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EDITORIAL ANALYSIS

Why Are Users Worried About UPI Charges?

THE HINDU

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INTERVIEW ANGLE

"If the government subsidises UPI's infrastructure cost through the Incentive Scheme today, and that subsidy has been falling year on year, is introducing MDR on large-merchant transactions a policy correction or a quiet admission that free UPI was never fiscally sustainable at its current scale?"

Every fact web-verified against primary sources

THE LIFT LINE

A charge aimed at large merchants and a fear felt by every small user are not the same event, but they are about to share a headline.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Most GS3 fintech answers treat UPI as a fixed, permanently free public good. This explainer supplies the harder, testable structure: UPI's zero-MDR status was never free in an economic sense, it was subsidised and legally mandated, and both supports are now visibly under strain. A strong answer distinguishes the legislative change (permissive, broad) from the executive design intent (narrow, merchant-side) and explains why conflating the two produces the current user anxiety.

GS Paper 3: Indian economy and issues relating to planning, mobilisation of resources; Digital Public Infrastructure (DPI) and its regulatory architecture; government budgeting.

CONCEPT	MEANING	WHY IT IS TESTABLE
Merchant Discount Rate (MDR)	Fee merchants pay banks/processors for card or digital payment network use, comprising interchange fee, processing charge, network fee, and GST	Core mechanism the entire debate turns on
Payment and Settlement Systems Act, 2007	Statute now amended to let government notify MDR-eligible UPI transaction categories	The specific legal instrument changed by the 2026 Bill
Section 269SU, Income Tax Act, 1961	Mandates large businesses offer prescribed low-cost digital payment modes (including UPI/RuPay), interacting with the zero-MDR mandate	Explains the second statutory layer behind free UPI
Incentive Scheme for Promotion of Low-Value BHIM-UPI Transactions	Government subsidy to banks for small-merchant UPI transactions below Rs 2,000, launched December 2021	Shows zero-MDR UPI was fiscally subsidised, not costless
Taxation and Other Laws (Amendment) Bill, 2026	Passed by Lok Sabha August 6, 2026; empowers government to notify MDR on UPI transaction categories	The specific legislative vehicle for this year's change

BACKGROUND AND CONTEXT

UPI transactions and **RuPay debit card** payments have been statutorily free of MDR since **2020**, a combination of a Payment and Settlement Systems Act, 2007 mandate and **Section 269SU of the Income Tax Act, 1961**, which requires large businesses to offer specified low-cost digital payment modes without passing on charges. Every other digital payment instrument already attracts MDR, **0.4-0.9%** for non-RuPay debit cards, **1.5-2.2%** for domestic credit cards, a flat **Rs 10-25 fee** for netbanking (not a percentage), and **3-4.5%** for international credit cards, a differential that has always meant UPI's "free" status was a policy choice, not a cost-free technical reality.

To sustain zero-MDR UPI at small merchants, the government launched the **Incentive Scheme for Promotion of Low-Value BHIM-UPI Transactions (Person-to-Merchant)** in **December 2021**, subsidising banks for UPI transactions below Rs 2,000. This subsidy rose from **Rs 1,389 crore in 2021-22** to **Rs 3,631 crore in 2023-24**, before falling to a **budgeted Rs 2,000 crore for 2026-27**, even as UPI transaction volumes have continued to expand nationally, a gap between rising volume and shrinking per-transaction subsidy that frames the current legislative change.

The **Taxation and Other Laws (Amendment) Bill, 2026** was passed by the **Lok Sabha on August 6, 2026**, by voice vote amid Opposition sloganeering during the Monsoon Session, and now moves to the Rajya Sabha. It amends the Payment and Settlement Systems Act, 2007 to let the government notify categories of transactions, rather than mandating a blanket zero-MDR rule, that may attract a charge. Government sources indicate the intended design targets merchants with annual turnover above roughly **Rs 1-1.5 crore** and transactions exceeding **Rs 2,000** in value, at a proposed **0.25-0.4% MDR**, which officials estimate would exclude about **95%** of current UPI transaction volume. RBI Governor **Sanjay Malhotra**, speaking at the **August 5, 2026** post-Monetary Policy Committee press conference, said "someone will have to pay the cost" of the digital payments infrastructure, noting the burden currently falls diffusely on banks, processors, and indirectly on the wider economy. Finance Minister **Nirmala Sitharaman** has said final rates are undecided and framed the change as enabling investment in infrastructure, innovation and security that would ultimately benefit all UPI users.

THE ANALYSIS

1. The legislative change is broader than the policy intent, and that gap is the source of public anxiety. The Bill's text is permissive, it lets the government notify any UPI transaction category for MDR, without embedding the 95%-exclusion design, the Rs 1-1.5 crore turnover threshold, or the Rs 2,000 transaction floor in the statute itself. Reassurance currently rests entirely on government statements of intent, not on binding legislative text.

2. "Free" UPI was always a subsidised, legally engineered outcome, not a natural market price. The Incentive Scheme's cost trajectory, rising through 2023-24 and then falling even as volumes grew, shows the fiscal support underwriting zero-MDR UPI has been under strain for at least two budget cycles before this amendment, making the timing less surprising than the headline suggests.

3. The proposed MDR band is deliberately calibrated below card-payment rates. At 0.25-0.4%, the proposed UPI MDR sits well under even the cheapest existing MDR category (non-RuPay debit cards at 0.4-0.9%), suggesting a design intent to recover cost proportionately from merchants best positioned to absorb it, large-turnover businesses on higher-value transactions, rather than to bring UPI to cost parity with other instruments.

4. Digital financial inclusion remains a genuine constraint on how far this can go. UPI's near-universal adoption among India's small merchants and low-income users is a flagship achievement of the government's Digital Public Infrastructure programme; a broad-based MDR that pushed transaction volumes back toward cash would directly undercut a policy priority the same government has invested in for a decade, giving the "keep 95% free" design real political and economic logic, not just messaging convenience.

5. The counter-argument on pass-through cost deserves weight. Every other MDR-bearing payment instrument shows merchants routinely pass some or all of the charge to consumers through pricing, and there is no structural reason large-merchant UPI transactions would behave differently, meaning even a narrowly targeted MDR will likely reach some consumers indirectly, just not through a line-item charge on the transaction itself.

6. The durability question is unresolved by design, not by oversight. Because the actual MDR thresholds will be set by executive notification rather than by the statute, a future government facing fresh fiscal pressure could lower the turnover or transaction-value thresholds without returning to Parliament, a structural vulnerability the current reassuring 95%-exclusion figure does nothing to prevent.

DATA AND INSTITUTIONS VAULT

PRELIMS-GRADE FACTS:

- UPI/RuPay MDR exemption: in force since 2020, under Payment and Settlement Systems Act, 2007 read with Section 269SU, Income Tax Act, 1961
- Existing MDR bands: non-RuPay debit cards 0.4-0.9%; domestic credit cards 1.5-2.2%; netbanking a flat Rs 10-25 fee (not percentage-based); international credit cards 3-4.5%
- Incentive Scheme for Promotion of Low-Value BHIM-UPI Transactions: launched December 2021; subsidy Rs 1,389 crore (2021-22) to Rs 3,631 crore (2023-24) to a budgeted Rs 2,000 crore (2026-27)
- Taxation and Other Laws (Amendment) Bill, 2026: passed Lok Sabha, August 6, 2026; amends Payment and Settlement Systems Act, 2007
- Proposed MDR design (government sources, not yet notified): 0.25-0.4%, merchants above Rs 1-1.5 crore turnover, transactions above Rs 2,000; estimated to exclude ~95% of current UPI volume
- RBI Governor Sanjay Malhotra: "someone will have to pay the cost," remarks at post-MPC press conference, August 5, 2026
- Finance Minister Nirmala Sitharaman: final MDR rates not yet decided as of the Bill's passage

WATCH THE TRAP: DO NOT WRITE THAT THE 2026 AMENDMENT ITSELF IMPOSES AN MDR ON UPI. THE BILL ONLY EMPOWERS THE GOVERNMENT TO NOTIFY SUCH A CHARGE; THE SPECIFIC RATE, THRESHOLDS, AND EFFECTIVE DATE ALL DEPEND ON A SUBSEQUENT EXECUTIVE NOTIFICATION THAT HAD NOT BEEN ISSUED AS OF THIS EDITION.

THE DEBATE

Argument FOR the amendment as sound, targeted policy. UPI's zero-MDR status has been fiscally subsidised since 2020, and that subsidy has visibly shrunk even as transaction volumes grew, an unsustainable trajectory. A narrowly designed MDR, at rates well below every comparable payment instrument and excluding an estimated 95% of transaction volume, recovers cost from large merchants best able to absorb it without disturbing the small-value, small-merchant transactions that matter most for financial inclusion.

Argument AGAINST treating this as a contained, low-risk change. The statute grants broad, undefined notification power without embedding the reassuring thresholds in law, meaning the actual protection for small users rests on executive discretion and political commitment, not legal guarantee.

Combined with the historical pattern of merchants passing MDR costs to consumers, the "no charge on users" framing may understate how much of this cost eventually reaches ordinary UPI users indirectly, through prices, regardless of the transaction's own fee status.

Balanced verdict. The government's stated design is genuinely narrow and consistent with protecting financial inclusion, but the statute's breadth means that design is a policy commitment, not a legal floor. The debate is less about whether MDR on large-merchant UPI transactions is justified, the fiscal case is reasonably strong, and more about whether Parliament should have written the thresholds into the law itself rather than delegating the entire calibration to executive notification.

HOW TO THINK ABOUT THIS

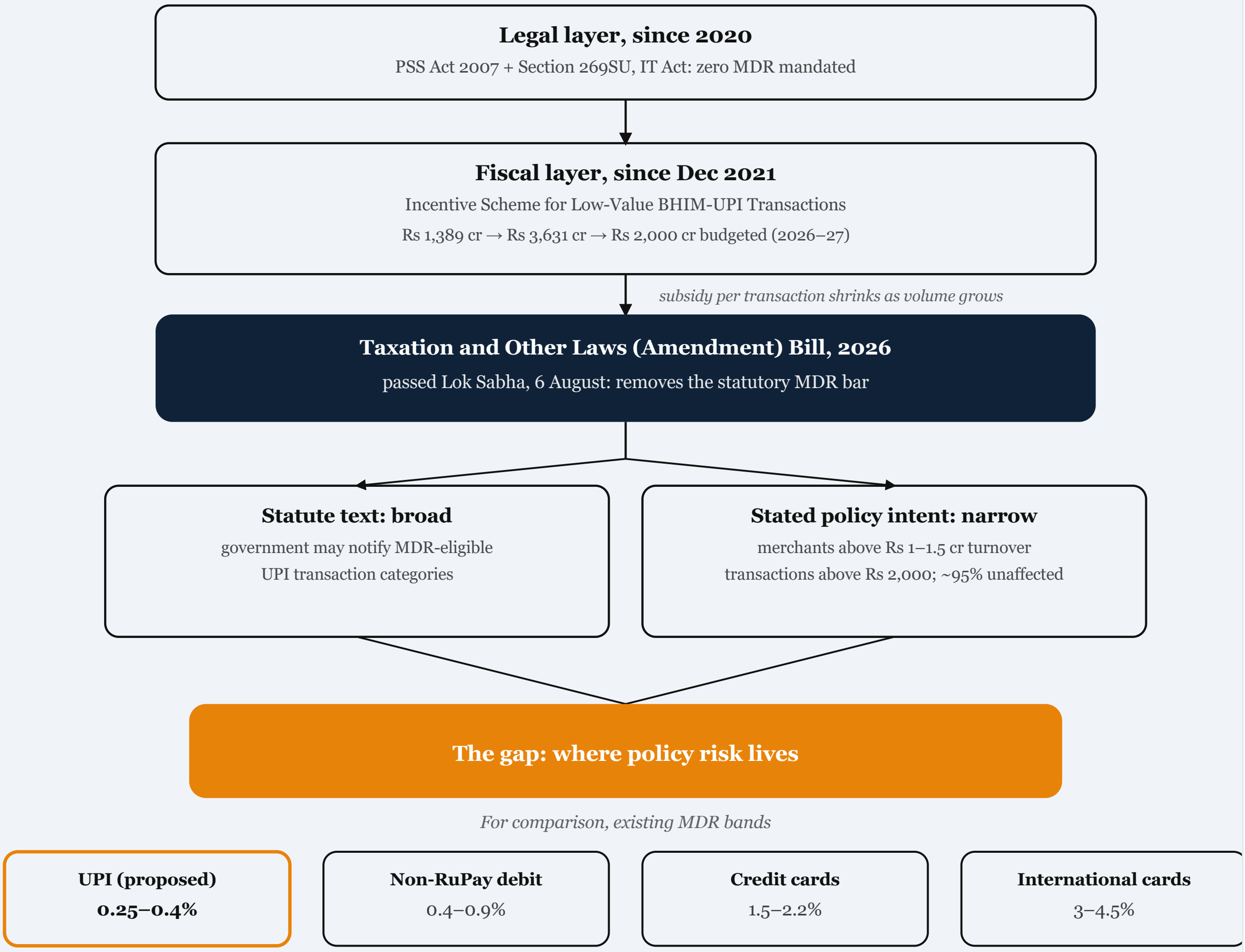
The transferable pattern: **when a law grants broad permissive power but the government defends it by pointing to a narrow, undocumented intended use, treat the gap between the statute's scope and the stated intent as the actual site of the policy risk.**

A law that says "the government may notify X" is functionally different from a law that says "the government may notify X, subject to thresholds A, B and C." The first form places all the protective detail in a policy announcement that can change without further legislative scrutiny; the second locks the protective detail into the text itself. Recognising which form a given law takes, and asking why the more binding form was not chosen, is a reusable diagnostic for any delegated-legislation question.

This same structure recurs in India's data protection framework, where the Digital Personal Data Protection Act, 2023 delegates substantial detail to rules notified later by the executive; in GST rate-setting, where the GST Council recommends rates that Parliament does not vote on individually; and in the telecom sector's spectrum-pricing and licensing conditions, routinely set by executive notification under the Telecommunications Act rather than fixed in the parent statute.

DIAGRAM-IN-WORDS

How UPI stayed free, and why that is now changing



The bill's text lets government notify MDR for any UPI category; the stated policy limits it to large merchants on transactions above Rs 2,000, leaving roughly 95% of UPI volume untouched today. That gap between what the law permits and what policy currently promises is where the real risk sits, even though the proposed rate is deliberately the lowest of any payment band.

TAKEAWAY BOX

UPI was never free, it was subsidised and legally shielded; the 2026 amendment removes the shield from the transactions the subsidy was already struggling to cover.

Payment and Settlement Systems Act, 2007; **Section 269SU, Income Tax Act, 1961**; **Incentive Scheme for Promotion of Low-Value BHIM-UPI Transactions (Dec 2021)**; **Taxation and Other Laws (Amendment) Bill, 2026** *(Lok Sabha,* **6 August 2026***); MDR bands across payment instruments;* **RBI Governor Sanjay Malhotra**; **FM Nirmala Sitharaman**.

is it good governance to write broad, permissive delegated-legislation power into a statute while relying on unlegislated government assurances to protect the intended beneficiaries, or should Parliament insist the protective thresholds be written into the law itself?

UPSC has tested Digital Public Infrastructure and financial inclusion policy (GS3) repeatedly; this explainer supplies the specific fiscal and legal mechanics, subsidy trends, MDR bands, delegated notification power, that a strong Mains answer on DPI sustainability should now be able to cite.

"UPI's zero-MDR status was a subsidised and legally engineered outcome, not a natural market price." Examine this statement with reference to the Taxation and Other Laws (Amendment) Bill, 2026, and discuss its implications for India's Digital Public Infrastructure objectives.

Sources: The Hindu, PRS India, Business Standard, Inc42

KEY ARGUMENTS AT A GLANCE

The Taxation and Other Laws (Amendment) Bill, 2026, passed by the Lok Sabha on August 6, 2026, removes the statutory bar on charging Merchant Discount Rate for UPI transactions, but the government's own signalled design, MDR only on large merchants above roughly Rs 1-1.5 crore annual turnover and only on transactions exceeding Rs 2,000, would exclude an estimated 95% of current UPI volume, meaning user anxiety about UPI 'no longer being free' is largely misdirected at a change aimed at merchant-side cost recovery, not universal transaction fees.

✓ SUPPORTING

- UPI and RuPay debit cards have been statutorily shielded from MDR since 2020 through a combination of the Payment and Settlement Systems Act, 2007 and Section 269SU of the Income Tax Act, 1961, while every other digital payment method, non-RuPay debit cards, credit cards, netbanking, already attracts MDR ranging from 0.4% to 4.5%, so the amendment closes an anomaly rather than creating an entirely new charge regime.
- The government's own Incentive Scheme for Promotion of Low-Value BHIM-UPI Transactions, which subsidised banks for small-merchant UPI transactions below Rs 2,000, grew from Rs 1,389 crore (2021-22) to Rs 3,631 crore (2023-24) before falling to a budgeted Rs 2,000 crore for 2026-27, indicating the government itself has been scaling back the subsidy that made zero-MDR UPI fiscally viable, an unstated fiscal pressure behind the amendment.
- RBI Governor Sanjay Malhotra's August 5, 2026 remark that 'someone will have to pay the cost' of UPI's infrastructure, made at the post-Monetary Policy Committee press conference, signals that the cost is currently being absorbed diffusely by banks, payment processors and taxpayers rather than eliminated, and the proposed MDR redistributes it toward large merchants rather than removing it.
- The proposed MDR band of 0.25-0.4% on qualifying transactions is meaningfully lower than the 1-4.5% range charged on other digital payment instruments, suggesting the design intent is proportionate cost recovery from merchants best able to absorb it, not parity with costlier card-based payment rails.

⚠ COUNTER

Even a narrowly targeted MDR creates a precedent and a mechanism that a future government could expand, lower the turnover and transaction-value thresholds, or extend to smaller merchants, and merchants who do pay MDR historically pass some or all of it to consumers through price adjustments, meaning the 'no charge on users' framing understates the indirect, diffused cost that already reaches consumers through every other MDR-bearing payment method.

→ **WAY FORWARD**

Parliament and the RBI should require that any notification exercising this new MDR power under the Payment and Settlement Systems Act be accompanied by a published turnover and transaction-value threshold, a sunset or review clause, and public reporting on how MDR revenue is used, so that a change designed as targeted cost recovery does not silently expand into a broader charge on India's digital-payment backbone without further legislative scrutiny.

MAINS ANSWER FRAMEWORK

QUESTION

Examine the fiscal architecture that has kept UPI transactions free since 2020, and discuss whether enabling a targeted Merchant Discount Rate on select UPI transactions through the Taxation and Other Laws (Amendment) Bill, 2026 is consistent with India's Digital Public Infrastructure objectives. (250 words)

INTRODUCTION

UPI has processed the overwhelming majority of India’s digital retail payments volume since its 2016 launch, made viable at zero merchant cost through a 2020 legal bar on Merchant Discount Rate under the Payment and Settlement Systems Act, 2007 and Section 269SU of the Income Tax Act, 1961, backed by a government subsidy scheme for small-value transactions. The Taxation and Other Laws (Amendment) Bill, 2026, passed by the Lok Sabha on August 6, 2026, removes this statutory bar, and the resulting debate over whether UPI will ‘stop being free’ turns on distinguishing the legal change Parliament has made from the specific MDR design the government has signalled it intends to notify.

BODY

The amendment itself is permissive, it empowers the government to notify categories of UPI transactions that may attract MDR, without prescribing rates or thresholds in the statute. Sources within government have indicated the intended design targets large merchants, annual turnover above roughly Rs 1-1.5 crore, and higher-value transactions, above Rs 2,000, at a proposed MDR of 0.25-0.4%, a band far lower than the 1.5-4.5% charged on credit cards.

On the government’s own estimate, this design would leave roughly 95% of current UPI transaction volume, dominated by small-value, small-merchant and peer-to-peer transfers, entirely untouched. The underlying fiscal pressure is real: the Incentive Scheme subsidising small-merchant UPI transactions rose from Rs 1,389 crore in 2021-22 to Rs 3,631 crore in 2023-24 before falling to a budgeted Rs 2,000 crore for 2026-27, even as UPI transaction volumes have continued to grow, meaning the per-transaction subsidy has been shrinking.

RBI Governor Sanjay Malhotra’s August 5, 2026 remark that the infrastructure cost is currently being paid indirectly, by banks, processors, or ‘the general economy,’ rather than eliminated, frames the amendment as a redistribution of an existing cost rather than the introduction of a new one. Finance Minister Nirmala Sitharaman has stated that final MDR rates remain undecided and has framed the change as supporting bank and fintech investment in infrastructure, innovation and security, from which all UPI users would eventually benefit.

CONCLUSION

The narrow, merchant-side design the government has signalled would leave the vast majority of UPI users unaffected, and treating this amendment as the end of free UPI risks both overstating the immediate impact and understating digital financial inclusion’s continued centrality to the government’s policy priorities. The more precise concern, and the one Parliament should have addressed through the amendment's text rather than leaving to executive notification, is durability: without statutory thresholds, sunset review, or reporting requirements, a narrowly targeted MDR today carries no legal guarantee against expansion tomorrow.

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