

BITCOIN PAYMENT GATEWAY WITH LIGHTNING NETWORK INTEGRATION

**Prof. Vivekanand Thakare^{*1}, Ms. Khushi Shukla^{*2}, Diksha Tembhare^{*3},
Ms. Sayali Nannaware^{*4}, Ms. Vidhi Pohankar^{*5}**

**1 Assistant Professor, Department Of Computer Science And Engineering, Govindrao Wanjari College of Engineering & Technology, Nagpur, Maharashtra, India
vivekanand.5977@gmail.com*

**2 Student, Department Of Computer Science And Engineering, Govindrao Wanjari College of Engineering & Technology, Nagpur, Maharashtra, India
Khushishukla2820@gmail.com*

**3 Student, Department Of Computer Science And Engineering, Govindrao Wanjari College of Engineering & Technology, Nagpur, Maharashtra, India
sheetaltembhare51@gmail.com*

**4 Student, Department of Computer Science And Engineering, Govindrao Wanjari College of Engineering & Technology, Nagpur, Maharashtra, India
sayalinannaware87@gmail.com*

**5 Student, Department Of Electronics And Telecommunication, Govindrao Wanjari College of Engineering & Technology, Nagpur, Maharashtra, India
vidhipohankar@gmail.com*

Abstract

The growing demand for secure and efficient online payment solutions has increased interest in cryptocurrency-based systems. Although bitcoin enables decentralized peer-to-peer transactions, its scalability and transaction cost limitations reduce its efficiency for real-time web payments. The development of a web-based bitcoin payment gateway integrated with the lightning network to enable fast, low-cost, and scalable transactions. Proposed system combines on-chain and off-chain mechanisms to support invoice generation, instant payment verification, and secure transaction processing. It provides API-based integration and fraud prevention. Performance analysis shows reduced transaction time and lower fees compared to traditional on-chain transactions. The developed web system demonstrates a practical approach for integrating decentralized cryptocurrency payment into modern e-commerce platforms, supporting micropayments and real-time digital transactions efficiently.

Keywords: *Bitcoin, Lightning Network, Blockchain, Web Payment Gateway, Layer-2 Scaling, Micropayments, Cryptocurrency Payments.*

I. INTRODUCTION

The rapid growth of digital commerce and online services has increased the need for secure, transparent, and efficient payment systems. Traditional payment gateways rely on centralized financial institutions, which often involve high processing fees, settlement delays, and cross-border transaction limitations. In recent year, blockchain-based payment systems have emerged as an alternative approach to enable decentralized and trust less value transfer. Among them, Bitcoin is the first and most widely adopted cryptocurrency, allowing peer-to-peer transactions without intermediaries. Despite its advantages, Bitcoin faces significant scalability challenges. The limited block size and fixed block generation time restrict transaction throughput, resulting in network congestion, higher fees, and delayed confirmations during peak usage. These limitations reduce its practicality for real-time web payments and micropayment applications in e-commerce environments.

To address these challenges, the Lightning Network was introduced as a Layer-2 scaling solution built on top of the Bitcoin blockchain. The Lightning Network enables off-chain payment channels between users, allowing multiple transactions to occur instantly with minimal fees. Only the final settlement state is recorded on the main blockchain, thereby reducing congestion and improving overall scalability.

The design and development of a web-based Bitcoin payment gateway integrated with the Lightning Network. Proposed system enables merchants to accept Bitcoin payments efficiently through automated invoice generation, real-time payment verification, and secure transaction processing. By combining on-chain security with off-chain speed and cost efficiency, the gateway provides a practical framework for integrating decentralized cryptocurrency payments into modern web applications.

The main contributions of this work include:

1. Design of a hybrid on-chain and off-chain payment architecture for web integration.
2. Implementation of secure API-based communication between merchants and the payment gateway.

3. Performance evaluation demonstrating reduced transaction latency and lower fees compared to traditional on-chain Bitcoin payments.

Section II reviews the existing literature and fundamental concepts; Section III explains the proposed system architecture and design; Section IV outlines the implementation process; Section V evaluates and discusses the performance results; and Section VI summarizes the study and highlights potential directions for future research.

Introduced in 2008, Bitcoin was the first decentralized digital currency created to facilitate peer-to-peer electronic transactions without relying on intermediaries. Its blockchain framework provides transparency, data immutability, and strong cryptographic protection. Through a distributed consensus mechanism, Bitcoin removes the need for central financial institutions, thereby lowering counterparty risk and promoting broader financial access. These features make it a compelling choice for online payments and international transactions.

Although the Lightning Network improves Bitcoin's scalability and transaction speed, its widespread adoption depends on seamless integration into intuitive applications and merchant platforms. A web-based Bitcoin payment gateway acts as an interface between the decentralized blockchain network and conventional online systems. This gateway allows merchants to create invoices, confirm payments instantly, maintain transaction histories, and automate settlement procedures. By embedding Lightning capabilities into an accessible web platform, businesses can accept cryptocurrency payments without requiring users to have in-depth knowledge of blockchain technology.

Designing a web-based payment gateway integrated with the Lightning Network requires addressing multiple technical aspects. These involve creating secure connections between the web server and Lightning nodes, developing API interfaces for invoice creation and payment verification, managing liquidity within payment channels, and safeguarding data through encryption and authentication protocols. Furthermore, the system should enable real-time alerts, maintain comprehensive database records, and support optional on-chain settlements to ensure transparency and audit readiness.

From a performance standpoint, incorporating the Lightning Network into a payment gateway can substantially decrease transaction delays and lower operational expenses when compared to conventional on-chain Bitcoin transactions. It further enhances scalability by shifting high-frequency transactions away from the primary blockchain. For merchants, this results in quicker checkout processes, reduced transaction costs, and improved access to international payments. For customers, it provides almost instant transaction confirmations along with minimal fees.

The rest of this paper provides an extensive review of prior research, outlines the limitations of current systems, explains the proposed architecture and methodology, evaluates the system's performance, and concludes by discussing possible future enhancements in decentralized web-based payment solutions.

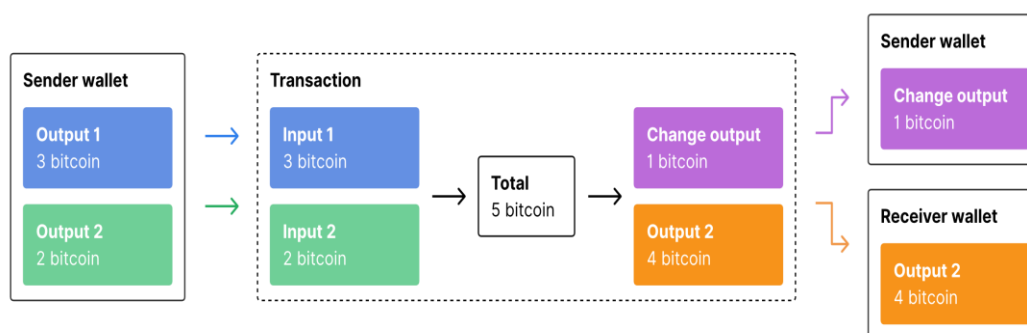


Fig no.1. Bitcoin Transaction Explained

LITERATURE REVIEW

Bitcoin is a decentralized digital currency that allows peer-to-peer transactions without banks, but it faces scalability problems such as slow transaction speed and high fees during network congestion. To solve these issues, the Lightning Network was introduced as a second-layer solution that enables faster and cheaper transactions through off-chain payment channels. Instead of recording every transaction on the blockchain, multiple transactions occur off-chain and only the final result is stored on the blockchain. This approach reduces latency, lowers costs, and increases transaction throughput.

Researchers have studied the architecture, routing mechanisms, and reliability of the Lightning Network, highlighting benefits such as near-instant payments and support for micro-transactions. Gateway-based systems and platforms like BTC Pay Server allow merchants and applications to integrate Lightning

payments without running full nodes. Although challenges like liquidity management and node availability remain, the Lightning Network shows strong potential to improve Bitcoin scalability and enable efficient, low-cost payment gateways for real-world applications such as e-commerce and digital services.

[1] J. Poon and T. Dryja, *The Bitcoin Lightning Network: Scalable Off-Chain Instant Payments*, 2016.

This paper introduces the Lightning Network, a Layer-2 scaling solution designed to address Bitcoin's transaction throughput limitations. The authors propose the use of off-chain payment channels, which allow multiple transactions between two parties without recording each one on the blockchain. Only the final net balance is settled on-chain, significantly reducing both transaction fees and confirmation time. The paper also introduces Hashed Time lock Contracts (HTLCs), which enable secure multi-hop payments across a network of channels, ensuring that payments can be routed safely even if intermediary nodes are untrusted. The Lightning Network architecture supports near-instant transactions, making it suitable for micropayments and high-frequency payment scenarios. Additionally, the paper discusses the topology and routing mechanisms required to maintain liquidity and ensure efficient payment flows. By enabling off-chain scalability while preserving the security guarantees of Bitcoin's blockchain, this work forms the foundation for modern Bitcoin payment gateway systems and has become a cornerstone for subsequent research on real-time cryptocurrency payment solutions.

[2] A. Divakaruni and P. Zimmerman, "The Lightning Network: Turning Bitcoin into Money," Federal Reserve Bank of Cleveland, Working Paper No. 22-19, 2022.

This paper examines how the Lightning Network enhances Bitcoin's scalability, efficiency, and usability for everyday transactions. The authors analyse the adoption trends of the Lightning Network and evaluate its impact on alleviating congestion on the main Bitcoin blockchain. By using off-chain payment channels, the Lightning Network enables near-instant, low-cost transactions, allowing multiple payments to occur between parties without burdening the blockchain with each individual transaction. The study highlights that as Lightning Network usage grows, transaction fees decrease and confirmation times improve, making micropayments and frequent small transactions feasible. The paper also discusses the network's topology, routing strategies, and liquidity management, emphasizing how these factors affect the reliability of payment delivery. Furthermore, the authors explore potential applications of Lightning-enabled Bitcoin payments in digital commerce, online services, and retail environments, arguing that the network can transform Bitcoin from a speculative asset into a practical medium of exchange. The study concludes that widespread adoption of the Lightning Network can significantly enhance Bitcoin's role as a payment system, supporting real-time payments and reducing operational costs for both merchants and consumers.

[3] P. McCorry et al., "Towards Bitcoin Payment Networks," 2016

This paper investigates the design and implementation of scalable payment networks built on top of the Bitcoin blockchain. The authors focus on the concept of payment channels, which allow multiple transactions between parties to occur off-chain, reducing the total number of on-chain settlements and significantly improving scalability. The study explores various payment channel models, including unidirectional and bidirectional channels, and examines their potential to support faster, more frequent transactions while maintaining security and reliability. The paper highlights critical security considerations, such as channel management, fraud detection, and dispute resolution, emphasizing the need for mechanisms to ensure that funds are securely locked and recoverable in case of malicious behaviour. Additionally, the research provides insights into routing payments across a network of channels, laying the groundwork for multi-hop transaction architectures. By presenting an early conceptual framework for off-chain payment networks, this study forms a foundation for the development of the Lightning Network and related systems. These ideas are crucial for designing efficient Bitcoin payment gateway systems, enabling low-latency, low-fee payments suitable for web-based applications, microtransactions, and large-scale digital commerce. The paper concludes that structured payment networks can overcome Bitcoin's inherent throughput limitations and enhance its usability as a practical payment platform.

[4] F. Béres et al., "A Crypto-economic Traffic Analysis of Bitcoin's Lightning Network," 2019

This paper presents a detailed analysis of the transaction behaviour and economic structure of the Bitcoin Lightning Network. The authors study how payments are routed through the network and how nodes interact with each other to complete transactions efficiently. Using data-driven analysis and simulations, the research evaluates routing performance, transaction fees, and payment success rates across the Lightning Network. The study shows that the Lightning Network significantly **reduces transaction fees and improves**

transaction speed compared to traditional on-chain Bitcoin payments. It also emphasizes the role of **channel liquidity and well-connected routing nodes**, which are essential for ensuring successful payment routing. The authors further analyse the topology of the Lightning Network, showing that certain highly connected nodes act as central hubs that improve transaction flow across the network. However, the study also identifies challenges such as imbalanced channel liquidity and dependency on key routing nodes, which may affect payment reliability. The findings provide valuable insights into the economic incentives and operational dynamics of Lightning Network nodes. This research helps developers and researchers understand how Lightning Network can support scalable, low-cost, and high-speed payment systems, making it highly relevant for the development of Bitcoin payment gateways integrated with Lightning Network technology.

[5] Ali, M., & Khan, T. (2021). “Cloud-Based Attendance Analytics for Educational Institutions.” This paper proposes a secure architecture that enables micro-payments between Internet of Things (IoT) devices using the Bitcoin Lightning Network. Since most IoT devices have limited computational power and cannot run full Bitcoin nodes, the authors introduce a gateway-based model where a trusted gateway node manages Lightning payment channels on behalf of lightweight devices. The system establishes secure communication between IoT devices and the gateway using cryptographic authentication and encryption mechanisms. The gateway handles tasks such as payment channel creation, invoice generation, and transaction verification, allowing IoT devices to perform automated micro-transactions efficiently. Experimental results show that Lightning Network payments provide very low transaction fees and near-instant confirmation times, making them suitable for high-frequency micro-payments. The study also demonstrates that the proposed system can support scalable machine-to-machine transactions in IoT environments. Additionally, the architecture improves network efficiency by reducing dependence on on-chain Bitcoin transactions. The authors conclude that Lightning Network integration can enable secure, fast, and cost-effective payment infrastructures for IoT ecosystems. This work highlights the practical implementation of Lightning Network technology in real-world payment gateway systems, particularly for automated and decentralized applications.

The Overall Literature Short is Existing research shows that Bitcoin enables secure peer-to-peer digital payments but faces scalability issues such as slow transaction speed and high fees. To overcome these problems, the Lightning Network was introduced as a second-layer solution that allows off-chain transactions through payment channels. Studies demonstrate that Lightning Network significantly improves transaction speed, reduces fees, and supports micro-payments. Researchers have also explored its architecture, routing mechanisms, and integration with merchant platforms and payment gateways such as BTC Pay Server. Overall, literature suggests that integrating Lightning Network with Bitcoin payment gateways can enable fast, low-cost, and scalable digital payment systems, though challenges like liquidity management and routing efficiency still require further research.

II. NEED OF THE STUDY

With the rapid growth of digital commerce and online transactions, the demand for secure, fast, and cost-effective payment systems has increased significantly. Traditional payment gateways such as credit cards, debit cards, and online banking often involve high transaction fees, third-party intermediaries, and longer processing times, especially for international payments. These limitations create challenges for both businesses and customers who require efficient and reliable financial transactions. Therefore, there is a growing need to explore alternative payment technologies that can overcome these drawbacks. Bitcoin, a decentralized digital currency based on blockchain technology, offers a promising solution for modern payment systems. It allows users to transfer funds directly without the involvement of centralized financial institutions. This peer-to-peer structure improves transparency, enhances security, and reduces dependency on intermediaries. However, despite these advantages, the Bitcoin network faces certain limitations such as slower transaction confirmation times and higher fees during periods of network congestion. These issues make it less practical for everyday small transactions and real-time payments.

To address these challenges, the Lightning Network has been introduced as a second-layer solution built on top of the Bitcoin blockchain. The Lightning Network enables faster and low-cost transactions by creating off-chain payment channels between users. Through this technology, multiple transactions can occur instantly without recording each one directly on the blockchain, which significantly reduces processing time and transaction fees. As a result, it makes Bitcoin more suitable for micro-payments and high-frequency transactions. The development of a Bitcoin payment gateway integrated with the Lightning Network is therefore essential to enhance the usability and scalability of cryptocurrency payments. Such a system would

allow merchants and online platforms to accept Bitcoin payments quickly and efficiently while benefiting from lower transaction costs. It would also provide users with a seamless payment experience similar to conventional digital payment methods. Furthermore, the study is important for understanding how blockchain-based payment systems can be integrated into real-world applications such as e-commerce platforms, service websites, and digital marketplaces. It also contributes to the advancement of financial technology by demonstrating how decentralized payment infrastructure can support secure and efficient transactions. In summary, this study is necessary to explore the practical implementation of a Bitcoin payment gateway enhanced with Lightning Network technology. It aims to address the limitations of traditional payment systems and the scalability challenges of Bitcoin, while promoting faster, more affordable, and decentralized digital payment solutions for modern online environments.

III. PROPOSED WORK

This research proposes a Bitcoin-based payment gateway integrated with the Lightning Network to enable fast, secure, and low-cost digital transactions. Although **Bitcoin** provides a decentralized payment mechanism, its main blockchain faces limitations such as slow transaction confirmation and high transaction fees during periods of network congestion. These challenges make it difficult to use Bitcoin efficiently for real-time payments and everyday e-commerce transactions. The proposed system addresses these limitations by integrating Lightning Network technology into a payment gateway architecture.

The proposed system consists of several components including the user wallet, merchant platform, payment gateway server, Lightning Network node, and the Bitcoin blockchain. When a customer initiates a payment on a merchant website or application, the payment gateway generates a Lightning invoice containing payment details such as amount and payment hash. The user then completes the payment through a Lightning-enabled wallet, which routes the payment through the Lightning Network using established payment channels.

Unlike traditional Bitcoin transactions that must be recorded directly on the blockchain, the Lightning Network allows transactions to occur off-chain through payment channels between participating nodes. These channels enable multiple transactions to be conducted instantly without broadcasting each transaction to the blockchain. Only the final balance state of the payment channel is recorded on the blockchain when the channel is closed. This mechanism significantly reduces transaction latency, lowers network congestion, and minimizes transaction fees.

The payment gateway in the proposed system acts as an intermediary that manages Lightning payment channels and communicates with the merchant platform. Once the payment is successfully completed through the Lightning Network, the gateway verifies the transaction using the Lightning node and sends a confirmation message to the merchant system. This confirmation allows the merchant platform to process the order or deliver digital services instantly.

To ensure reliability and security, the proposed system utilizes cryptographic mechanisms such as **multi-signature authentication and secure payment routing**. The gateway also manages channel liquidity to maintain sufficient balance for routing payments. Efficient routing algorithms help find optimal paths between nodes in the Lightning Network, ensuring successful payment delivery even when direct channels between sender and receiver do not exist.

Another important aspect of the proposed work is its ability to support **micro-payments and high-frequency transactions**. Because Lightning Network transactions involve extremely low fees, the system becomes suitable for applications such as digital content payments, online gaming, streaming services, IoT device payments, and real-time e-commerce transactions. The gateway architecture also enables merchants who do not run a full Lightning node to accept Lightning payments through the gateway service.

Furthermore, the proposed system is designed to be **scalable and merchant-friendly**. It can be integrated with existing e-commerce platforms through APIs, enabling businesses to accept Bitcoin payments with minimal infrastructure changes. This integration improves the usability of Bitcoin as a payment method while maintaining the benefits of decentralization, transparency, and security.

Overall, the proposed work aims to enhance the practicality of Bitcoin as a digital payment system by combining the reliability of the Bitcoin blockchain with the speed and scalability of the Lightning Network. The integration of Lightning Network technology within a payment gateway framework can significantly improve transaction efficiency and make cryptocurrency payments more suitable for real-world commercial applications.

IV. APPLICATIONS

- E-commerce Payments
- Micro-payments for Digital Content
- IoT Device Payments
- Online Gaming and Streaming Platforms
- Cross-Border Transactions
- Retail and Point-of-Sale Payments
- Subscription and Pay-per-Use Services.
- Mobile Wallet Payments
- Charity and Donation Platform
- Digital Marketplace Platforms

V. ADVANTAGES

- Faster Transactions
- Low Transaction Fees
- Scalability
- Supports Micro-payments
- Improved Payment Efficiency
- Enhanced Security
- Reduced Blockchain Load
- Global Payment Accessibility
- Merchant-Friendly Integration.
- Better User Experience

VI. CONCLUSION

In conclusion, the integration of a Bitcoin payment gateway with the Lightning Network presents an effective solution to the scalability and transaction efficiency challenges faced by Bitcoin. While Bitcoin provides a secure and decentralized payment system, its traditional on-chain transaction mechanism often leads to slower confirmation times and higher transaction fees, particularly during periods of network congestion. These limitations restrict the widespread adoption of Bitcoin for everyday payments and real-time digital transactions. The proposed system addresses these issues by leveraging the capabilities of the Lightning Network, which enables off-chain payment processing through secure payment channels. By allowing multiple transactions to occur outside the main blockchain and recording only the final settlement on-chain, the Lightning Network significantly improves transaction speed and reduces costs. This approach makes it possible to support high-frequency transactions and micro-payments that are not practical with traditional blockchain transactions.

Furthermore, the integration of a Lightning-enabled payment gateway provides a practical solution for merchants and online platforms to accept Bitcoin payments efficiently. The gateway acts as an intermediary between users, merchant systems, and Lightning Network nodes, enabling instant payment verification and seamless transaction processing. This architecture not only improves user experience but also reduces the computational load on the Bitcoin blockchain, thereby enhancing overall network performance.

The proposed payment gateway system also supports a wide range of applications, including e-commerce platforms, digital content payments, IoT-based transactions, and online service subscriptions. With minimal transaction fees and near-instant confirmation times, the system enables businesses to adopt cryptocurrency payments without facing the limitations typically associated with blockchain-based transactions.

Despite these advantages, certain challenges such as liquidity management, payment routing efficiency, and network reliability still require further research and development. Future work can focus on improving routing algorithms, enhancing security mechanisms, and developing more user-friendly payment gateway frameworks to support broader adoption. Overall, integrating the Lightning Network with Bitcoin payment gateways has the potential to transform digital payment systems by enabling faster, scalable, and cost-effective cryptocurrency transactions. As the technology continues to evolve, it is expected to play a significant role in expanding the practical use of Bitcoin in global digital commerce and decentralized financial ecosystems.

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