Winter 2018

Cutting Tool

The Newsletter of the United States Cutting Tool Institute

Informer

Informing, planning and taking action

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LEADING THE FUTURE OF THE CUTTING TOOL INDUSTRY

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See You In Historic Santa Fe, New Mexico, For The Spring 2018 Institute Meeting!

With activities for all, networking, a beautiful Southwest location, and speakers covering topics ranging from millennials to cybersecurity, this will be an Institute meeting you won't want to miss! Mark your calendars for May 19-21, 2018 now!

Please check your email in March for registration information.

In This Issue

USCTI President's Message

UNITED STATES CUTTING TOOL INSTITUTE
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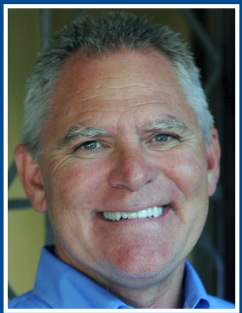

Phil Kurtz

Dear Fellow USCTI members,

First and foremost, I want to give a big thank you to Steve Stokey for his great leadership over the last two years. In addition to performing all of the president's tasks, he made time to be very instrumental in the new forecasting from IHS and updates to the statistics program. I believe all of us are finding these helpful as we navigate our businesses into the future.

I am very excited to lead USCTI and grateful for the opportunities we have ahead of us during my tenure, including updating our strategic plan and the educational and training initiatives that we will launch. If any member wants to be a part of any of these initiatives, please contact me or the staff at Thomas Associates.

As Will Rogers once said, "There is no trick to being a good humorist when you have the entire government working for you." Recently this quote seems more appropriate than ever. While much of the federal government's activity does indeed make all of us into humorists, it appears that the new tax laws may help us grow our businesses. It looks like 2018 should be a good year for all U.S. industries.

The active M&A trend continues in both the industrial distribution and cutting tool manufacturing worlds. Many times the results of these mergers and acquisitions are new customers and potential new USCTI members. The more members we have, the greater the value to all of us. Please forward any company names with contact information to USCTI Staff at Thomas Associates or Membership Chairman Jeff Major, and we will take it from there.

Remember to mark your calendars for our upcoming Spring Meeting in Santa Fe, May 19-21. The meeting promises valuable presentations, interesting optional activities and, as always, the best networking opportunity anywhere for cutting tool producers.

I look forward to helping us build on the great accomplishments of our past leadership as we move into the future.

Wishing everyone the best 2018!
See you in Santa Fe.

Sincerely,
Phil Kurtz
Wetmore Tool & Engineering Company

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Statistics Committee Update

It is hard to believe that 2018 is now upon us, bringing new opportunities and challenges. Last year certainly was an exciting and rewarding year within the U.S. manufacturing sector, and, from the indications I am seeing, 2018 has a good chance to continue in the same direction.

I hope you are all enjoying our IHS Markit "US Cutting Tool Industry and Economic Outlook" reports. I feel that these forecasting reports, together with the accompanying webinars, have really enhanced the value that our Institute offers its members. We are now taking a further step to enhance the content and insight by adding a regional component. This is only possible through our cooperation with AMT and being able to leverage the extensive capabilities of IHS Markit. I hope you will find these enhanced forecasting reports to be useful tools in your ongoing business planning.

The Statistics Committee has made no changes to our statistical program over the past year in order to secure consistency in reporting. Looking ahead into 2018, I believe we are now open to considering some minor modifications where it might make sense. If you have any suggestions for enhancing our statistics program, please reach out to me, any committee members, or USCTI staff, and we will gladly consider your suggestions.

In closing, let me remind you that one of the main advantages to USCTI membership is the access to relevant industry statistics and world-class forecasting reports. So if you are not providing your monthly sales statistics, you are also not enjoying all that our Institute has to offer.

I wish you all much success in 2018!

Johan Israelsson, Statistics Committee Chairman
Sandvik Hyperion

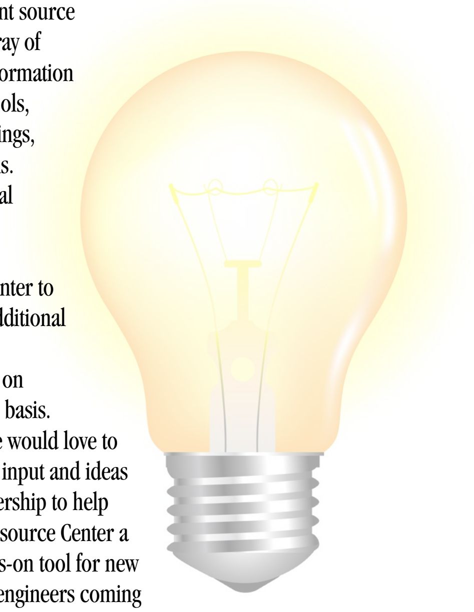
Technical Committee Update

The Carbide End Mill and Shank Standard project teams, which were formed last year, have been meeting by teleconference at least twice monthly to help accelerate their progress on the standards. The Shank Standard draft is near completion, and a meeting was held in January. The Carbide End Mill standard draft has not been completed yet. The team also held a meeting in early January, with the next meeting scheduled for the end of January 2018.

We welcome Brian Hamil of Kyocera-SGS Tool to the Technical Committee, where he will serve on the Carbide End Mill project team.

Al Choiniere, Technical Committee Chairman
Superion, Inc.

We Need Your Ideas
The USCTI Technical Resource Center is an excellent source for a vast array of technical information on cutting tools, surface coatings, and materials. The Technical Committee utilizes the Resource Center to broadcast additional information and updates on a continuing basis. However, we would love to have further input and ideas from membership to help make the Resource Center a useful, hands-on tool for new cutting tool engineers coming into our industry. Please send your ideas and input to uscti@uscti.com. Additional white papers would be welcome and are much appreciated.



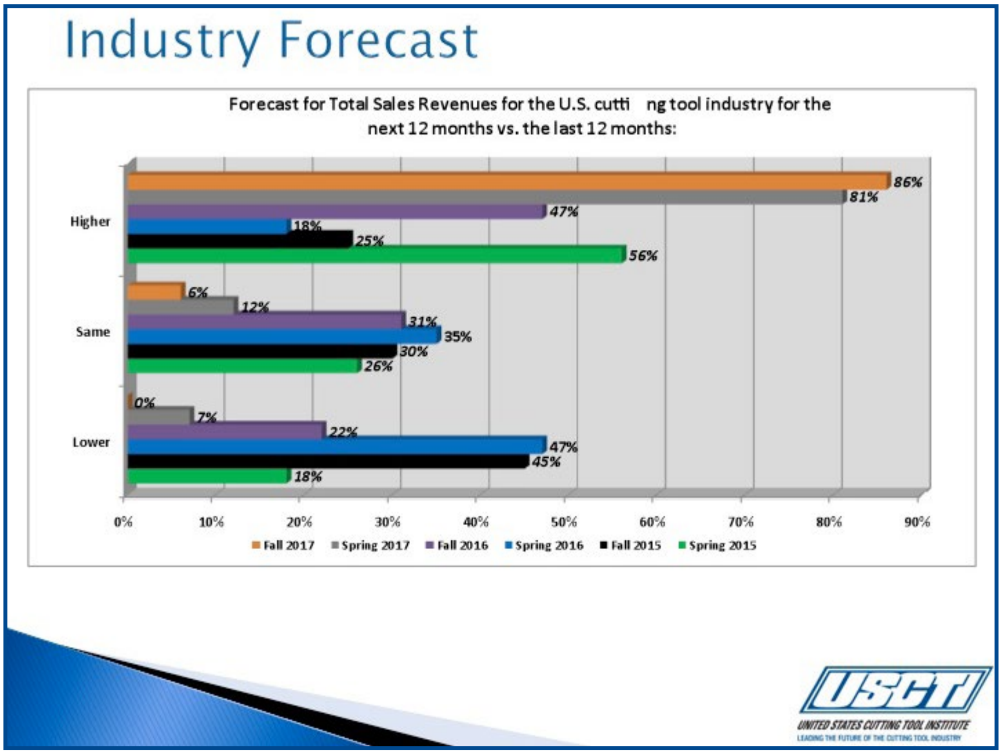
FALL 2017 BUSINESS INDUSTRY OUTLOOK SURVEY RESULTS

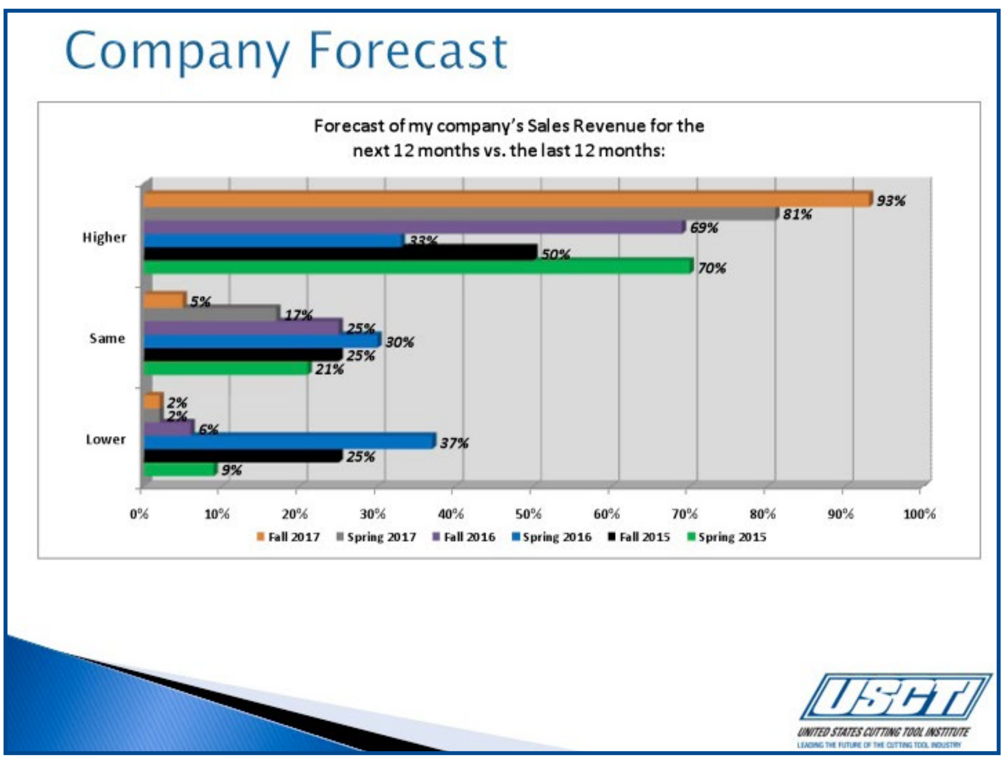
To access documents referenced in this issue, log on to the USCTI Secure Virtual Office (SVO) using your unique username (email) and password. Passwords are case-sensitive. If you have forgotten your password, click on the “Forgot Password?” link to receive an email with your login information. You may also contact the USCTI office for assistance.

Participation in the fall 2017 survey remained the same as it was in spring 2017. 86% of respondents thought the forecast for total sales revenues for the next 12 months would be higher than the forecast for the last 12 months. This is a positive trend compared to fall 2016, when only 47% thought the forecast would be higher. 93% of respondents stated that sales revenue for the next 12 months will be higher than that of the last 12 months, which, again, is more positive than only 69% reporting the same in the fall 2016.

One respondent noted, “Business is very strong, and all expectations are for it to continue for the next 6 to 12 months — assuming a significant negative global event doesn’t take place.”

The PowerPoint presentation of the survey results is available to all members through the USCTI Secure Virtual Office.





Future Meeting Dates
Be sure to mark your calendar for the upcoming Institute meetings, which are scheduled as follows:

2018 Spring Meeting
May 19-21, 2018
Inn & Spa at Loretto
Santa Fe, New Mexico

2018 Fall Meeting
October 13-15, 2018
The Westin Nashville
Nashville, Tennessee

FALL 2017 MEETING RECAP

Our Fall Meeting was held in Coeur d'Alene, Idaho. First, I have to say that the resort and the service at the resort were exceptional, so I want to thank Dale Newberry for his persistence. If you missed the meeting, you may want to schedule your own trip to Coeur d'Alene to check it out for yourself!

Our speakers for the meeting included Michael Ramirez, Kathy Looman from the Haas Foundation, and David Burns from Global Business Advisory Services. Michael is a political cartoonist, and he shared some of his insight along with his twisted humor and helped get us off to an interesting start. Kathy gave us a look at how the Haas Foundation came to be and reported on many of the projects they have worked on and are working on to bring awareness to our industry. David's presentation gave us a great update on 3D printing as it relates to how we make our products and how it could have an impact on what we sell.

All of the group receptions and meals were outstanding and gave us an opportunity to meet up with old friends and forge some new friendships. If you are into golf and didn't get to play, you missed a real treat. Tom Haag even came out of retirement to experience one of the best golf courses this country has to offer!

Don't miss out on all the Institute has to offer, either! Be sure to register for one or both of our meetings in 2018.

Mike Stokey, Programs Committee Chairman
Allied Machine & Engineering Corp.

To view recent Institute programs, please visit the USCTI website or click here. To view speaker presentations, please log into the USCTI Secure Virtual Office.

SPRING 2018 MEETING PREVIEW

Our next meeting will be held May 19-21 at The Inn & Spa at Loretto in Santa Fe, New Mexico. This is a wonderful resort that offers varied activities for everyone. If you are struggling with how to figure out millennials in your workplace, you won't want to miss hearing one of our speakers, Lisa Ryan talk about this very subject. Our other speakers will provide great value for your companies. Check your email soon for registration information.

We hope to see you in Santa Fe!

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TAX REFORM FINALLY ARRIVES!

Overview of New Tax Laws Changes Impacting Businesses and Individuals

An early Christmas present arrived on Dec. 22, 2017, when President Trump signed into law the Tax Cuts and Jobs Act of 2017 ("Act"), the most significant tax reform legislation since 1986.

For businesses, the Act provides for, among other items:

- A corporate tax rate permanently lowered to 21 percent, effective Jan. 1, 2018.
- A territorial system of taxation for corporations, subject to new base erosion rules, including a base erosion and anti-avoidance tax (BEAT) and foreign minimum tax rules on global intangible low-taxed income (GILTI).
- A deduction for corporations on foreign-derived intangible income (FDII), intended to reduce the effective tax rate on certain income from export transactions.
- A one-time repatriation tax on corporate earnings held overseas, applying different rates to liquid assets (15.5 percent) and illiquid assets (8 percent), and payable over eight years in back-loaded installments.
- Repeal of the corporate alternative minimum tax (AMT) and the Section 199 domestic manufacturing deduction, with rules allowing for the refunding of prior-year AMT credits.
- Retention of the research and development credit along with a requirement that research expenditures paid or incurred after Dec. 31, 2021, be capitalized and amortized over five years (or 15 if incurred outside of the U.S.).
- Limitations on interest deductions for large businesses to the total of interest income plus 30 percent of "adjusted taxable income" (roughly EBITDA through 2021 and EBIT thereafter), with unlimited carryforwards of unused deductions.
- Limitations on net operating loss (NOL) deductions to 80 percent of taxable income for losses incurred after 2017.
- Allowance of current deductions for the cost of new investments in qualified depreciable tangible assets (including used property new to a taxpayer) acquired and generally placed in service between Sept. 27, 2017, and Jan. 1, 2023 (with a phasedown for property placed in service in years subsequent to 2022 and before Jan. 1, 2028).
- A new timing rule that accelerates the inclusion of items of income for certain accrual-method taxpayers to when the income is taken into account for financial statement purposes. The rule would not apply to items subject to a special method of accounting (such as the installment method) but would apply to original issue discount.
- An increase to $1 million in Section 179 expensing for smaller businesses.
- Repeal of certain exceptions to the current Section 162(m) limitations on executive compensation, and imposition of a new excise tax on certain excess compensation received by executives of tax-exempt organizations.
- Elimination of deductions for certain entertainment expenses but retention of the 50 percent deduction for food and beverages through 2025.
- Retention of the low-income housing tax credit and new markets tax credits.
- Modification of the 20 percent historic rehabilitation tax credit, requiring that the allowable credit be taken ratably over five years.
- A 20 percent deduction (reducing the maximum marginal rate to 29.6 percent) on certain pass-through domestic-sourced (including from Puerto Rico) business income from sole proprietorships, partnerships and Subchapter S corporations and from qualified REIT or cooperative dividends. Estates and trusts also are eligible to claim the deduction. Noncorporate taxpayers are not permitted to deduct business losses in excess of business income plus $500,000 (for joint return filers).
- Repeal of the like-kind exchange rules, except for real property.

For individuals, the Act provides for, among other items:

- The current seven-bracket structure remains, but the income thresholds and current rates of 10, 15, 25, 28, 33, 35 and 39.6 percent change, with rates under the Act set at 10, 12, 22, 24, 32, 35 and 37 percent, effective Jan. 1, 2018. The top individual tax rate of 37 percent applies for couples with taxable income of $600,000 or more and individuals with taxable income of $500,000 or more.
- Retention of the individual AMT, but with higher exemption amounts ($109,400 for joint filers) and increased phase-out thresholds ($1 million for joint filers).
- Elimination of most itemized deductions other than charitable deductions, home mortgage interest deductions (with the cap lowered from $1 million to $750,000 for new mortgages by joint filers on first or second homes), and state and local income, sales and property tax deductions (combined cap of $10,000).
- Elimination of the so-called Pease limitation on itemized deductions.
- A (near) doubling of the standard deduction to $12,000 for individuals and $24,000 for joint filers.
- A doubling of the child credit to $2,000 ($1,400 of that being refundable), and permission to use Section 529 accounts to save for certain elementary and secondary education expenses as well as for higher education. Graduate students also may continue to exempt the value of reduced tuition from their income.
- Elimination of the interest deduction on home equity loans.
- Repeal of the Affordable Care Act's individual mandate.
- An allowance for medical expense deductions in excess of 7.5 percent of adjusted gross income ("AGI") for 2017 and 2018 (then returning to those in excess of 10 percent).
- Retention of the estate tax, with a doubling of the estate tax exemption thresholds to approximately $11 million and $22 million, with continued inflation indexing after Dec. 1, 2019 (but reverting to pre-Act law after 2025).
- Retention of the current law's gain recognition rules for sales of securities, allowing investors to identify which securities are being sold.
- An increased holding period for long-term capital gains with respect to gains attributable to so-called carried interest to three years.

The overall key corporate tax components of the Act include a permanent reduction in the corporate tax rate to 21 percent and movement to a territorial tax system. The territorial approach exempts certain foreign active business income by providing a 100 percent deduction to U.S. corporations (but not U.S. individuals) for dividends received from foreign subsidiaries in which the U.S. corporations own at least 10 percent. The territorial proposal allows such future offshore earnings to be repatriated to the U.S. without additional tax, which allows U.S.-based corporations ready access to their foreign cash. The Act also contains a number of base-erosion measures. The lower corporate tax rate combined with moving to a territorial system better aligns the U.S. tax system with the majority of tax systems throughout the developed world. The changes are intended to eliminate both the competitive disadvantage created by our current worldwide system and the incentive for U.S. companies to invert. As part of a transition to a territorial system, the Act imposes a deemed repatriation tax on foreign earnings that have accumulated abroad or have been reinvested, albeit at a lower rate than under current law. The Act proposes to tax the foreign accumulated earnings that are held in cash or cash equivalents at 15.5 percent and reinvested earnings held in illiquid assets at 8 percent.

A number of deductions and credits are eliminated to broaden the tax base. NOLs are permitted (beginning in 2018) only to the extent of 80 percent of taxable income, and NOLs may only be carried forward (with limited exceptions for certain farming losses). Importantly, the research and development credit remains in place to incentivize U.S. development of intellectual property. Other benefits such as the domestic manufacturing deduction are repealed in favor of a lower rate. The corporate AMT is repealed in an effort to simplify the tax law.

> **"A number of deductions and credits are eliminated to broaden the tax base."**

The Act also provides for an increased allowance of current deductions for certain capital expenses. It proposes to allow businesses an immediate deduction for the cost of new investments in certain depreciable assets (i.e., not structures or land) acquired and placed in service after Sept. 27, 2017, and before Jan. 1, 2023 (with a phasedown for property placed in service in years subsequent to 2022 and before Jan. 1, 2028). However, rules that allow tax-free like-kind exchanges, except for real-property exchanges, are repealed.

The Act limits a large business's deduction for interest expense to the total of interest income plus 30 percent of the business's "adjusted taxable income" (roughly, EBITDA), but it adds back amortization and depreciation for tax years through 2021. Beginning in 2022, depreciation, amortization and depletion are not added back for purposes of computing the 30 percent cap, resulting in a stricter limitation. The Act repeals the existing Section 163(j) anti-earnings-stripping rules. Taxpayers may carry forward indefinitely any interest deduction not allowed in any taxable year.

The Act allows certain owners of pass-through businesses to deduct 20 percent of certain types of income earned through pass-through businesses, as well as 20 percent of any qualified REIT dividends and qualified publicly traded partnership income. Salaries paid to owners are not eligible for the deduction. To prevent owners of pass-through businesses from combining capital-intensive businesses with certain service-related businesses to qualify for the deduction, the Act provides a limitation in the form of an income cap that must be computed for each line of business.

This article was written by Joseph P. Boeckman, a partner in the Business Group of BakerHostetler. BakerHostetler serves as antitrust counsel to the United States Cutting Tool Institute.

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