

A Study on Analysing Trends in UPI Adoption and Transaction Patterns among Small Traders Before and After the Issuance of GST Notices

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Abstract:

The rapid adoption of Unified Payments Interface (UPI) has significantly transformed payment practices among small traders in India. While digital payments have enhanced transparency and financial inclusion, increased data visibility has also enabled tax authorities to issue Goods and Services Tax (GST) notices based on digital transaction trails. This study aims to analyze trends in UPI adoption and transaction patterns among small traders before and after the issuance of GST notices. Using primary and secondary data, the research examines changes in transaction volume, frequency, value, and behavioral responses of traders to regulatory scrutiny. The study employs descriptive and comparative analytical techniques to assess whether GST notices influence digital payment usage. Findings of the study are expected to provide insights into the compliance behavior of small traders, the impact of regulatory enforcement on digital payment adoption, and policy implications for balancing digitization with ease of doing business.

Keywords — UPI, GST Notices, Small Traders, Digital Payments, Tax Compliance, Transaction Patterns

I. INTRODUCTION

India's digital payment ecosystem has witnessed unprecedented growth following the introduction of Unified Payments Interface (UPI). UPI has emerged as a preferred payment mode among small traders due to its low cost, ease of use, and instant settlement features. Government initiatives promoting a cashless economy and financial inclusion have further accelerated its adoption. Simultaneously, the Goods and Services Tax (GST) regime has enhanced transparency by integrating digital transaction data into tax monitoring systems. GST authorities increasingly rely on UPI transaction data to identify discrepancies between reported turnover and actual receipts, leading to the issuance of GST notices to small traders. While digital payments encourage formalization,

concerns have arisen that increased regulatory scrutiny may influence traders' payment behaviour, potentially leading to reduced UPI usage or a shift back to cash transactions. This study seeks to analyse how GST notices impact UPI adoption and transaction patterns among small traders, thereby contributing to the understanding of digital finance, compliance behaviour, and regulatory outcomes.

ii. THEORETICAL FRAMEWORK AND LITERATURE REVIEW

The theoretical foundation of this study is rooted in the principles of digital financial inclusion, tax compliance theory, and behavioural response to regulatory enforcement. The adoption of Unified Payments Interface (UPI) aligns with the broader objective of promoting a transparent, cashless economy by enabling real-time, traceable, and

low-cost digital transactions. UPI reduces information asymmetry between market participants and regulatory authorities, thereby strengthening financial accountability and formalization of economic activities. From a regulatory perspective, the issuance of Goods and Services Tax (GST) notices is grounded in deterrence theory, which posits that enforcement mechanisms influence taxpayer behaviour by increasing perceived cost of non-compliance. When small traders receive GST notices based on discrepancies identified through digital transaction data, particularly UPI receipts, it creates a behavioural inflection point that may alter transaction patterns, reporting practices, and payment preferences. In the context of small traders, UPI has played a crucial role in simplifying payment acceptance, improving liquidity, and expanding customer reach. Prior to GST implementation, cash-based transactions dominated the informal sector, limiting tax visibility and compliance. With the integration of UPI transaction data into GST analytics, tax authorities are better positioned to assess turnover accuracy and detect underreporting. This has introduced a new dynamic wherein digital payment adoption is closely intertwined with tax enforcement. According to RBI (2023), UPI transactions have grown exponentially, with small merchants accounting for a significant share of peer-to-merchant payments. However, studies by Gupta and Verma (2022) indicate that heightened regulatory scrutiny may induce risk-averse behaviour among small traders, including reduced usage of traceable Digi payment modes following tax notices. Similarly, Banerjee et al. (2023) found that post-enforcement actions often lead to short-term contraction in reported digital receipts, suggesting a behavioural adjustment rather than a decline in actual business activity. Empirical evidence also highlights that GST notices act as a catalyst for compliance awareness. Mehta (2021) observed that traders receiving notices demonstrated improved understanding of turnover thresholds, tax liability, and record-keeping requirements. The Central Board of Indirect Taxes and Customs

(CBIC, 2023) emphasized that data-driven notices based on digital payment trails have enhanced voluntary compliance while reducing tax evasion risks. However, concerns remain regarding misinterpretation of UPI inflows as taxable turnover without accounting for non-business receipts, refunds, or inter-account transfers. International literature further supports the linkage between digital payments and tax compliance. OECD (2021) reports that economies leveraging electronic payment data for tax monitoring experience improved revenue mobilization but must address taxpayer trust and data governance challenges. Kumar and Rao (2020) argue that digital payment systems, when combined with clear compliance guidelines, promote efficient tax administration without discouraging innovation. Theoretically, this study also draws on behavioural economics, which suggests that uncertainty and fear of penalties can influence decision-making under regulatory pressure. Small traders may adjust UPI usage, split transactions, or revert partially to cash to manage perceived compliance risks. This behavioural response underscores the need to examine transaction patterns before and after GST notices to understand the real impact of enforcement on digital payment adoption. The literature consistently indicates that while UPI enhances transparency and efficiency, its intersection with GST enforcement creates both opportunities and challenges. Effective policy design must balance the objectives of tax compliance with sustained digital payment growth. Recent studies by FICCI (2022) and PwC India (2023) suggest that improved taxpayer education, clearer classification of taxable receipts, and integration of fintech advisory tools can mitigate negative behavioural responses. In summary, the theoretical and empirical literature establishes that UPI is not merely a payment instrument but a regulatory data source influencing compliance behaviour. The issuance of GST notices represents a critical regulatory intervention that can reshape transaction patterns among small traders. This study builds upon existing research by

conducting a comparative analysis of UPI adoption and transaction behaviour before and after GST notices, thereby addressing a significant research gap in India's digital taxation and fintech literature.

iii. METHODOLOGY

This research is based on secondary data obtained from reliable and authoritative sources, including Reserve Bank of India (RBI) publications, National Payments Corporation of India (NPCI) UPI statistics, GST Council reports, and government databases. Data was collected on UPI transaction volume, frequency, and value trends among small traders before and after the issuance of GST notices to analyse changes in digital payment behaviour. A comparative analysis was conducted across different time periods-pre-notice and post-notice phases to examine variations in UPI usage patterns. The study also reviewed sector-specific data relating to retail traders, micro-enterprises, and small service providers to evaluate how regulatory enforcement impacts digital payment adoption. Additionally, the research analysed policy documents and online publications from the Central Board of Indirect Taxes and Customs (CBIC), along with industry insights from FICCI, CII, and fintech research reports, to understand the regulatory rationale behind data-driven GST notices and their implications for small traders. Academic journals and empirical studies were reviewed to support the analytical framework and identify behavioural trends. The findings indicate that GST notices based on digital transaction trails influence UPI transaction patterns, leading to observable changes in transaction frequency, reported turnover, and payment preferences among small traders. The study highlights the role of regulatory intervention in shaping digital payment behaviour and compliance awareness in the informal and semi-formal sectors.

iv. DATA SOURCES

To ensure accuracy and reliability, data was gathered from multiple secondary sources: 1.

Government and Institutional Reports Data from the Reserve Bank of India (RBI), National Payments Corporation of India (NPCI), GST Council, Central Board of Indirect Taxes and Customs (CBIC), and the Ministry of Finance were used to examine trends in UPI adoption and digital transaction monitoring. RBI annual reports, NPCI UPI statistical dashboards, and GST analytics updates provided insights into transaction growth, merchant participation, and enforcement-driven compliance trends among small traders. 2. Academic Journals and Research Articles Studies published in peer-reviewed journals such as the Journal of Digital Finance, Economic and Political Weekly, Indian Journal of Public Finance, and International Journal of Financial Technology were reviewed to analyse theoretical linkages between digital payments, tax compliance, and behavioural responses to regulatory interventions such as GST notices. 3. Industry Reports Industry analyses and white papers from FICCI, CII, PwC India, Deloitte, and fintech research organizations were examined to assess the impact of GST enforcement on digital payment usage, merchant behaviour, and compliance awareness. These reports provided sectoral insights into small retail traders, micro-enterprises, and service providers. 4. Online Databases Research materials were retrieved from Google Scholar, ResearchGate, RBI Database on Indian Economy (DBIE), and the Economic Survey of India (2023-24) for statistical comparisons, trend analysis, and scholarly perspectives on UPI and GST integration.

v. NATURE OF DATA

The study relies entirely on secondary data published between 2016 and 2024, covering the period before and after the widespread adoption of UPI and the issuance of data-driven GST notices. This time frame enables a comparative analysis of digital transaction behaviour among small traders across different regulatory phases. The data primarily includes:

- National and state-level UPI transaction statistics (volume, value, and growth rates);
- Trends in merchant onboarding and UPI usage among small traders;
- Reports on GST notices, compliance drives, and data analytics initiatives;
- Behavioural indicators related to changes in transaction frequency and payment preferences;
- Industry-level observations from small trade associations and fintech platforms.

vi. DATA ANALYSIS TECHNIQUES

The collected data was analysed using descriptive and comparative analysis methods. Key parameters such as UPI transaction volume, transaction value, frequency of digital payments, and compliance-related behavioural indicators were compared before and after the issuance of GST notices. The analysis followed these steps:

- **Compilation:** Aggregating UPI transaction statistics, GST compliance data, and enforcement-related reports from multiple institutional and industry sources.
- **Comparison:** Evaluating differences in transaction patterns between the pre-notice period and post-notice period, with particular focus on changes in digital payment usage among small traders.
- **Interpretation:** Assessing how GST notices influence UPI adoption, transaction behaviour, reporting practices, and compliance awareness among small traders.

vii. SCOPE OF THE STUDY

The scope of this secondary data study covers small traders operating across the following segments:

- **Retail Traders:** Examining UPI usage patterns in day-to-day business transactions and changes following GST notices.
- **Micro and Small Enterprises (MSEs):** Studying the impact of regulatory enforcement on digital payment adoption and turnover reporting.

- **Service Providers and Local Businesses:** Analysing transaction frequency, customer payment preferences, and behavioural adjustments post-GST notices.

The study is limited to the Indian context and focuses on the period surrounding increased datadriven GST enforcement.

viii. LIMITATIONS

Since the study is based exclusively on secondary data, it does not incorporate firsthand survey responses or personal interviews with small traders. Certain datasets may present minor inconsistencies due to variations in reporting standards across institutions and agencies. Additionally, the study does not account for informal cash transactions that are not captured in official records. However, reliance on credible and authoritative data sources ensures analytical validity and reliability

ix. KEY CHALLENGES AND POLICY & INDUSTRY IMPLICATIONS

Despite the rapid growth and benefits of UPI adoption, several challenges affect its sustained usage among small traders, particularly in the context of GST enforcement. One of the primary challenges is the misinterpretation of UPI inflows as taxable turnover, without adequately distinguishing between business receipts, personal transfers, refunds, or inter-account movements. This has resulted in compliance anxiety and uncertainty among small traders. Another significant challenge is the limited awareness of GST provisions, turnover thresholds, and record-keeping requirements among micro and small businesses. The issuance of GST notices based on digital transaction data has intensified concerns regarding data transparency, leading some traders to reduce UPI usage or revert partially to cash transactions. Frequent regulatory updates and evolving data analytics practices further add to compliance complexity. From an industry perspective, small traders are increasingly required to adopt digital

bookkeeping, transaction reconciliation, and financial literacy tools to manage compliance risks effectively. Fintech platforms and payment service providers play a crucial role in educating merchants and providing value-added services such as transaction classification and automated reporting. Policy implications include the need for clearer GST guidelines on the treatment of UPI transactions, explicitly distinguishing taxable receipts from non-business inflows. Government authorities can enhance compliance trust by improving communication, issuing explanatory notices, and adopting technology-driven risk assessment models rather than blanket enforcement. The integration of AI-based analytics with contextual verification can reduce false positives and unnecessary compliance burdens. Additionally, collaboration between tax authorities, fintech firms, and trade associations can help create simplified compliance frameworks that encourage digital payment adoption while safeguarding revenue objectives.

X. CONCLUSIONS

The study underscores the evolving relationship between UPI adoption and GST enforcement among small traders in India. While UPI has significantly improved payment efficiency, liquidity, and transparency, the issuance of GST notices has influenced transaction patterns and behavioural responses. Regulatory interventions, though essential for tax compliance, must be carefully designed to avoid discouraging digital payment usage. The findings highlight that a balanced approach combining clear policy communication, trader education, and technology-enabled compliance tools is critical to sustaining digital payment growth. Strengthening awareness of GST provisions and improving data interpretation mechanisms can enhance voluntary compliance without undermining trust in digital systems. Going forward, aligning digital payment innovation with inclusive regulatory frameworks will ensure that UPI continues to support small traders, promote formalization, and contribute to a transparent and resilient digital economy. By addressing compliance

challenges proactively, India can reinforce its leadership in digital payments while fostering a trader-friendly taxation environment

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