Merchant Discount Rate (MDR) on Select UPI (P2M) Transactions

15th Sept. 2026

FREQUENTLY ASKED QUESTIONS (FAQs)

Section 1: Policy Objectives

Q1. Why is this Merchant Discount Rate (MDR) being introduced now?

Answer: UPI processes billions of transactions every month. The MDR is distributed only amongst the UPI ecosystem, to further invest into infrastructure resiliency, innovation, cybersecurity (protecting the UPI Infrastructure with banks and non-banks) and customer service. UPI is a home-grown payment system, and its charges (MDR) are much lower than other payment instruments such as Credit Cards, Debit Cards, Wallets etc. The charges are kept very reasonable and will be applicable only for transactions above ₹ 2,000 to ensure UPI remains the most affordable mode of accepting payments.

Q2. Will small-value UPI transactions be impacted?

Answer: There is no impact on small-value UPI transactions up to ₹ 2,000, which comprise more than 95% of the total volume of UPI (P2M) transactions. The intent of levying reasonable MDR is to ensure that UPI remains, accessible and convenient for everyday transactions while supporting long-term ecosystem sustainability.

Q3. What MDR is being introduced for merchants on UPI transactions?

Answer: A MDR of 0.4% will be introduced on Person-to-Merchant (P2M) UPI transactions above ₹ 2,000/-. For transactions of ₹75,000/- and above, the MDR will be capped at ₹300 per transaction.

Q4. How does UPI MDR compare to traditional Debit and Credit Card MDRs?

Answer: UPI MDR is structured to be much lower than all traditional card-based transaction fees. Standard credit card MDRs typically range from 1.5% to 2.5% per transaction, while debit card MDRs are capped up to 0.90%. By setting the baseline UPI MDR at 0.4% on transaction above ₹ 2,000 and capping it at ₹300 for high-value purchases, UPI remains the most affordable digital payment acceptance tool for commercial enterprises. This cost difference helps merchants lower their payment processing expenses while accepting digital transactions.

Q5. When do the updated MDR provisions take effect?

Answer: The finalized MDR framework and threshold structure take effect from 15th October 2026. This timeline gives acquiring banks, payment aggregators, fintech applications, and corporate accounting platforms adequate lead time to update their software engines and billing systems.

Q6. How does this compare with international payment systems?

Answer: Most global payment systems (including Digital Public Infrastructures) have economic models that support infrastructure and innovation. India's approach continues to prioritise accessibility, scale and inclusion.

Q7. Who decides the ultimate implementation and enforcement of MDR caps?

Answer: The operational parameters, fee distribution models, and category caps are decided by the *UPI and Services Steering Committee*, headed by the National Payments Corporation of India (NPCI).

Q8. What is the dedicated fund for small merchant that is being proposed out of MDR?

Answer: A dedicated fund will be established to subsidize and accelerate digital payment infrastructure in Tier 3 – 6 centres including NE states, J&K and Ladakh and in Tier 1 & 2 centres, any notified Scheme from Central Government shall also be included (such as PM SVANidhi, PM Vishwakarma etc.). This fund will also be utilised to extend financial assistance to the ecosystem players for merchant onboarding and incentivize growth of UPI transactions among existing small merchants.

Q9. How does the proposed dedicated fund help small merchants?

Answer: The proposed dedicated fund will support the expansion of UPI acceptance among small merchants by providing financial assistance to acquiring banks / payment aggregators for merchant onboarding initiatives and providing incentives for UPI transactions originating from small merchants, particularly in rural areas, tier III centres and beyond. This will help to encourage sustained usage, increase digital payment penetration, and accelerate the inclusion of small businesses in the digital payments ecosystem. The detailed framework will be finalised in consultation with Reserve Bank of India (RBI) within the next three months.

Q10. Why is reliance on government subsidies alone no longer sufficient for UPI?

Answer: Annual government incentive / subsidy, while helpful in accelerating early digital adoption, were designed as short-term bridge funding rather than a permanent measure to compensate the cost incurred by the payment industry. Industry estimates indicate that maintaining UPI payment operations, server bandwidth, fraud prevention systems, and bank technical support costs around ~₹20,000 crore annually. Relying solely on fiscal budget allocations creates funding uncertainty and limits long-term technology investments by banks and fintech. Transitioning to a commercial, threshold-based model provides reliable capital for continuous technological innovation.

Q11. How will this move drive market competition among payment app operators?
Answer: Establishing a sustainable commercial framework encourages new fintech startups and technology companies to enter the digital payments space. When payment processing operates under zero-MDR conditions, only well-capitalised tech conglomerates can afford to sustain long-term operational losses. A predictable commercial revenue model levels the playing field, allowing smaller, innovative startups to compete, build specialised payment software, and expand financial access. Increased market competition ultimately leads to better services, improved app reliability, and greater choice for consumers.

Q12. How does this policy ensure cybersecurity resilience against emerging threats?
Answer: Revenue generated through MDR can fund investments in cyber security infrastructure, AI-driven fraud detection, encryption upgrades etc.

Q13. How far has UPI expanded internationally as of 2026?
Answer: As of 2026, UPI's global footprint has expanded significantly, with live payment services active across 11 foreign countries. Building a secure and self-sustaining domestic foundation strengthens India's role as a global leader in digital financial infrastructure.

Q14. What is the current UPI's transaction volume and value scale and why it needs to be self-sustainable?
Answer: Demonstrating unprecedented public adoption, UPI processed an astonishing 2,451 crore transactions valued at ₹29.9 lakh crore in August 2026 alone. This immense volume highlights UPI's role as the primary financial engine of the Indian economy, handling hundreds of millions of daily payments. Handling this scale requires massive physical server infrastructure, high-speed telecommunication lines, multi-tiered cybersecurity monitoring, and specialised banking software. These transaction figures reinforce why establishing a self-sustaining funding framework was necessary to guarantee system stability.

Section 2: General Consumer

Q15. Will ordinary consumers be charged for making payments via UPI?
Answer: No, UPI services will continue without any cost to consumers. Consumers can continue to transact free-of-cost using UPI as they have been doing till now.

Consumers making payments through UPI will not face any charges. Individual account holders can continue using UPI applications for all routine, daily expenses without worrying about any charges. The MDR policy ensures that UPI remain free and accessible for all citizens across India.

Q16. Is there any charge for UPI's Person-to-Person (P2P) transactions like sending money to friends, family, or personal contacts?

Answer: No, P2P transactions will continue to be free-of-cost for both payer as well as beneficiary. There will be no charges for any person transferring or receiving any amount to or from any other person (or even self-transfers) using UPI.

Whether you are transferring money to a family member, splitting a bill with friends, or performing self-transfers across your own linked bank accounts, zero charges apply. Citizens can freely make transfers on UPI of any permitted amount without incurring any transaction fees.

Q17. Will UPI Apps start charging platform fee on UPI payments?

Answer: No, UPI App providers shall NOT charge Platform Fee or any other charge for any payment made through UPI. UPI applications are explicitly restricted from levying platform fees on UPI transactions.

Q18. Will consumer prices rise at stores if merchants start paying a nominal fee?

Answer: No, market dynamics and historical payment trends show that merchants absorb nominal digital processing costs to drive higher business volume. Payment acceptance costs are considered standard operational overheads that are offset by increased footfall, higher average ticket values, and reduced cash-handling risks. Because the proposed UPI MDR is significantly lower than credit card fees and applies only above specific transaction thresholds, shopkeepers have no economic incentive to inflate retail shelf prices. Consumers will continue paying the exact listed price for goods and services.

Q19. Will I need to pay a fee when scanning a QR code at a local vendor?

Answer: No, scanning QR codes at local markets, street vendors, or small retail shops will remain completely free for consumers. The customer-facing side of a QR transaction involves zero fees, regardless of the purchase amount. The policy has been engineered to protect daily micro-purchases like tea stalls, and local transport from any cost burden. Consumers can continue scanning QR codes with total confidence that no extra charge will be deducted.

Q20. Are there any monthly volume caps on free UPI transactions for consumers?

Answer: No, there are no monthly quotas, volume limits, or tiered caps on free UPI transactions for individual consumers. Users can make as many valid person-to-person(P2P) or person-to-merchant (P2M) as necessary throughout the month without hitting a fee threshold. While individual banks and NPCI enforce standard daily security caps on aggregate transaction amounts (typically ₹1 lakh to ₹5 lakh depending on the transaction category), these are risk-management parameters, not commercial charge tiers. In any case, consumers face zero transaction fees regardless of how frequently they use UPI.

Q21. Where can ordinary users verify official updates regarding UPI charges?

Answer: Citizens are strongly advised to consult official updates published directly by the Ministry of Finance, the Reserve Bank of India (RBI), or the National Payments Corporation of India (NPCI).

Due to social media rumours and misleading reports regarding payment charges, the government has urged the public not to forward unverified messages. Official press releases issued through the Press Information Bureau (PIB), RBI or NPCI serve as the primary source of authentic regulatory policy. Users can also check verified notifications inside their primary banking applications.

Q22. Does the introduction of MDR affect auto-debit recurring payments like utility bills or OTT / Mutual Fund subscriptions?

Answer: No, automated recurring standing instructions, known as UPI Mandates or AutoPay, do not carry prescribed MDR transaction charges. Payments set up using automated recurring transfers for monthly utility bills, OTT streaming subscriptions, all recurring investments etc. will not pay any prescribed MDR charge for the transaction.

Section 3: Micro Merchants (P2PM) and Small Merchants

Q23. Will small local vendors (P2PM) be charged MDR on UPI payments?

Answer: No. Small merchants operating under the P2PM framework will continue with zero MDR. These are small vendors receiving up to Rs 1 lac per month through UPI QR directly into their accounts. The P2PM category promotes digital payment acceptance among small merchants and in the unorganised retail sector.

Additionally, small vendors operate under specialized micro-merchant account classifications (P2PM), that protect them from commercial fees. The MDR framework is specifically structured in a way that small businesses in the unorganised retail sector can accept digital payments without any margin deduction.

Q24. What is the P2PM framework and how does it protect small merchants?

Answer: The Person-to-Person-Merchant (P2PM) framework is a specialized account category created by NPCI to support small vendors receiving payments directly into their own personal bank accounts. Under P2PM guidelines, small merchants receiving up to ₹1 lakh per month through UPI QR codes enjoy a mandatory zero-MDR. This classification bridges informal street vendor setups and formal commercial merchant acquiring accounts, ensuring zero cost for micro-businesses. It promotes digital payment adoption across unorganised sector.

Q25. Do small merchants need to upgrade or change their existing QR codes?

Answer: No. Existing QR infrastructure will continue to function normally. Merchants do not need to replace, re-register, or alter their existing physical QR stands or soundboxes. All UPI QR codes currently displayed across shops will continue to process payments without interruption. Merchants can receive customer payments through their existing setups without visiting a bank branch or updating software.

Q26. What happens if a small merchant receives a payment above ₹2,000?

Answer: MDR applicability is determined by overall merchant account categorisation. Receiving a payment above ₹2,000 does not impose a charge on a small merchant operating under exempted tiers like P2PM.

A MDR of 0.4% will be introduced on Person-to-Merchant (P2M) UPI transactions above ₹ 2,000/-. For transactions of ₹75,000/- and above, the MDR will be capped at ₹300 per transaction.

Q27. When will the detailed framework for the dedicated small merchant fund be finalized?

Answer: The detailed operational framework for the dedicated small merchant fund will be finalised in consultation with Reserve Bank of India (RBI) within the next three months. This collaborative exercise will map out exact capital allocation criteria, regional priorities, and merchant incentive structures. Stakeholder consultations will ensure the scheme addresses grass-roots distribution challenges effectively.

Q28. Is a small merchant required to register for GST to benefit from zero MDR?

Answer: No, GST registration is not required for a small merchant to qualify for zero MDR protections on UPI transactions. Eligibility for zero-rated processing under the P2PM tier is determined by monthly collection thresholds (up to ₹1 lakh per month) and bank account categorisation, regardless of tax registration status. Micro-enterprises operating below mandatory statutory tax thresholds can process digital payments without providing GST documentation. This prevents regulatory compliance barriers for informal micro-businesses transitioning into digital payments.

Q29. How will acquiring banks identify small merchants (P2PM) eligible for zero MDR?

Answer: Acquiring banks and payment service providers use transaction velocity check for merchants acquired under the P2PM category to monitor the inward transaction threshold of ₹1 lakh per month. Merchants with inward credit of UPI payment more than ₹1 lakh per month, consecutively for 3 months, are formally transitioned under P2M category.

Q30. Does zero MDR apply to QR code payments accepted in rural areas?

Answer: Yes, zero MDR applies to QR code payments accepted by P2PM merchants in rural and semi-urban locations. Expanding digital adoption across rural India remains a central policy objective. All rural shopkeepers will benefit from threshold exemptions (zero MDR under ₹2,000) and receive additional backing through the proposed dedicated payment promotion fund. Further, acquiring banks will be incentivised to expand rural deployment, ensuring that cost burden to regional shopkeepers is highly subsidised.

Section 4: Large Merchants & E-Commerce Platforms

Q31. What MDR is applicable for large commercial transactions?

Answer: A nominal MDR of 0.4% will be introduced on Person-to-Merchant (P2M) UPI transactions above ₹ 2,000/-. For transactions of ₹75,000/- and above, the MDR will be capped at ₹300 per transaction.

This rate of 0.4% is significantly lower than alternative payment processing channels such as credit cards or payment gateways. Further, transactions below the ₹2,000 threshold remain free even for established commercial entities. This balanced approach ensures enterprise merchants contribute reasonably to system upkeep while keeping everyday transaction costs extremely low.

Q32. Is there a maximum fee cap on very high-value UPI payments?

Answer: Yes, to protect enterprise businesses handling large-value transactions, an absolute cap of ₹300 per transaction for payments of ₹75,000 and above has been instituted. For instance, a transaction worth ₹1,00,000 will not incur a percentage-based charge of ₹400; instead, the fee stops at the fixed ceiling of ₹300. It ensures that high-value transaction costs remain predictable and competitive.

Q33. Which specific categories qualify for a flat MDR instead of a percentage rate?

Answer: For specific merchant categories such as railways, telecom services, insurance, and fuel, among others, a flat MDR of Rs 5 per transaction shall be applicable for transaction above Rs 2,000.

Rather than applying a 0.4% variable rate, these specific sectors pay a fixed fee of ₹5 regardless of the transaction amount. This flat-rate model prevents cost escalations in critical public services, utility bill collection, and thin-margin sectors like fuel retail. It ensures that essential consumer services remain low-cost and digitally efficient.

Q34. Can enterprise merchants pass the MDR to buyers?

Answer: No, merchants on-boarded cannot pass on MDR charges to customers while accepting payments through UPI. The framework ensures consumers pay only the posted price.

Q35. How is MDR calculated on exact transactions (e.g., ₹5,000 vs ₹1,00,000)?

Answer: MDR calculations follow a clear, predictable formula based on transaction value thresholds. For a ₹3,000 purchase, applying the 0.4% rate results in an MDR fee of ₹12 paid by the merchant to its acquiring bank. For a ₹50,000 purchase, a 0.4% fee equals ₹200. However, for a high-value purchase of ₹1,00,000, the 0.4% calculation (which equals ₹400) is superseded by the fixed maximum cap of ₹300 (₹300 is the fixed maximum cap per transaction for payments of ₹75,000 and above. Any transaction under ₹2,000 incurs no MDR.

Amount paid to Merchant	Applicable MDR	MDR paid by Merchant
₹ 2,000	-	₹ 0
₹ 3,000	0.40%	₹ 12
₹ 50,000	0.40%	₹ 200
₹ 75,000 and above	Fixed ₹ 300	₹ 300

Q36. Does MDR apply to transactions made via Credit Cards linked on UPI or Credit Lines?

Answer: Credit-linked UPI payments, such as RuPay Credit Cards linked to UPI or pre-sanctioned bank credit lines, operate under separate credit product rules. Because credit-linked transactions involve short-term loans funded by issuing banks, they follow standard credit card guidelines. The MDR discussed in this amendment apply specifically to direct users-account-to-merchant-account UPI transactions.

<u>Section 5: Capital Market transactions (Mutual Funds, Securities, Brokers & Dealers)</u>

Q37. What specific MDR rates and caps apply to Capital Market transactions via UPI?

Answer: The Merchant Discount Rate (MDR) for Capital Market transactions, including payments towards Mutual Funds, Securities, Stockbrokers, and Dealers, is set at a nominal 0.02% of the transaction value with a maximum capping of ₹300. The fee is lower than standard commercial transaction rates to encourage retail participation in formal financial markets.

Q38. Which entities and transaction types are covered under this Capital Market MDR framework?

Answer: This specific MDR tier explicitly covers all regulated entities operating within capital markets, including Asset Management Companies (Mutual Funds), SEBI-registered stockbrokers, securities dealers, and investment platforms. It applies to fund transfers executed via UPI for equity buying, debt market investments, mutual fund purchases, and broker wallet top-ups. By defining this category separately, it is ensured that capital market transfers are distinct from routine retail shopping or general service payments.

<u>Section 6: Specialized Sectors – Industry Program Merchants</u>

Q39. Are insurance premium payments eligible for special MDR concessions?

Answer: Yes, insurance premium payments accepted via UPI qualify for specialised flat-rate concessions. For insurance premium payments exceeding ₹2,000, a flat MDR of ₹5 per transaction applies, rather than a percentage-based charge. This concessional model ensures that policyholders making high-value annual or semi-annual insurance payments do not face heavy backend fee friction. Insurance companies benefit from low-cost digital collections, helping expand insurance coverage across India.

Q40. How does MDR work for fuel purchases at petrol pumps via UPI?

Answer: Fuel purchases made at petrol stations via UPI qualify for the flat concessional rate of ₹5 for payments over ₹2,000. The flat ₹5 fee protects petrol pump operators from high processing fees on tank refills. For all fuel payments under ₹2,000, the MDR remains at 0%, ensuring everyday commuter refuelling is completely charge-free, while fuel station operators are not subject to any MDR on such transactions.

Q41. Will government utility bill collections (electricity, water) incur percentage MDR?

Answer: Public utility payments such as electricity distribution, municipal water charges, and piped natural gas fall under designated Industry program category. For utility bill payments exceeding ₹2,000, a flat concessional MDR of ₹5 applies, rather than a 0.4% variable rate.

Utility transactions under ₹2,000 carry zero MDR. This framework ensures state utility boards and municipal corporations can digitize bill collection without incurring high processing fees, keeping public utility services affordable.

Q42. Are educational institutions exempt from standard MDR percentage fees?

Answer: Educational fee collections, including school tuition, university term fees, and institutional entrance examinations, fall under designated Industry program category. Transactions above ₹2,000 benefit from flat-fee structures or capped processing rates, preventing high percentage-based fees on large fee amounts. Educational transactions up to ₹2,000 remain completely free of MDR. This measure ensures schools, colleges, and students can process tuition fees digitally without heavy administrative fees.

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