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Unexpected Taxes Prompt Small Merchants in India to Rethink UPI Usage Amid GST Scrutiny

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A growing number of small merchants across India are reportedly reconsidering the use of Unified Payments Interface (UPI) platforms due to concerns over unexpected tax burdens triggered by heightened scrutiny under the Goods and Services Tax (GST) framework.

Multiple traders and small business owners claim they are facing increased inquiries from tax officials regarding digital transactions, despite many of them operating below the GST

threshold. The issue stems from the automated visibility UPI provides into their daily business volumes, which tax departments may interpret as indicative of higher taxable income.

While UPI remains a widely embraced digital payment system, processing over 13 billion transactions monthly, its growing penetration has exposed micro and small businesses to formal oversight that many feel unprepared for. Merchants argue that the pressure to maintain digital transparency without proportional regulatory clarity or exemptions is forcing some of them to revert to cash-based dealings.

“In principle, we support digital payments. But if every ₹10,000 transaction invites questions from the GST department, it’s just not viable,” said Ramesh Jain, a Kirana shop owner in Jaipur. “We are being treated like large enterprises, even though we don’t cross the turnover limits.”

Under current GST rules, businesses with an annual turnover exceeding ₹40 lakh (₹20 lakh for services) must register and comply. However, reports suggest some tax officials are using UPI data to question even non-registered vendors, causing confusion and fear of backdated penalties.

Experts warn that while digitalization of commerce is crucial, tax enforcement must be balanced and communicated clearly. “Using UPI data to expand the tax base is legitimate, but blanket surveillance risks discouraging digital adoption by the very segment it aims to formalize,” said Rachna Kapoor, a chartered accountant based in Delhi.

The National Payments Corporation of India (NPCI), which manages UPI, has not issued a formal statement on the matter, but government officials have emphasized that digital adoption remains voluntary for now, especially among unregistered small merchants.

Industry groups are urging the Finance Ministry and the GST Council to issue clear guidelines to protect small merchants from overreach. Some have suggested a special exemption window or simplified tax compliance scheme for micro-businesses that opt into UPI. As India targets a \$5 trillion economy, ensuring trust in digital systems will remain key.