Lok Sabha Passes Bill To Allow Charges On UPI, Latest News

August 7, 2026 • vajiramandravi.com

The **Lok Sabha Passes Bill To Allow Charges On UPI**. The Taxation and Other Laws (Amendment) Bill 2026 was passed on 6 August 2026. It empowered the Central Government to allow banks and payment service providers to levy charges on Unified Payments Interface (UPI) and other notified electronic payment modes. The amendment changes the Payment and Settlement Systems Act 2007 by removing the legal restriction on charging Merchant Discount Rate (MDR). The move aims to build a financially sustainable digital payments ecosystem while keeping future charges under government notification.

Why Transaction Charges on UPI in News?

The Taxation and Other Laws (Amendment) Bill 2026 marks a major policy shift by allowing the government to notify electronic payment modes on which banks and payment service providers may levy charges.

- **Lok Sabha Approval:** The Lok Sabha passed the Taxation and Other Laws (Amendment) Bill 2026 on 6 August 2026 through a voice vote without debate due to continuous Opposition sloganeering during the Monsoon Session.

- **UPI Charge Provision:** The amendment authorises the Central Government to permit charges on **UPI** and other notified electronic payment modes by removing the existing legal prohibition under the Payment and Settlement Systems Act 2007.
- **Policy Objective:** The government stated that a small user charge could help create a sustainable revenue model for banks, payment service providers (PSPs) and digital payment infrastructure companies.

Lok Sabha Passes Bill To Allow Charges On UPI

UPI has operated as a zero cost digital payment platform because of legal protection under the existing payment law.

- **Legal Framework:** Section 10A of the **Payment and Settlement Systems Act 2007** prohibited banks and payment system providers from directly or indirectly charging users on specified electronic payment modes.
- **Income Tax Link:** The earlier provision referred to Section 269SU of the Income Tax Act which required businesses with annual turnover above ₹50 crore to provide prescribed electronic payment options such as BHIM UPI QR and RuPay debit cards.
- **Existing Payment Charges:** While RTGS and NEFT transactions already carry service charges, UPI remained free despite being a real time payment system, creating a different treatment among digital payment platforms.
- **Rapid UPI Growth:** Since its launch in 2016, UPI has become India’s leading retail digital payment platform, recording over 140 billion transactions with transaction value exceeding ₹200 lakh crore during FY 2025-26.

Taxation and Other Laws (Amendment) Bill 2026

The **Taxation and Other Laws (Amendment) Bill 2026** proposes changes in digital payments and taxation. It gives the government greater powers over electronic payment charges and introduces tax reforms to promote investment, electronics manufacturing, offshore funds, data centres and global business operations in India.

The key features of the Bill has been provided below:

- **UPI Charge Framework:** The Bill amends Section 10A of the Payment and Settlement Systems Act, 2007. It allows the Central Government to notify electronic payment modes on which banks and payment service providers may levy charges.
- **Merchant Discount Rate (MDR):** The Bill removes the legal restriction on charging Merchant Discount Rate (MDR) for notified electronic payment modes. However, it does not fix any charge amount or impose fees immediately.
- **Offshore Fund Reforms:** The Bill reduces compliance for Eligible Investment Funds (EIFs) by removing 8 of the existing 13 conditions. Offshore funds will mainly need to satisfy only five key conditions, making India more attractive for global fund management.
- **Electronics Manufacturing Support:** Tax incentives for foreign companies supplying machinery and equipment to Indian electronics contract manufacturers are proposed to continue until 2040-41, extending the earlier benefit that was available up to 2030-31.

- **Component Supply Chain Benefits:** Foreign companies storing electronic components in customs bonded warehouses and supplying them to Indian contract manufacturers will receive new tax exemptions to strengthen electronics production.
- **Data Centre Tax Relief:** The Bill expands the definition of eligible data centres to include leased facilities. It also removes the requirement for separate Central Government notification for certain foreign companies using Indian data centres.
- **Diamond Trade Incentive:** A 15 year tax holiday up to 31 March 2041 is proposed for specified foreign mining companies, sightholders, brokers, aggregators and auction entities selling rough diamonds in notified special zones.
- **Foreign Portfolio Investor Relief:** The Bill replaces the Income tax (Amendment) Ordinance 2026 issued on 5 June 2026. It provides permanent tax relief on capital gains and withholding tax for Foreign Portfolio Investors (FPIs) investing in Government securities.

Charges on UPI Impacts

The Taxation and Other Laws (Amendment) Bill 2026 may reshape India’s digital payments ecosystem by balancing affordability with long term financial sustainability.

- **Revenue Sustainability:** Banks, payment service providers and infrastructure firms may receive a stable revenue source for maintaining, upgrading and expanding digital payment infrastructure across the country.
- **Consumer and Merchant Costs:** Small transaction charges could increase payment costs for consumers and merchants, although the government has indicated that charges are expected to remain limited.
- **Investment Incentives:** A revenue model may encourage greater investment in payment technology, **cybersecurity**, fraud prevention and infrastructure needed to support growing digital transaction volumes.
- **Global Alignment:** The proposal brings India’s digital payment framework closer to many international payment systems where electronic transactions generally involve service or processing charges.

Charges on UPI Challenges

Several implementation issues remain because the Taxation and Other Laws (Amendment) Bill 2026 provides enabling powers rather than immediate operational rules.

- **Pricing Uncertainty:** The government has not announced the rate, structure, or categories of charges, creating uncertainty for consumers, merchants, banks and payment service providers.
- **Financial Inclusion:** Even small transaction charges may discourage low value digital payments, particularly among low income users and small businesses that depend heavily on UPI.
- **Merchant Burden:** Small retailers could face additional operating costs if MDR is introduced, which may reduce profit margins or increase prices for customers.
- **Regulatory Balance:** Authorities must ensure transparent pricing, consumer protection and effective oversight so that payment charges remain reasonable and do not reduce digital payment adoption.

Charges on UPI Transaction Significance

The Taxation and Other Laws (Amendment) Bill 2026 represents an important policy change by shifting India's digital payments framework from a completely free model towards a regulated and financially sustainable ecosystem.

- **Legal Reform:** The amendment modernises the Payment and Settlement Systems Act 2007 by giving the government flexibility to notify chargeable electronic payment modes according to future policy requirements.
- **Digital Economy:** Sustainable funding can strengthen payment infrastructure as digital transactions continue growing rapidly across banking, retail commerce, government services and financial inclusion programmes.
- **Balanced Approach:** The government seeks to balance affordable digital payments with the financial needs of banks, payment service providers and infrastructure companies supporting the payment ecosystem.
- **Future Policy Flexibility:** Since charges require separate government notifications, policymakers retain flexibility to protect consumers while responding to technological developments and changing payment market conditions.

Source: https://vajiramandravi.com/current-affairs/lok-sabha-passes-bill-to-allow-charges-on-upi/