and deaths from openings and closings, as many businesses are either seasonal or closed for short periods before reopening. Those establishments are initially reported as openings or closings and then further broken down into births and deaths in later data releases.

**Figure 2: Massachusetts Establishment Openings and Closings, Q1 1994 to Q2 2025**



Source: Bureau of Labor Statistics, *Business Employment Dynamics*

According to that data, Massachusetts had more openings than closings in Q4 2024 (+437) and Q1 2025 (+599) but then turned sharply negative again in Q2 2025 with 3,034 more businesses closing than opening.

It is important to note that positive net openings do not always correspond to positive net births. In Q4 2024, for example, there was a net of 455 more openings than closings but a net of 430 more deaths than births. Thus, while Q4 2024 and Q1 2025 are narrowly positive for openings, future releases may still show net negative business formation for those quarters.

Another interesting trend seen in Figure 2 is the increase in volatility of the data. Before 2020 there were often small spikes in both openings and closings, but since the pandemic those spikes have become more frequent and extreme.

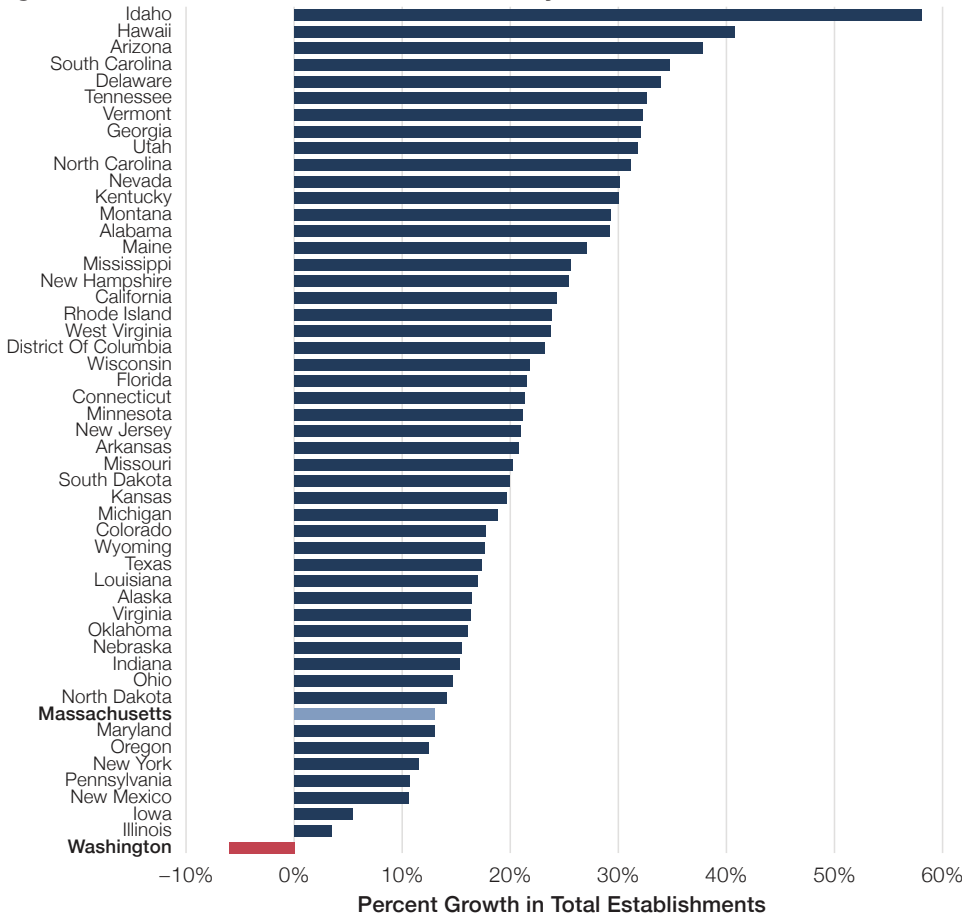
### Total Establishment Change

Another way to assess business formation is by looking at the number of total establishments in a state over time. The Quarterly Census of Employment and Wages (QCEW) is suited for that task. It is the dataset from which BED is derived, but unlike BED it does not track individual businesses over time or completely filter out businesses with zero employment and is thus more limited in its ability to act as a timeseries analysis or track business births and deaths.<sup>11</sup>

As seen in Figure 2, total establishment growth in Massachusetts reflects its low net business formation rate. It had the ninth lowest percentage growth in total establishments from Q1 2020 to Q3 2025 (13.0 percent).

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**Figure 3: Total Growth in Establishments by State, Q1 2020 to Q3 2025**



Source: Bureau of Labor Statistics' *Quarterly Census of Employment and Wages*

Idaho was the fastest growing state in percent of businesses during that period (58.1 percent). The change is notable because, starting in 2019, Idaho claims to have begun cutting or simplifying over 95 percent of state regulations to ease regulatory burdens on businesses and spur economic growth.<sup>12</sup> While that claim may or may not be accurate, a separate analysis of state regulations found that the number of regulatory restrictions in Idaho fell by 37 percent, the largest reduction in the country.<sup>13</sup>

Massachusetts' competitor states, including North Carolina (31.1 percent), New Hampshire (25.4 percent), Florida (21.5 percent), and Texas (17.3 percent) each grew at significantly faster rates than Massachusetts. Only Washington (-6.0 percent) had a negative growth rate, while other populous high-cost urbanized states like New York (11.5 percent) and Illinois (3.5 percent) were among the few that performed worse than the Bay State since Q1 2020.

Like the data for openings and closings up until Q3 2025, the most recent data provides some reasons for limited optimism. While over the total period from Q1 2020 to Q3 2025, the Commonwealth has performed poorly based on growth in total establishments, from Q3 2024 to Q3 2025 the state grew its number of establishments by 2.3 percent—above the national average of 1.3 percent.

However, the state is still down about 7,500 establishments since Q2 2023 when it peaked at 289,290. Q2 2025 openings and closings data indicates the increase may have been fragile. Ultimately, Q2 2025 data, which runs from April to June 2025, likely has not fully baked in any effects of economic uncertainty that have arisen due to the Trump administration's policies regarding tariffs, NIH grant funding, and immigration. All these policies disproportionately affect Massachusetts and are likely to impact firms' decisions to expand or enter the market.<sup>14</sup>

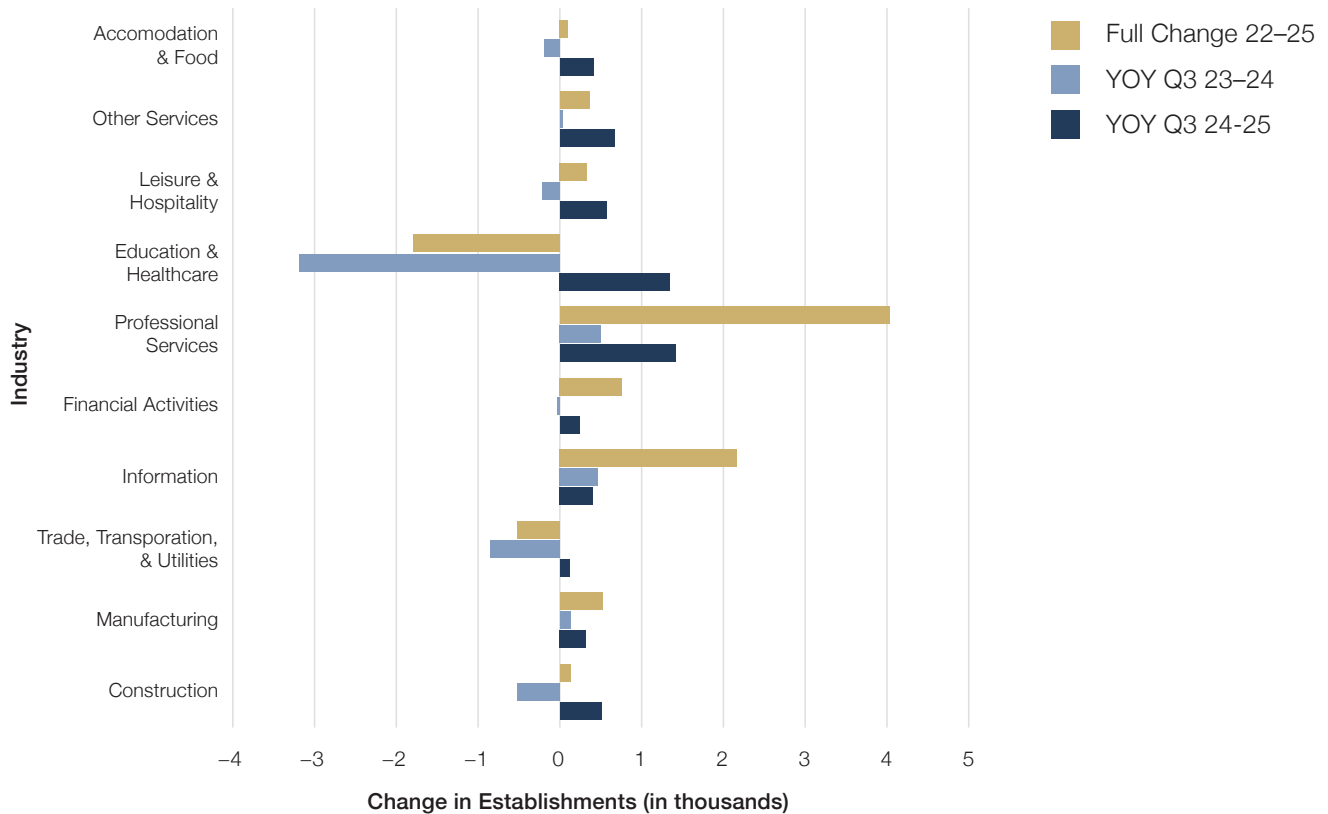
Another point of context: the national rate of total establishment growth appears to have fallen in the last year of data ending in Q3 2025; year over year establishment growth was 6.6 percent in 2022 and 3.8 percent in 2023 compared to 1.3 percent from Q3 2024 to Q3 2025. If the current trend continues and Massachusetts begins growing at a higher rate than the nation despite federal pressures, it has still missed out on the exorbitant growth during 2022 and 2023 that much of the country realized.

## Changes by Industry

QCEW data also provides an industry breakdown, allowing for a more detailed analysis of the total number of establishments. The dataset transitions every five years to new industry level classifications, the last of which occurred in 2022, so our analysis will focus on changes since then to filter out non-economic differences resulting from the changing business classifications.<sup>15</sup>

**Massachusetts' competitor states, including North Carolina (31.1 percent), New Hampshire (25.4 percent), Florida (21.5 percent), and Texas (17.3 percent) each grew at significantly faster rates than Massachusetts (13.0 percent) in total establishments.**

**Figure 4: Total Growth in Private Establishments in Massachusetts by Industry, Q1 2022 to Q3 2025**



Note: Some of the industry titles have been shortened for readability. For example, the Professional, Scientific, and Technical Services sector is abbreviated to Professional Services. The data is sourced from the Bureau of Labor Statistics, *Quarterly Census of Employment and Wages*.

As seen in Figure 3 above, changes to the number of establishments in various sectors have differed significantly in Massachusetts in recent years. From Q3 2023 to Q3 2024, most major sectors had negative establishment growth, except for information; professional, scientific, and technical services; and manufacturing. Healthcare and education (-3,180) shed the highest number of establishments by far, an unexpected finding as education and healthcare are not only two of Massachusetts’ strongest industries but have also been a source of significant establishment and employment growth nationally in recent years.<sup>16</sup> Trade, transportation, and utilities (-850); construction (-516); and leisure and hospitality (-215) had the next largest declines.

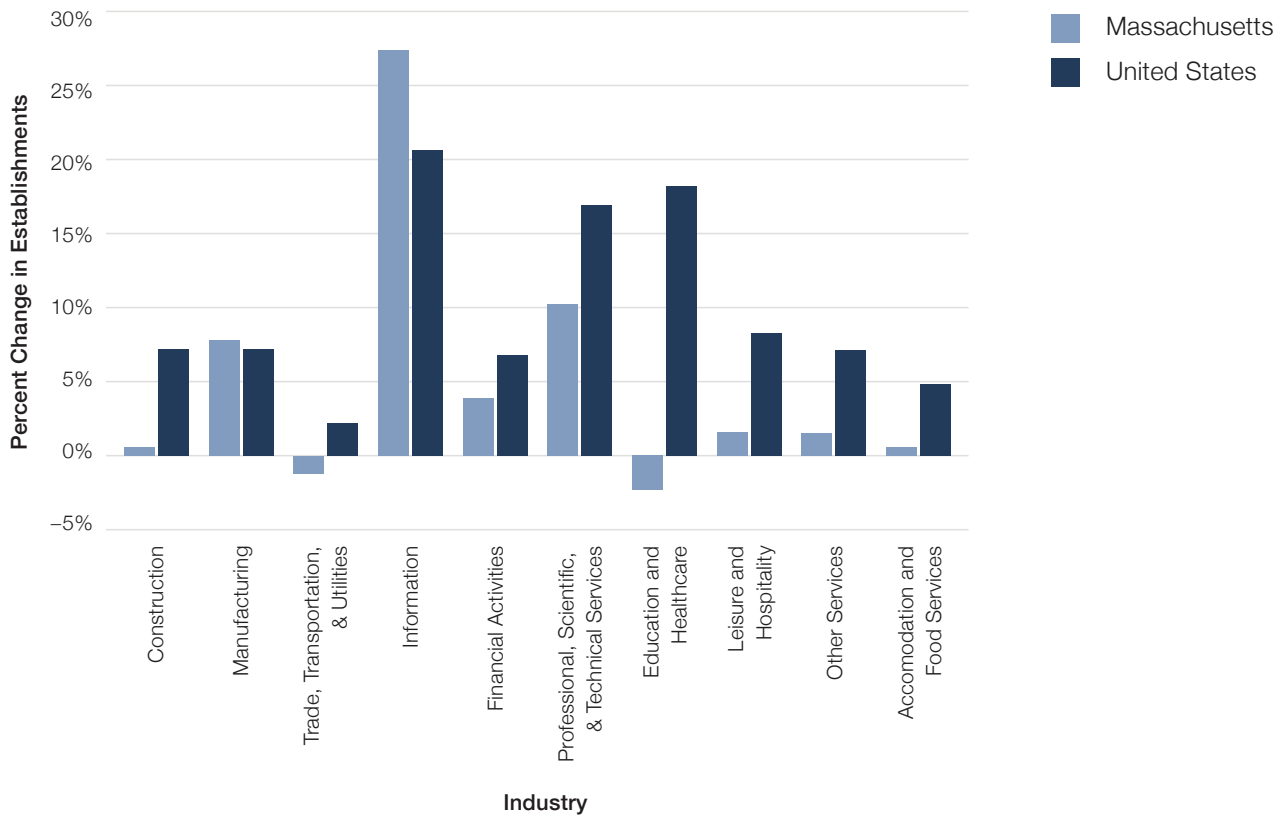
Establishment growth reversed to some extent from Q3 2024 to Q3 2025, with all sectors reporting growth. Positive establishment growth was led by the professional, scientific, and technical services sector (1,410) and a resurgent education and healthcare sector (1,346).

However, recent gains have been inadequate to fully erase some of the losses during prior years. In the full period from Q1 2022 to Q3 2025, the Commonwealth had a net loss in two major industries: education and healthcare (-1,788) and trade, transportation, and utilities (-515).

Professional, scientific, and technical services (4,034) and information (2,166) were responsible for the largest establishment gains during the full period. That said, as seen in Figure 4, below, the gains look less impressive when compared to growth across the country.

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**Figure 5: Total Growth in Establishments in Massachusetts by Industry, Q1 2022 to Q3 2025**



Source: Bureau of Labor Statistics, *Quarterly Census of Employment and Wages*

Information, Massachusetts’ fastest growing sector, grew several points faster than in the nation as a whole from Q1 2022 to Q3 2025 (27.4 percent vs. 20.6 percent). However, every other industry except manufacturing exhibited significantly less growth in establishments in the Commonwealth than in the nation. For example, while the professional, scientific, and technical services sector grew by 10.2 percent, the national growth rate was 16.9 percent—more than 50 percent higher.

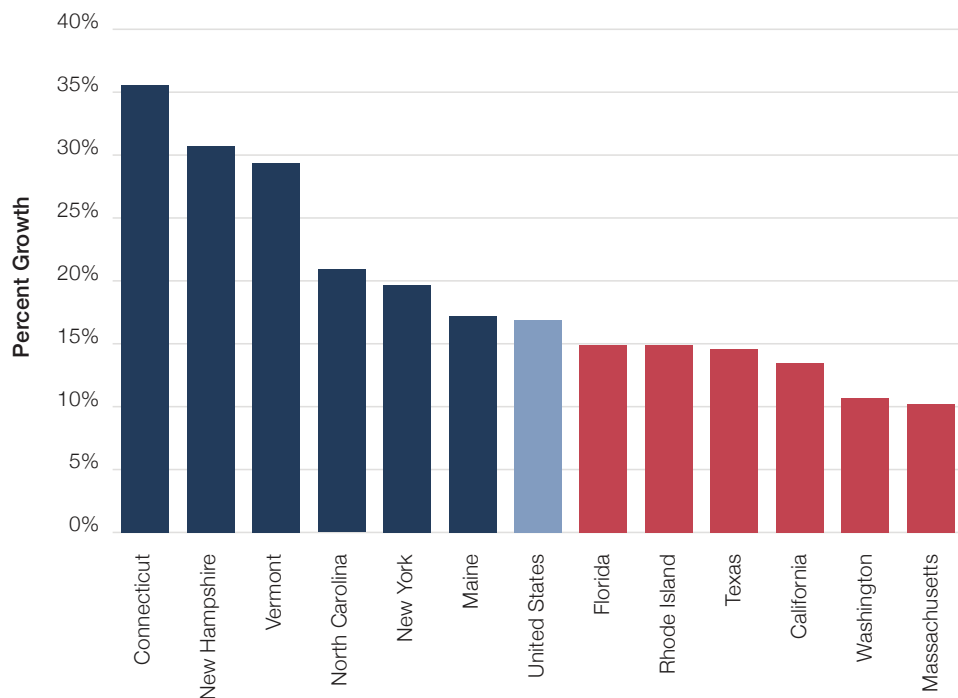
The greatest deviation from national trends, though, was in education and healthcare where Massachusetts’ total number of establishments declined by 2.3 percent from Q1 2022 to Q3 2025 while they increased by 16.2 percent nationally. Other notable deviations were in construction (0.6 percent in MA vs. 7.2 percent nationally), leisure and hospitality (1.6 percent vs. 8.3 percent), other services (1.5 percent vs. 7.1 percent), and accommodation and food services (0.6 percent vs. 4.8 percent).

Notably, while our analysis has been confined to the period starting in 2022 to reduce the number of non-economic changes in the data, an analysis focusing on a longer period is somewhat more positive for the Bay State—albeit less reliable for drawing conclusions. For example, from Q1 2020 to Q3 2025, the number of education and healthcare establishments grew by 9.8 percent—less than the national growth rate of 22.1 percent, but still positive. During that same period, Massachusetts establishment growth outpaced that of the nation in several other sectors, including information (71.7 percent vs. 41.6 percent); financial activities (13.9 percent vs. 12.5 percent); and professional, scientific, and technical services (31.2 percent vs. 29.3 percent). All other major industries trailed the national average.

While more positive overall, those data points still reinforce that much of the business formation growth Massachusetts has experienced since 2020 was concentrated in the early years of the pandemic, declined substantially in 2022 and 2023, and has recently trended in a more tenuously positive direction.

A closer look at professional, scientific, and technical services is also illustrative. The sector makes up many of the most advanced industries in the Commonwealth, including the life sciences. Previous Pioneer reports have detailed a slowdown in private sector employment and GDP growth specifically in that sector, alarming for the state's long-term growth potential.<sup>17</sup>

**Figure 6: Total Growth in Establishments in the Professional, Scientific, and Technical Services Sector by Competitor States, Q1 2022 to Q3 2025**



Source: Bureau of Labor Statistics, [Quarterly Census of Employment and Wages](#)

As seen in Figure 5 above, that slowdown has also shown up in establishment data. Q1 2022 to Q2 2025 growth in establishments in professional, scientific, and technical services in Massachusetts was both below that of regional and national competitors. Most notable was the relative growth in establishments in other northeast and New England states. Connecticut (35.6 percent), Vermont (29.4 percent), New Hampshire (30.7 percent), Maine (17.2 percent), and New York (19.7 percent) grew their number of establishments at rates greater than Massachusetts and the nation, another potential sign that new firms that may have opened in Massachusetts are choosing nearby alternatives instead.

Growth from Q3 2024 to Q3 2025 was a relative bright spot for the professional, scientific, and technical services sector in the Commonwealth. The state grew its number of establishments in that sector by 3.3 percent, higher than the national rate (2.2 percent) and several of the selected states in Figure 5, except California, Florida, and Vermont. More recent data is not available to determine whether the trend has continued.

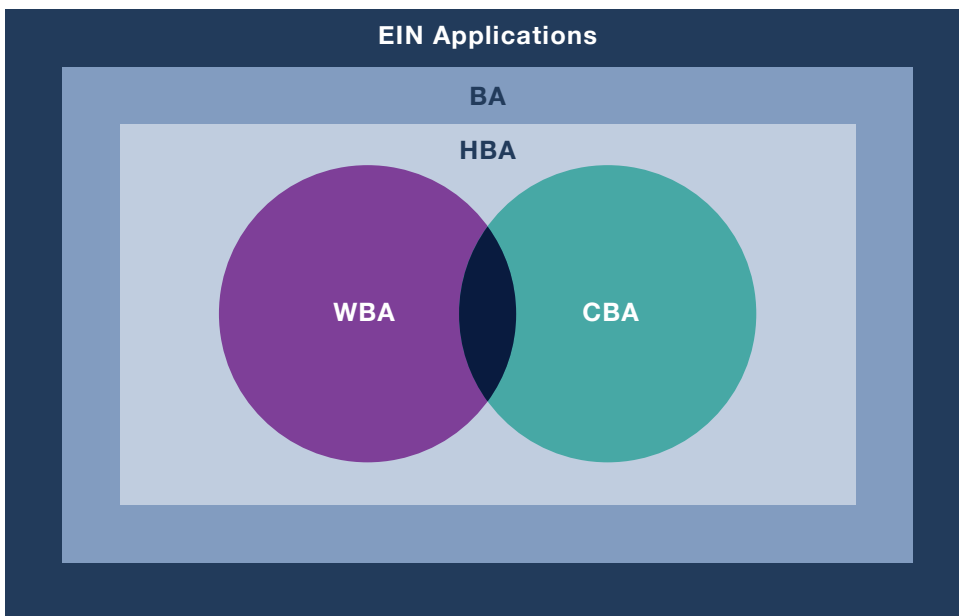
## Business Applications by Payroll Propensity

Another way to get at relative business formation or entrepreneurial activity by state is to look at business applications. The Census Bureau’s Business Formation Statistics (BFS) do this by tracking Employer Identification Numbers (EINs) reported to the IRS. The dataset is a good gauge of entrepreneurial intent and has the most recent data of any of the datasets used in this analysis.

Some subset of businesses in the data will have applied for an EIN but will have failed to materialize. Thus, EIN data is not a complete accounting of business formation but rather a leading economic indicator that is strongly correlated with business formation, job creation, and economic activity. WBAs, the most likely sub-group of applications to transition to an employer business, have a likelihood of about 40 percent to form and have a payroll within eight quarters of application.<sup>18</sup> For context, non-HBAs have a likelihood of just 3.8 percent.

The Census Bureau is able to identify and categorize EIN applications to determine whether a business is likely to be created or employ a payroll. This breakdown is depicted in Figure 6.

**Figure 7: The Relationship Between Different Business Applications Series in the Census Bureau’s Business Formation Statistics<sup>19</sup>**



The data show that from 2019 to 2025 Massachusetts had the eighth slowest growth rate in annual business applications. Business applications in the Commonwealth grew by 37.0 percent—more than a third less than the rate of the nation as a whole (60.5 percent).

For high-propensity employer business applications (HBAs),<sup>20</sup> Massachusetts fared similarly, with a growth rate of 20.9 percent in annual HBAs from 2019 to 2025. This HBA growth rate ranked 39<sup>th</sup> in the country and was well behind the national average (27.8 percent), competitor states, and regional rivals.

Notable states that had greater growth rates than the national average for HBAs include Delaware (131.8 percent), New Hampshire (38.7 percent), Texas (36.4 percent), North Carolina (36.3 percent), and Connecticut (36.2 percent).

**Employer Identification Number (EIN):** All employer businesses must file a Form SS-4 with the IRS to receive an EIN. An EIN allows the IRS to track/identify employer businesses for tax filing and reporting purposes.

**BAs:** business applications excluding industries with low likelihoods of becoming employer businesses and other extraneous filings like those for tax liens, estates, trusts, certain financial filings, and those filed from outside the U.S.

**HBAs:** high propensity business applications, or those deemed likely to form and have a payroll based on their basic characteristics including their structure and industry. HBAs have a 27 percent likelihood to turn into an employer business within 8 quarters of application.

**WBAs:** business applications with planned wages indicating a first wages paid date on their EIN application. WBAs have a 40 percent likelihood to turn into an employer business within 8 quarters of application.

**CBAs:** high propensity business applications from corporations or personal service corporations. CBAs have a 30 percent likelihood to turn into an employer business within 8 quarters of application.

For more information on the types of business applications, click [here](#).



**Figure 9: Growth by Business Formation Statistic's Series Among Competitor States, 2019 to 2025**

State	BAs	HBAAs	WBAs	CBAs	SBF4Q	SBF8Q
New Hampshire	52.9%	38.7%	11.3%	16.9%	20.8%	45.1%
Texas	76.8%	36.4%	11.1%	2.9%	22.0%	31.3%
North Carolina	75.3%	36.3%	8.5%	-12.8%	17.9%	28.8%
Connecticut	50.2%	36.2%	8.6%	15.3%	14.7%	24.4%
<b>United States</b>	<b>60.5%</b>	<b>27.8%</b>	<b>2.7%</b>	<b>-0.6%</b>	<b>10.8%</b>	<b>18.5%</b>
California	49.1%	23.6%	-5.7%	14.1%	2.2%	9.8%
Florida	62.8%	21.5%	5.4%	-22.9%	16.6%	25.4%
Massachusetts	37.0%	20.9%	-1.8%	2.7%	9.3%	14.9%
Washington	94.3%	20.5%	-6.8%	-10.9%	7.8%	14.1%
New York	29.8%	9.9%	-8.9%	-2.1%	-3.8%	3.0%

Source: Census Bureau, [Business Formation Statistics](#) monthly series

The business formation series also tracks real business formation—as opposed to business applications—and estimates future levels of formation from current trends and characteristics of business applications. It has spliced business formation within four- and eight-quarter series (SBF4Q and SBF8Q), which combine BFS's real business formation numbers (data up to 2022) and their estimates of more recent months to form a unified series. By virtue of being an estimate rather than based on employment records, SBF4Q and SBF8Q are not necessarily as reliable as the BED data. That said, they still provide an additional data point that can be used in conversation with other sources to provide a glimpse at the direction of business formation in Massachusetts.

Using the spliced series, the Commonwealth has still underperformed the national average rate of growth from 2019 to 2025 but is closer to it than in the business application series. The number of businesses estimated to form within four quarters of application grew by 9.3 percent in Massachusetts and 10.8 percent in the U.S. The growth rate in the number of businesses forming within eight quarters was 14.9 percent in Massachusetts and 18.5 percent in the U.S.

This result—better than expected, but still underperforming—may reflect two possibilities. One is that to some degree, Massachusetts has a better conversion rate from business applications to full employer businesses than some states. The other is that estimates after 2022 are relying on assumptions of likely employer businesses from prior to 2022 when the Bay State's rate of conversion was higher.

More recent SBF4Q data is also more negative than for the full period from 2019 to 2025. For example, the change in the number of business formations within four quarters between 2024 and 2025 was negative (-0.7 percent) while the national growth rate was strongly positive (4.1 percent). The same is true for the SBF8Q series, which pegs Massachusetts at a -1.8 percent annual growth rate between 2024 and 2025 when the national growth rate was 3.7 percent.

The most recent months of data from November 2025 to February 2026 show a higher number of business formations within eight quarters in Massachusetts than their average since January 2022. In those recent months, estimated monthly business formations have been greater than 740, while for the full period since 2022 the average monthly number of estimated business formations within 8 quarters has been 715.

## Growth in Firms by Age and Industry

To get at actual firms, as opposed to businesses/establishments, we turn to the Business Dynamics Statistics (BDS) dataset from the Census Bureau.<sup>22</sup> BDS is constructed by linking businesses over time to a series of administrative and survey records including unemployment insurance and the Quarterly Census of Employment and Wages (QCEW). While it has a longer lag time than the other sets used in this paper (the most recent year included is 2023), it provides detailed data on firm age, industry, and deaths. The age data allows us to track the growth in startups and other younger ventures over time.

From 2019 to 2023, the data show that Massachusetts grew its number of total firms at less than half the national rate—2.3 percent vs. 4.9 percent, respectively. Massachusetts also trailed the national growth rate for startups and young firms, as seen in Figure 7. Nationally, the number of firms between the ages of one and three grew by 9.4 percent from 2019 to 2023, while the Bay State only grew by 4.1 percent. The relatively higher growth rate in age zero firms than those between the ages of one and three could indicate that while firms continue to be born in Massachusetts, their survival rate may be lower than in other states. Alternatively, many firms may choose to migrate soon after they become established.

**From 2019 to 2023, the data show that Massachusetts grew its number of total firms at less than half the national rate—2.3 percent vs. 4.9 percent, respectively.**

**Figure 10: Percentage Growth by Firm Age, 2019 to 2023**

State	0 Age Firms	1–3 Age Firms	0–5 Age Firms	Total Firms
Florida	20.3%	18.3%	17.7%	11.8%
Texas	17.5%	15.2%	16.4%	9.9%
North Carolina	21.2%	14.4%	17.8%	8.3%
California	8.6%	14.9%	13.2%	7.8%
<b>United States</b>	<b>12.3%</b>	<b>9.4%</b>	<b>10.8%</b>	<b>4.9%</b>
Washington	2.5%	1.8%	5.3%	3.3%
New Hampshire	9.6%	12.5%	13.4%	2.4%
Massachusetts	10.8%	4.1%	7.9%	2.3%
Illinois	2.3%	0.7%	2.7%	0.8%
Connecticut	7.2%	8.7%	8.4%	0.2%
New York	0.5%	−9.0%	−4.2%	−0.7%

Source: Census Bureau, [Business Dynamics Statistics](#)

Many of the states that performed better on these metrics were Massachusetts' competitor states, like Florida, Texas, and North Carolina. Florida (11.8 percent) and Texas (9.9 percent) each grew their total number of firms at a rate over twice that of the national average.

Their advantage was greater in certain industries. For example, in the professional, scientific, and technical services (PSTS) industry, which broadly encompasses the life sciences and other biotech firms, Massachusetts only had 292 more firms ages zero to five in 2023 than it did in 2019 (a growth rate of 5.5 percent). Florida (5,503 or 21.7 percent), Texas (5,321 or 23.5 percent), and North Carolina (1,140 or 15.8 percent) far outpaced the Commonwealth. This is a worrying sign, as PSTS is Massachusetts' primary growth industry and without continued firm creation will struggle to innovate at the same rate as states that are growing their number of startups more rapidly.

Another notable statistic: Massachusetts had the highest number of firm deaths in 2023 than it has had since 2005 (10,245) and the highest number of firm deaths as a percentage of total firms since 2008 (7.7 percent). Although, these numbers are below the national average (8.9 percent) and mirror a nationwide growth in firm deaths in 2023.

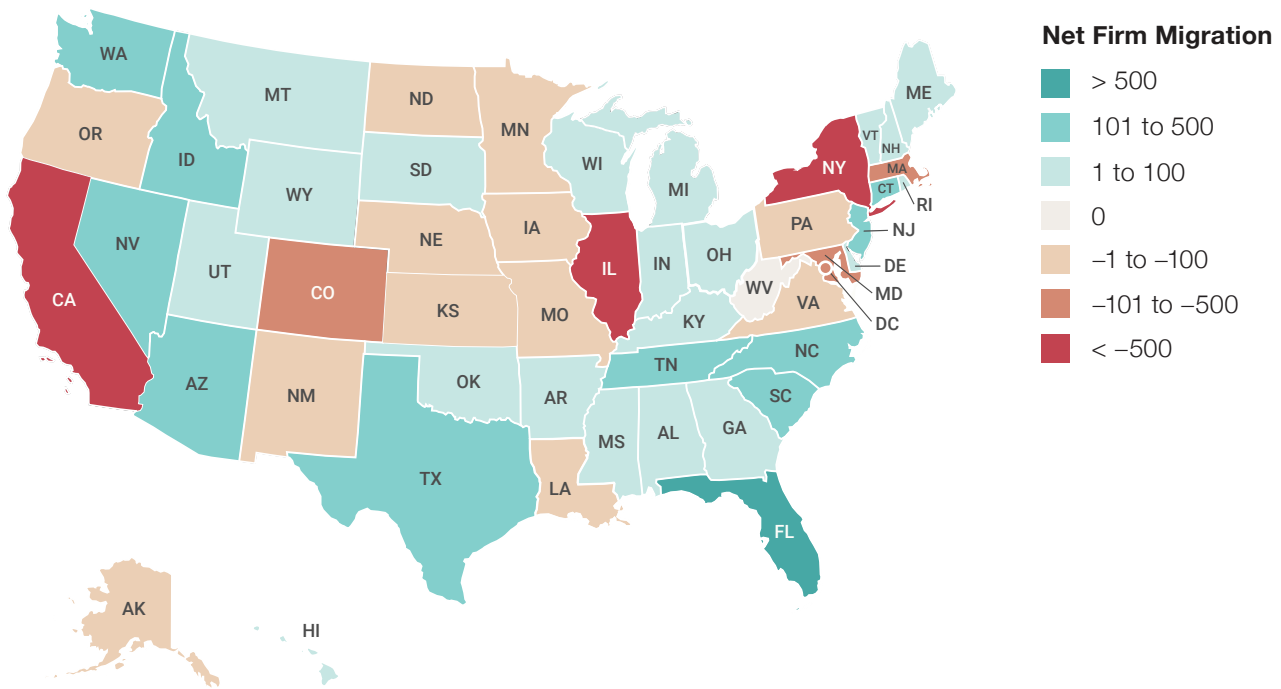
The states with the highest firm deaths in 2023 as a percentage of total firms were Florida (10.5 percent), Colorado (10.4 percent), and Georgia (10.1 percent). However, the reasons behind the high percentage of firm deaths may differ in their impact and causes. For example, while Florida and Georgia had high rates of firm deaths, the number of young firms aged zero to five also grew significantly higher than states like Massachusetts from 2020 to 2023, indicating that the high death rate may be a result of creative destruction rather than a poor economic environment. Massachusetts, on the other hand, may have a lower rate of firm deaths, but that is also paired with more anemic business creation.

**Massachusetts had the highest number of firm deaths in 2023 than it has had since 2005 (10,245) and the highest number of firm deaths as a percentage of total firms since 2008 (7.7 percent).**

## Firm Migration

BDS data is also able to capture firm migration.<sup>23</sup> In 2023, Massachusetts lost a net total of 70 firms to other states, the most the state has lost in any single year since at least 1994. In total, Massachusetts lost 149 firms between 2020 and 2023.

**Figure 11: Net Firm Migration, 2020 to 2023**



Source: Census Bureau, *Business Dynamics Statistics*

While that total is small compared to the total number of firms in the state (133,001), it is directionally significant. Many of the states that have sought to improve their cost competitiveness and rank highly in the Tax Foundation's State Tax Competitiveness Index saw the greatest number of in-migrating firms, such as Florida (1,721), Texas (470), and North Carolina (338).<sup>24</sup>

## Simple and Effective Policies to Reduce Tax Burdens on Small and Mid-Size Businesses

The data above, derived from several different sources and methodologies, all provide evidence that Massachusetts as a state has performed poorly in incentivizing new business formation in recent years—even during a time when much of the rest of the country has experienced unprecedented growth.

Improving business formation in the Bay State will require reducing structural barriers that discourage entrepreneurs from starting and scaling firms here. While not the only factor considered by entrepreneurs, tax policy plays an important role in shaping these decisions, particularly during the early stages of a firm’s life cycle when profitability is uncertain and compliance costs can be relatively high. Several reforms proposed in the Pioneer Institute’s *The Case for Competitiveness* would help create a more supportive environment for new and growing businesses.<sup>25</sup>

### Eliminate or Simplify the Non-Income Measure of the Corporate Excise Tax

Massachusetts is unusual in maintaining a corporate excise structure that includes both an income-based component and a non-income component based on a firm’s assets or property.

This structure can be particularly burdensome for startups and capital-intensive firms because it taxes companies even when they are not profitable. In practice, this means a business can owe taxes simply for owning assets or maintaining operations in the state.

Eliminating or simplifying this non-income measure would accomplish two goals:

- Reduce compliance complexity for businesses
- Remove a tax liability that can apply even during unprofitable startup phases

Because young firms often experience multiple years of losses before achieving profitability, removing asset-based taxation would reduce a key financial risk associated with launching a new venture in Massachusetts.

### Reform the “Sting Tax” on S-Corporations

Many small and mid-sized businesses choose S-corporation status because it allows income to pass through to owners rather than being taxed at the corporate level. Massachusetts, however, imposes an additional surtax—commonly referred to as the “sting tax”—on S-corporations above certain revenue thresholds.

These thresholds have not been updated since 2008, meaning that inflation and business growth have gradually expanded the number of firms subject to the surtax. Adjusting the thresholds upward and indexing them to inflation would ensure the tax only applies to larger firms, rather than capturing businesses still in relatively early growth stages.

By reducing tax burdens on expanding small businesses, reforming the sting tax would allow successful startups to scale within Massachusetts rather than facing incentives to relocate or restructure.

### Adopt a More Competitive Corporate Apportionment System

Massachusetts currently applies a “throwback rule” that taxes certain income generated in other states if that income is not taxable in those jurisdictions.

This rule can increase the effective tax burden on firms operating across multiple states and may discourage companies from locating their headquarters or primary operations

**Improving business formation in the Bay State will require reducing structural barriers that discourage entrepreneurs from starting and scaling firms here.**

in Massachusetts. Replacing the throwback rule with a “throw-out” rule—which excludes untaxed sales from the apportionment formula—would represent a middle ground between the status quo and the apportionment formula approach typical of the plurality of states.

For startups with national customer bases, this change would reduce uncertainty about how revenue will be taxed and make Massachusetts a more attractive place to establish headquarters.

### **Exempt Rolling Stock from the Personal Property Use Tax**

Massachusetts is one of 14 states that continues to apply use taxes to rolling stock—trucks, trailers, and other equipment used in interstate commerce.

For logistics firms, manufacturers, and other businesses dependent on transportation equipment, this tax increases the cost of investment and expansion. Exempting rolling stock from the use tax would lower the cost of acquiring critical business assets and support sectors that depend on interstate trade.

Reducing these costs would be particularly beneficial for new businesses in transportation, logistics, and distribution industries.

### **Raise the Estate Tax Threshold to the Federal Level**

Massachusetts is among the 12 states that still impose an estate tax, and its applicability threshold is relatively low compared with most other states.

This tax can influence the long-term decisions of business owners, particularly those considering succession planning or the eventual sale of their firms. Significantly raising the threshold or repealing the estate tax entirely would reduce incentives for entrepreneurs and high-net-worth business owners to relocate to states with more favorable tax structures.

Over time, this reform could help retain both capital and entrepreneurial talent within the Commonwealth.

### **Eliminate the Minimum Corporate Excise Tax**

Massachusetts currently imposes a minimum corporate excise tax, even on firms with no taxable income. At \$456 annually, this tax applies regardless of profitability and therefore represents a fixed cost of operating a business in the state.

For early-stage firms and entrepreneurs testing new business ideas, fixed costs can have an impact on formation decisions. Eliminating the minimum corporate tax would reduce the baseline cost of incorporation and operation in Massachusetts, making the state more attractive to startups and small businesses. Such a change would also align Massachusetts with several competitor states that do not impose minimum corporate taxes.

Removing this tax would lower barriers to entry and improve the state’s competitiveness in attracting entrepreneurs.

## **A State in Retreat: Massachusetts Must Act Now**

The data presented throughout this report points to a clear and concerning conclusion: Massachusetts is no longer keeping pace with the rest of the country in generating new businesses, sustaining firm growth, or retaining entrepreneurial talent. What was once a defining strength of the Commonwealth—its ability to foster innovation and translate it into new enterprises—has weakened at a moment when other states are gaining ground.

Reversing this trajectory will require more than incremental adjustments. Massachusetts must take deliberate steps to rebuild a competitive environment where businesses can start, grow, and remain. That means reducing the structural costs that weigh on entrepreneurs, modernizing regulatory systems that slow expansion, and aligning tax policy more closely with national norms. At the same time, the state must address the underlying factors shaping long-term growth, ensuring a skilled and available workforce and expanding housing supply so workers and founders alike can afford to live and build their futures here.

The path forward is not ambiguous. A stronger business climate, a more predictable and competitive tax structure, streamlined governance, targeted workforce investment, and meaningful housing production together form the foundation for renewed growth. These are not isolated policy areas—they are interconnected levers that determine whether Massachusetts can compete for the next generation of firms and workers.

Absent decisive action, the current trends risk becoming entrenched. Continued business stagnation, combined with out-migration and slower job creation, would erode the state's economic dynamism and diminish opportunities for residents. The Commonwealth still possesses the assets—talent, institutions, and industry clusters—to reverse course, but time is a critical factor. Acting now will determine whether Massachusetts reclaims its position as a national leader in innovation-driven growth or continues to fall behind.

**The data presented throughout this report points to a clear and concerning conclusion: Massachusetts is no longer keeping pace with the rest of the country in generating new businesses, sustaining firm growth, or retaining entrepreneurial talent.**

## Appendix

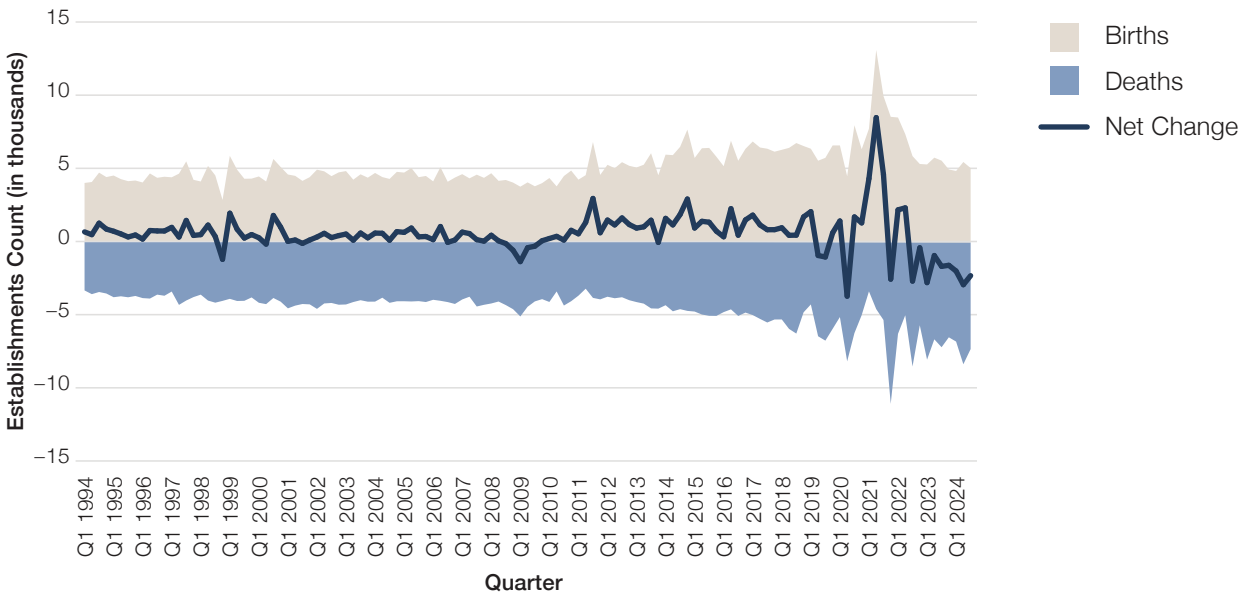
**Figure 1: Change in Average Quarterly Net Business Formation Rate, 2010 to 2024**

State	Avg. Net Rate 2010 to 2019	Avg. Net Rate 2020 to 2024	Change
Massachusetts	0.54%	0.06%	-0.48%
California	0.54%	0.44%	-0.09%
New York	0.17%	0.10%	-0.06%
Nebraska	0.35%	0.30%	-0.05%
North Dakota	0.47%	0.45%	-0.01%
Washington	0.17%	0.16%	-0.01%
Iowa	0.14%	0.23%	0.09%
Colorado	0.48%	0.57%	0.10%
New Mexico	0.11%	0.22%	0.11%
Texas	0.45%	0.60%	0.15%
Virginia	0.26%	0.43%	0.16%
Louisiana	0.08%	0.25%	0.17%
Maryland	0.08%	0.27%	0.19%
Illinois	0.12%	0.31%	0.19%
Missouri	0.40%	0.59%	0.20%
Oklahoma	0.15%	0.35%	0.20%
Minnesota	0.15%	0.37%	0.22%
Ohio	0.01%	0.26%	0.26%
Pennsylvania	0.04%	0.31%	0.27%
Indiana	0.10%	0.38%	0.28%
Hawaii	0.09%	0.37%	0.28%
Oregon	0.27%	0.56%	0.29%
District Of Columbia	0.57%	0.88%	0.31%
Wyoming	0.18%	0.54%	0.36%
<b>50 State Average</b>	<b>0.23%</b>	<b>0.60%</b>	<b>0.37%</b>
Wisconsin	0.27%	0.65%	0.38%
Alaska	0.11%	0.50%	0.39%
Utah	0.66%	1.05%	0.40%
Mississippi	-0.05%	0.36%	0.41%
Georgia	0.28%	0.69%	0.41%
Kentucky	0.21%	0.64%	0.42%
Delaware	0.27%	0.72%	0.45%
Montana	0.28%	0.73%	0.45%

State	Avg. Net Rate 2010 to 2019	Avg. Net Rate 2020 to 2024	Change
Arkansas	0.06%	0.53%	0.46%
Florida	0.41%	0.87%	0.47%
Michigan	0.06%	0.53%	0.48%
South Dakota	0.29%	0.78%	0.49%
Kansas	0.06%	0.61%	0.55%
North Carolina	0.27%	0.84%	0.56%
New Hampshire	0.20%	0.79%	0.59%
Maine	0.17%	0.78%	0.61%
New Jersey	0.10%	0.72%	0.62%
Arizona	0.32%	0.96%	0.64%
Alabama	0.08%	0.73%	0.65%
Rhode Island	0.21%	0.86%	0.65%
Vermont	0.05%	0.74%	0.69%
Nevada	0.48%	1.22%	0.74%
Idaho	0.49%	1.24%	0.76%
Tennessee	0.22%	1.03%	0.81%
South Carolina	0.34%	1.25%	0.91%
Connecticut	-0.04%	0.94%	0.98%
West Virginia	-0.17%	0.86%	1.03%

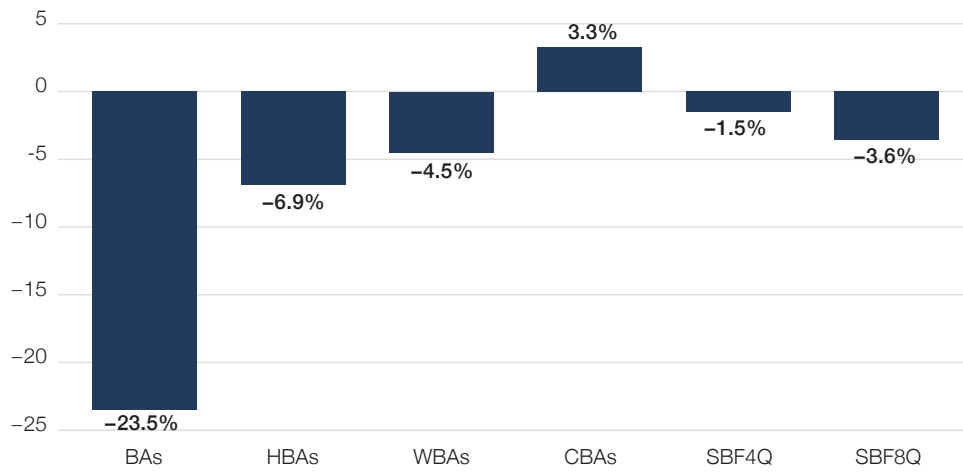
Source: Bureau of Labor Statistics, [Business Employment Dynamics](#)

**Figure 2: Massachusetts Establishment Births and Deaths, Q1 1994 to Q3 2024**



Source: Bureau of Labor Statistics, [Business Employment Dynamics](#)

**Figure 3: Massachusetts' Difference from the National Business Formation Growth Rate by Business Formation Statistic's Series, 2019 to 2025**



## Endnotes

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- 9 A firm refers to the entirety of a business, including all its franchises, subsidiaries, etc. An establishment can refer to a firm or it can refer to a subsidiary, franchise, etc. If an establishment closes that does not mean the firm has closed. For example, if a Dunkin location closes it would be considered an establishment death but because Dunkin is a large company with thousands of other locations that closure would not be considered a firm death. In this paper establishment and business are used interchangeably.
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