Managing Card-Based Tip and Gratuity Payments for EMV Chip

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Executive Summary: The EMV Migration Forum is providing information on how to best manage tips and gratuities as the U.S. migrates to chip, and what options restaurant owners and other merchants that use tips and gratuities can pursue. This document is intended to provide a high-level overview of tip processing in EMV chip environment. Please refer to payment network guidelines for specific implementation information.

As the U.S. migrates to chip, certain market segments that accept tips and gratuities via card payments must consider how to best serve their customer base without disrupting current acceptance practices. This is the cornerstone of U.S. chip migration—to ensure continued card acceptance with limited disruption to a merchant's business.

In the magnetic stripe environment, tips and gratuities paid with payment cards have been handled post authorization, an approach that has largely been accepted by all U.S. stakeholders. This practice does not need to change when chip technology is introduced because processing for post-authorization tips and gratuities is supported for chip-initiated payments. There is nothing particular to chip that would cause a merchant to change this existing practice after migrating to chip.

There are four basic acceptance models for card-based tip and gratuity payments, any of which can be adopted for chip acceptance:
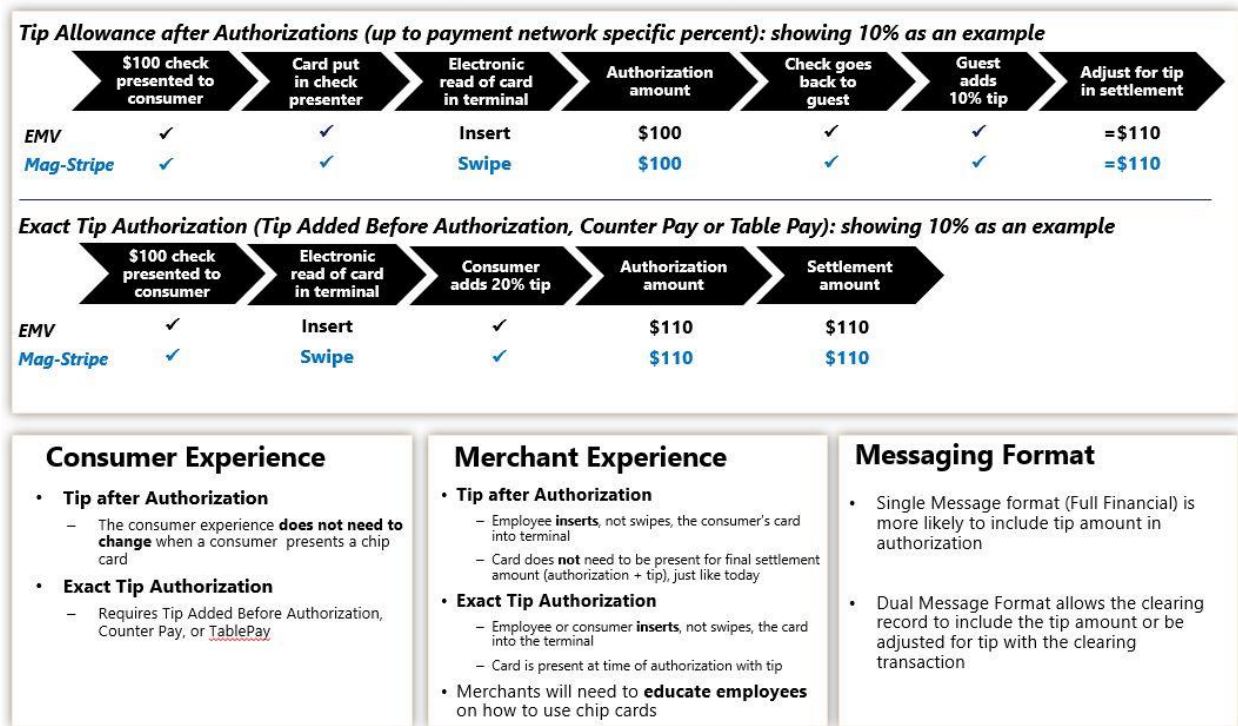
- **Tip Allowance**: This is the predominant practice in the U.S. at table-service restaurants and is suitable for server-station processing of the card-based payment. With this option, merchants authorize for the ticket amount only, excluding tip. A receipt is printed for the cardholder to sign and optionally add a tip at that time. Settlement may be adjusted to include the tip, up to a percent of the authorized amount (payment network specific). If the tip exceeds the network allowance, refer to the payment network processing rules.

- **Tip Added Before Authorization**: In this scenario, a receipt is printed prior to authorization with an area for tip entry included and presented to the cardholder. The cardholder writes in the tip and total amounts and gives the card and receipt to the server/cashier. The authorization is then obtained for the entire amount.

- **Counter**: When paying at the counter, the cardholder may add a tip to their total as part of the checkout process. The cardholder should be advised to follow the prompts on the terminal. The merchant authorizes for the total amount of the transaction including both the ticket amount and the tip amount.

- **Table Pay**: Using portable terminal solutions the merchant can bring the payment device directly to the cardholder allowing them the opportunity to add a tip amount. The cardholder should be advised to follow the prompts on the terminal. The merchant authorizes for the ticket amount plus the actual amount of the tip.

Note: In the U.S., an authorization request must be for the total amount of the transaction. Unless specifically permitted in the payment network, a U.S. merchant must not use an arbitrary or estimated amount to obtain authorization, and must not add an estimated tip amount to the authorization request beyond the value of goods provided or services rendered, plus any applicable tax.

The four options are illustrated in the diagram below.

Tip Processing Flow in EMV Chip Environment

Tip Allowance after Authorizations (up to payment network specific percent): showing 10% as an example

	$100 check presented to consumer	Card put in check presenter	Electronic read of card in terminal	Authorization amount	Check goes back to guest	Guest adds 10% tip	Adjust for tip in settlement
EMV	✓	✓	Insert	$100	✓	✓	=$110
Mag-Stripe	✓	✓	Swipe	$100	✓	✓	=$110

Exact Tip Authorization (Tip Added Before Authorization, Counter Pay or Table Pay): showing 10% as an example

	$100 check presented to consumer	Electronic read of card in terminal	Consumer adds 20% tip	Authorization amount	Settlement amount
EMV	✓	Insert	✓	$110	$110
Mag-Stripe	✓	Swipe	✓	$110	$110

Consumer Experience

- **Tip after Authorization**
  - The consumer experience **does not need to change** when a consumer presents a chip card
- **Exact Tip Authorization**
  - Requires Tip Added Before Authorization, Counter Pay, or TablePay

Merchant Experience

- **Tip after Authorization**
  - Employee **inserts**, not swipes, the consumer's card into terminal
  - Card does **not** need to be present for final settlement amount (authorization + tip), just like today
- **Exact Tip Authorization**
  - Employee or consumer **inserts**, not swipes, the card into the terminal
  - Card is present at time of authorization with tip
- Merchants will need to **educate employees** on how to use chip cards

Messaging Format

- Single Message format (Full Financial) is more likely to include tip amount in authorization

- Dual Message Format allows the clearing record to include the tip amount or be adjusted for tip with the clearing transaction

Most U.S. merchants recognize the need to deploy a chip terminal to protect against the counterfeit liability shift (from issuer to merchant/acquirer). What may not be clearly understood is that a chip acceptance solution can be added to an existing payment environment without affecting current business practices or approval rates, particularly for market segments accepting tips and gratuities.

If not using the tip allowance after authorization methodology and if a tip is added during a contactless card transaction during Counter Pay or Table Pay, then the consumer must be offered the opportunity to add the tip amount prior to tapping the card.

If it is the merchant's desire to offer PIN as a Cardholder Verification Method for either credit or debit transactions, then a Counter or Table Pay solution must be considered. In order to enter a PIN, the cardholder must be present at the payment device. The terminal prompts should clearly indicate when to enter tip and when to enter PIN. Note that PIN is not required for chip transactions in the U.S.; therefore, it is not mandatory that a merchant support PIN. Merchants should contact their acquirers for additional information on supporting PIN.

Note: For debit transactions, the acquirer and merchant can continue to determine their preferred routing based on using the U.S. Common AID and editing the candidate list as defined in the EMV Migration Forum white paper, "U.S. Debit EMV Technical Proposal[1]," to comply with the Durbin Amendment.

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About the U.S. Payments Forum

The U.S. Payments Forum is a cross-industry body focused on supporting the introduction and implementation of new and emerging technologies that protect the security of, and enhance opportunities for payment transactions within the U.S. The Forum is the only non-profit organization whose membership includes the whole payments ecosystem, ensuring that all stakeholders have the opportunity to coordinate, cooperate on, and have a voice in the future of the U.S. payments industry.

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[1] "U.S. Debit EMV Technical Proposal," available at http://www.emv-connection.com/u-s-debit-emv-technical-proposal/