India’s Proposed UPI Transaction Levy: MDR, Trade Implications and Digital Payments

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India’s Proposed UPI Transaction Levy Latest News

- The Finance Ministry has introduced the Taxation and Other Laws (Amendment) Bill, 2026, in Parliament, proposing changes to **Section 10A of the Payment and Settlement Systems Act, 2007**.
- This would allow banks and payment system providers to **charge fees on UPI and RuPay debit card transactions**, which have so far been free.
- The move comes even as India and the US work to finalise a trade deal — raising questions about a possible American trade angle behind the change.

What the Bill Proposes

- Amends the Payment and Settlement Systems Act, 2007 to enable a **Merchant Discount Rate (MDR)** on UPI transactions.
    - MDR is a fee charged to merchants by banks for processing digital payments, covering infrastructure, settlement, and security costs.
- The proposed structure: an MDR of 0.3% to 0.5%, applicable only on transactions above ₹2,000, and only for larger merchants crossing a turnover threshold.

- Small shopkeepers and everyday consumer-to-consumer transfers would remain untouched — this is a **fee on merchants**, not a direct “UPI tax” on users.
- Finance Minister Nirmala Sitharaman clarified that MDR applies only to merchants, not end users, and that the matter is not yet finalised, pending passage of the Bill.

Why UPI Currently Has No Charges

- Since January 2020, banks have been barred from charging merchants MDR on UPI transactions. The government instead compensates banks and payment firms through subsidies.
- However, as UPI transaction volumes have **exploded** — running into billions of transactions worth lakhs of crores monthly — these **subsidies have not kept pace** with the actual cost of running the network (servers, fraud checks, settlement infrastructure).
- This has revived the debate on reintroducing MDR. RBI Governor Sanjay Malhotra, responding to questions after the repo rate announcement, said it was too early to confirm consumer charges but noted that “**costs have to be paid by someone**” — the government, merchants, or eventually customers.

The Hidden US Trade Angle

- While the Bill appears to be a domestic fiscal matter, it aligns closely with long-standing **US objections to India’s UPI ecosystem**:
    - In March 2026, the US Trade Representative (USTR) classified India’s digital payment policies as a **foreign trade barrier**, citing the inability of US electronic payment suppliers to compete with RuPay on a level playing field within UPi.
    - USTR flagged NPCI’s 30% market share cap on third-party UPI apps (originally due January 2023, now deferred to December 2026) as a concern — even though two US-owned firms, PhonePe (Walmart-backed) and Google Pay, together process over 80% of UPI transactions.
- Experts note that US card companies **Visa and Mastercard have lost business** since UPI’s 2016 launch, as India’s zero-MDR, government-promoted RuPay network reduced their fee income from merchant transactions.

Pattern Across Other Countries

- The US has raised similar objections against several countries with domestic payment systems:
    - **Brazil:** Imposed 25% tariffs under Section 301 of the US Trade Act, 1974, partly citing preferential treatment for Pix, Brazil’s free instant payment platform resembling UPI.
    - **Indonesia**: Required domestic transactions to be processed through local switching institutions; has now agreed to allow US payment networks cross-border access.
    - **Vietnam:** Mandates domestic card transactions route through NAPAS (National Payments Corporation of Vietnam).
    - **Turkey:** Favours its domestic card brand Troy over US suppliers.
    - **GCC states** (Oman, Qatar, Saudi Arabia): Various measures restrict or localise US payment network access.

- **China:** USTR alleges Beijing gives exclusive market access to China UnionPay while delaying licences for US payment firms.

India’s Prior Concessions to the US

- The Bill follows a pattern of India accommodating US digital-sector demands as part of the ongoing trade negotiations:
  - The last Union Budget announced a **tax holiday until 2047** for foreign companies setting up **data centres** in India.
  - India abolished the 6% “Google tax” (equalisation levy) last year amid US tariff pressure, after Washington objected to digital services taxes affecting its tech giants like Apple, Amazon, Google, and Facebook.

Conclusion

- What appears to be a routine fiscal fix for UPI’s subsidy shortfall carries a deeper trade subtext.
- As global payment ecosystems from Brazil to Turkey come under US scrutiny for favouring domestic platforms, India’s UPI levy signals how digital payment sovereignty is increasingly entangled with international trade diplomacy.

Source: IE | NDTV
