

1996


Faculty Spotlight - Kyle D. Logue

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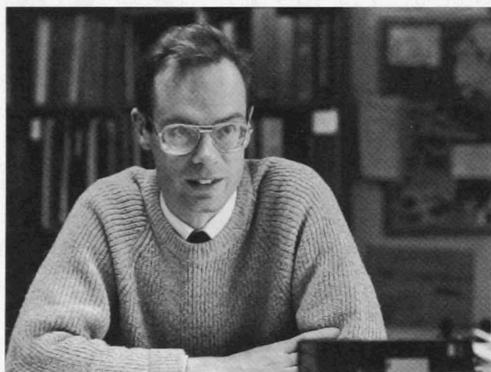
Logue, Kyle D. "Faculty Spotlight - Kyle D. Logue." *Law Quad. Notes* 39, no. 3 (1996): 18-9.

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"I am excited about Kyle's scholarship because his combined research expertise in tax and in insurance issues make his conclusions uniquely insightful and valuable for public policy. Kyle also is a spectacular teacher and likely to become one of the country's premier scholars in his fields."

Most of my teaching and research efforts are currently spent in two general fields of law — taxation and insurance. Which raises an interesting question: Why would a rational person decide to devote a good portion of his academic career to areas of law that many people — lawyers and nonlawyers alike — find painfully boring and unreasonably complicated? The tax and insurance lawyers in the audience, of course, already know the answer — that taxation and insurance are exceptionally interesting topics and that, if one wants to understand how the real world works (in particular, the world of commerce), one must understand how the existence of taxes and insurance shape things. To provide a clearer picture of what I find interesting and important in these areas, let me briefly summarize three of my recent research projects.

The first, an article that appeared in the March 1996 issue of the *Michigan Law Review*, is a theoretical piece that addresses the following question: Assuming a decision has been made to change the tax laws in a particular way (for example, to repeal a whole slew of income tax deductions and exclusions in an effort to simplify the Internal Revenue Code), what should be done about the potential transition effects of the change? The problem

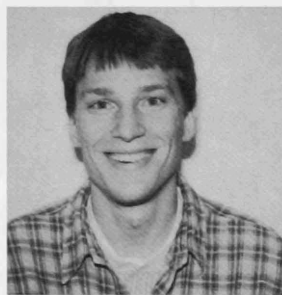
is that some taxpayers will inevitably have made investments in reliance on the prior law and will therefore stand to suffer a financial loss if the new law is applied to investments made before the transition. Should those taxpayers who so relied be protected by some form of transition relief, perhaps a grandfathered effective date that prevents the new law from applying to pre-transition investments? Or should such losses be left where they fall, on the theory that those taxpayers who make investments in reliance on such provisions should (and should be induced to) take into account the possibility that their cherished deduction or exclusion will someday be eliminated? This is an especially important topic in today's political climate with its frequent calls for radical tax reform — including the outright repeal of the Internal Revenue Code lock, stock, and barrel.

Applying standard economic analysis, I conclude in the *Michigan* article (Ed. note: which the U.S. Supreme Court cited on July 1 in *U.S. v. Winstar*, No. 95-865, 1996 U.S. Lexis 4266, n. 29), that with certain types of tax provisions it may often be efficient to provide guaranteed grandfather protection in the event of repeal. Such provisions would consist of those that induce detrimental reliance on the part of taxpayers, that is, decisions by taxpayers to increase their level of investment in some socially desirable activity. An example might be an incentive tax credit. I also conclude, however, that certain types of tax changes probably should not give rise to automatic grandfathering. That category would include corrections of obvious legislative errors as well as small changes in the income tax rates. Although my argument has its limitations (not the least of which being, for example, the difficulty of drawing an administrable line between “obvious legislative errors” and other tax-law changes), it provides a theoretical framework with which we can begin the difficult job of making hard decisions in this area.

Switching from taxes to insurance, I spent much of this past summer working on an article with Professor Steven P. Croley (a colleague here at Michigan) in which we explore one of the fundamental issues of insurance regulation: What is the optimal level at which to regulate insurance — state or federal? Our interest in this question was aroused, at least initially, by the remarkable fact that, of all the heavily regulated industries in this country, insurance is the only one regulated almost exclusively at the state level, with the possible exception of certain types of public utilities (such as water) that are also regulated primarily at the state or local level. Our study focuses on solvency regulation and rate regulation in insurance markets; and it explores the overlaps between the market failures that give rise to the need for regulation in the insurance industry and those that give rise to the need for regulation in other areas, such as banking, securities, and public utilities.

Finally, I consider one project that contains issues of both insurance regulation and tax law. In an article that will appear in a forthcoming issue of the *Virginia Law Review*, I examine the extent to which the Tax Reform Act of 1986 (TRA), and accounting decisions made by insurance companies in anticipation of that Act, might have influenced the pricing and availability of certain lines of property-casualty insurance during the mid-1980s. That paper looks back at the much-written-upon “liability insurance crisis,” the period when liability insurance premiums went through the roof and when certain types of coverage temporarily were unavailable, and it re-examines the prevailing theories of the crisis in light of a previously unexplored tax-arbitrage opportunity that was presented to insurance companies as a result of the TRA. I conclude by offering a composite explanation of the crisis that builds on previous theories but that incorporates the effects of tax law and tax-law changes on insurance markets.

These three projects address the types of issues, normative and empirical, that I find intriguing in the study of taxation and insurance — or, for that matter, any other area of law. What's more, contrary to what you might think, I do not carry any mechanical pencils in my shirtpocket.



Steve Seeger
Third-Year Law Student

“Kyle Logue offers everything a student could want in a professor: enthusiasm, expertise, clarity and accessibility. He creates a dynamic (and delightfully amusing) classroom setting, which yields both an optimal learning environment and an exceptional rapport with his students.”