UPI Fee Debate: What Is Changing, Who Pays MDR and Will UPI Remain Free?

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UPI Fee Debate Latest News

- The Lok Sabha passed the **Taxation and Other Laws (Amendment) Bill, 2026** recently, opening the door for banks and payment system providers to charge fees on UPI and RuPay debit card transactions.
- This sparked fears that merchants would pass the cost on to consumers. Responding to the controversy, the Finance Ministry "categorically" clarified that **UPI will remain free for citizens**, with only a nominal fee possibly applying to certain merchants.

About Merchant Discount Rate (MDR)

- Merchant Discount Rate (MDR) is a fee merchants pay banks and payment processors for using their networks.
- It has four components:
    - **Interchange fee** — paid to the card-issuing bank
    - **Processing charges** — paid to payment gateways (RazorPay, PayU, CCAvenue, etc.)
    - **Network fee** — paid to payment networks (Visa, Mastercard, NPCI)

- **Tax** — GST paid to the government
- Since 2020, the government has mandated zero MDR on UPI and RuPay debit card transactions.
- Other payment modes, however, do attract MDR:
    - 0.4-0.9% on non-RuPay debit cards,
    - 1.5-2.2% on domestic credit cards,
    - 1-1.5% on netbanking, and
    - 3-4.5% on international credit cards.

Who Pays for UPI Today?

- Currently:
    - Banks and payment processors absorb part of the cost.
    - Taxpayers bear the rest through government subsidy.
- Under the **'Incentive Scheme for Promotion of Low-Value BHIM-UPI Transactions** (P2M)', launched in December 2021, the government subsidises UPI transactions below ₹2,000.
- This subsidy is capped at **0.15% of transaction value** and shared among banks, payment service providers, and third-party apps.
- The government paid ₹1,389 crore in 2021-22, rising to ₹3,631 crore by 2023-24, but this has since fallen, with only ₹2,000 crore budgeted for 2026-27.
- Notably, from 2021-22 to 2024-25, the total subsidy of ₹8,730 crore covered just 11% of the actual cost incurred by the payments industry, as per the Standing Committee on Finance.

What the New Bill Changes

- The **Payment and Settlement Systems Act, 2007** currently bars banks from charging for payments made via modes listed under Section **269SU of the Income Tax Act, 1961** — which includes RuPay debit cards, UPI, and BHIM-UPI (including QR code payments).
- The 2026 Amendment Bill **modifies this provision**, empowering the government to notify which transactions can attract an MDR charge in future.
- **Section 269SU** — the provision being amended — currently applies to businesses with an annual turnover above ₹50 crore.
- However, this is not the threshold likely to be used for the new MDR charge. Government sources indicate the actual MDR would apply to a **much smaller category of merchants** — those with turnover above roughly ₹1-1.5 crore — and only on individual transactions above ₹2,000.
    - In other words, the fee is expected to target a narrower, lower-turnover set of merchants than what Section 269SU currently covers, not a wider one.
- A possible MDR of 0.25-0.4% (industry sources) or "nominal, far lower than card MDRs" (Finance Ministry) is being discussed — this would exclude roughly 95% of current UPI transactions.
- Notably, though only 4% of person-to-merchant (P2M) UPI transactions in 2025-26 exceeded ₹2,000 in value, these accounted for around two-thirds of total UPI payment value — meaning the fee, if applied, would target high-value transactions disproportionately.

Government’s Reassurance

- The Finance Ministry stated:
  - All person-to-person UPI transactions will remain free, with no charges on ordinary consumers.
  - Small merchants (kirana stores) will not face MDR.
  - Any MDR, if introduced, will be threshold-based, not blanket, and far lower than debit/credit card MDR rates.
  - The Payments Council of India (PCI) also clarified that consumers won’t pay extra even for UPI transactions to large merchants.
- Experts note that while the Bill technically gives the government power to levy MDR on any UPI transaction, it is unlikely to impose broad charges.
- Digital and financial inclusion remain central to government policy, and UPI’s biggest appeal has been that it is free — making a broad rollback risky, as it could push users back toward cash.

Why the Government Wants a Change

- UPI has grown explosively — from its 2016 launch to over 24,000 crore transactions worth ₹314 lakh crore in 2025-26 (up 30% and 21% respectively from the previous year), making it the world’s largest real-time payment system.
- The Finance Ministry argues that subsidies alone cannot sustain the next phase of growth, especially expansion into rural and semi-urban areas, and that a “balanced framework” is needed to keep UPI “robust, inclusive, and future-ready.”

Conclusion

- While the Amendment Bill legally enables UPI charges, the government’s assurances and India’s digital inclusion priorities suggest ordinary users and small merchants will stay protected.
- The real question going forward is how a “self-sustainable” UPI can be built without undermining the very affordability that made it a global success story.

Source: IE | TH