

File No

MR. LENNOX-BOYD

I attach the note on capital disregards which we discussed. It can be passed on as it is to those you feel should have it.

I should make three more general points:

- Chris Hawkins was wrong this morning because he took no account of the complete disregard for income from the first £3,000 of capital. So while the marginal rate of deemed interest is 20 per cent, the overall rate will be less (even at the full £16,000 it would be 16.25 per cent).
- Although the deemed rate is a fairly high assumed rate of interest the deemed income which results is not deducted point for point from benefit - it is deducted only at 15p in the pound.
- The "philosophical" defence for a deemed rate of interest is that the Government has two objectives: first that social security resources are focussed on those who most need help; second, however, that there should be some recognition, among those who are a bit better off, of their own thrift. It is reasonable to expect people to make a partial contribution from their own capital (after all, people who have saved use capital to buy things which may be subject to VAT or to pay their income tax).

DOMINIC MORRIS

23 March 1990