Merchant Discount Rate

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Merchant Discount Rate Latest News

The Govt recently said the proposed merchant discount rate (MDR) for UPI transactions will be nominal and apply only to a limited set of merchants for transactions above a threshold.

About Merchant Discount Rate

- It is the **fee charged to a merchant** for **accepting a digital payment**.
- **When a customer pays a business digitally, multiple parties** may be **involved** in completing that transaction.
- Depending on the payment mode, these may include the **merchant, payment gateway** or **payment aggregator,** acquiring **bank, issuing bank, card network** or payment network, and other payment infrastructure participants.
- MDR is part of the commercial structure that supports this payment acceptance chain.
- For a merchant, MDR is best understood as a **cost of accepting a particular type of payment.**

- When a customer makes a payment, the **merchant** usually **receives the transaction amount after deduction of MDR.**
- The MDR fees **cover a variety of costs**, including:
  - **Payment processor fee:** These fees are **charged by payment processors** (companies that handle transactions between merchants and banks like Razorpay) for their services.
  - **Interchange fee:** These are fees **charged by card issuers (banks)** to merchants for processing transactions.
  - **Assessment fee:** These are fees **charged by card networks (like Visa,** RuPay and Mastercard) to merchants for using their payment processing services.
  - **Markup fee**: These are fees that are divided among the different entities involved in the transaction.
  - **Additional fees:** Some payment processors may charge additional fees for **services like fraud prevention, chargeback handling,** and customer support.
- MDR is **not a single fixed rate** that applies to every business or every payment.
- It may **apply differently across cards, net banking, wallets, UPI, EMI, BNPL, QR, a**nd other payment modes, depending on the provider and the applicable arrangement.
- The MDR typically comes in the **form of a percentage of the transaction amount**. It is typically between 1% and 3%.
- **Merchants** must **consider these fees** as part of **managing their business costs** and setting their prices.
- MDR charges are a**utomatically deducted from the merchant's account** at the time of settling the transaction batch.

MDR on UPI

- **When UPI was launched** in 2016, **MDR was applicable.**
- But in January **2020**, the **government removed MDR on UPI and RuPay debit cards** to push mass adoption of digital payments.
- But zero MDR also meant banks, the National Payments Corporation of India (NPCI) and fintech startups got nothing from the transaction.
- The **government** has **compensated the industry through subsidies.**

Recent Changes Introduced in the Taxation and Other Laws (Amendment) Bill, 2026

- It empowers the government to **levy an MDR on select electronic payment modes,** with a **potential MDR of 0.25 percent to 0.4 percent on business-directed UPI transactions**.
- The finance ministry said **consumers will face no transaction charges** and that **all person-to-person (P2P) transfers** will continue to be **free**.
- The government says it will **apply only to a limited set of merchant transactions above a certain value threshold**, at a **nominal rate,** which will be far **lower than existing debit or credit card MDRs.**
- **Small merchants and person-to-merchant payments below that threshold** are expected to r**emain free,** to protect the digital-payments push among small businesses.

News: ET