Gambling Fact Sheet #25
Class 4 Net Proceeds

Note: While reasonable measures have been taken to ensure the quality and accuracy of the information contained in this Fact Sheet it does not replace information contained in the Gambling Act 2003 or the Racing Act 2003 or any provisions pursuant to these Acts. This Fact Sheet is for general information only and is not a substitute for independent, professional legal or financial advice.

Net proceeds regulations
The Gambling (Class 4 Net Proceeds) Regulations 2004, as amended by the Gambling (Class 4 Net Proceeds) Amendment Regulations 2011 and 2014, set out requirements for the holders of class 4 operator’s licences (‘licence holders’) in relation to the net proceeds generated from gaming machines.

Most of the regulations came into force on 1 December 2004, but the regulations relating to notices about the application or distribution of net proceeds, website requirements and grant application forms came into force on 1 July 2005. The amendments came into effect in September 2011 and 4 September 2014 respectively.

The regulations are divided into two parts. Part 1 (regulations 4 to 8) sets out requirements for all licence holders. Part 2 (regulations 9 to 17) sets out additional requirements for licence holders who conduct class 4 gambling mainly to distribute net proceeds to the community by way of grants. This contrasts with licence holders that conduct class 4 gambling to raise money for their own authorised purposes (e.g. clubs and dedicated charities).

Authorised purposes
All corporate societies that conduct class 4 gambling must apply or distribute the net proceeds of the gaming operations to authorised purposes.

‘Authorised purposes’ for class 4 gambling are defined under the Gambling Act 2003 (the Act) as:

- Charitable purposes
- Non-commercial purposes that have community benefits
- Promoting, controlling and conducting race meetings.

A society must state what its authorised purposes are, and the statement will be included on its class 4 gambling licences.

Net proceeds
‘Net proceeds’ are calculated as the sum of:

- total turnover from gaming machines (less prizes)
- plus any interest or other investment returns
- plus any gains from selling or disposing of gambling assets.

Less the sum of:

- the actual, reasonable and necessary costs of conducting gambling
- plus the actual, reasonable and necessary costs of complying with the regulatory regime
- plus the amount by which any gambling asset is depreciated
- plus any losses from the sale or disposal of gambling assets.

A corporate society, club or charitable organisation has three options for distributing the net proceeds from gaming machines.

It may:

- Distribute grants to the community, as long as the grants fit the society’s statement of authorised purposes
- Apply funds to its own authorised purposes
- Both distribute grants to the community and apply funds to the society’s own authorised purposes.

Integrity of Grants
The Act contains safeguards to enhance the integrity of the grants process. These include:

- No key person at a class 4 venue may be involved in the grant application process
- The Department of Internal Affairs has additional powers in relation to auditing societies, their management services providers, businesses at class 4 venues and grant recipients
- There is provision for regulations relating to the distribution of funds, e.g. the methods and processes societies use to deal with grant applications
- Attaching conditions to the receipt of grants is prohibited
- There are provisions preventing licence holders and key persons from seeking or
Display of information

All corporate societies that hold a class 4 venue licence must display certain information at the venue, including:

- Commencement and expiry dates of the venue licence
- Contact details for the venue licence holder
- How to make complaints about the conduct of gambling or the conduct of the holder of a class 4 operator’s licence.

If the corporate society distributes money to the community, societies must also display:

- Information about how and where to apply for a grant
- Information about how to make complaints if a grant application is unsuccessful
- A statement that the law does not permit venue personnel to be involved in the grants process
- The Act specifies in detail how this information must be displayed at each type of venue (section 82).

Corporate societies must also:

- Publish specific details of both successful and unsuccessful grant applications
- Review their grants processes (including criteria) annually and publish the results
- A list of corporate societies that make grants and their contact details is available on the Department’s website:

www.dia.govt.nz/gambling

Net proceeds committees

Regulation 8 requires a licence holder to establish at least one committee to make decisions on the application or distribution of net proceeds.

Net proceeds committees are also responsible for the administration of grant applications. Different committees may be established for specific reasons or districts, or for specific authorised purposes, but a committee must always comprise at least three persons who are key persons under the Act.

A key person is defined, in terms of an applicant for, or holder of, a class 4 operator’s licence as one who is:

- A trustee or other officer of the corporate society
- The chief executive of the corporate society
- A person who exercises significant influence in the management of the corporate society.
- anyone who is the chief executive (or performs that function) of a management services provider (management company) for a corporate society that is an applicant for, or the holder of, a class 4 operator’s licence
- anyone who exercises significant influence in the management of a management services provider (management company) for a corporate society that is an applicant for, or the holder of, a class 4 operator’s licence
- a person who works for an organisation that exercises significant influence in the management of an applicant society, e.g. a management services provider (management company).

Significant influence may include but is not limited to:

- the power to make decisions that would normally be made by the trustees, officers or senior management of the corporate society
- the power to appoint trustees, officers or senior management or to alter the society’s constitution
- influencing the grants decision-making process.

Minimum distribution of net proceeds

Licence holders that mainly distribute their net proceeds must currently distribute a minimum of 40% (per cent) of their GST exclusive gross proceeds for each of their financial years.

Earlier proposals to increase the minimum amount have been cancelled.

Clubs operating in their own clubrooms and raising funds for the local community (which includes the club itself) will not have to meet the above percentages but will each be assessed on its own merits as is current practice.