

Passive Income Streams in India: A Practical Guide to Building Income That Works for You

2026 Edition — Current schemes, rates, and how to put each one to work

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Passive income is money that keeps coming in with little ongoing effort, once the groundwork is laid. This guide walks through the principal passive income avenues available to an individual in India today — government schemes, bank deposits, market-linked instruments, real estate, and digital income — along with current rates, how each is taxed, and practical steps to put it to work. Written in plain language for the general investor, not the specialist.

What This Guide Covers

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1. Why "Passive" Income Needs an Active Start

Most people imagine passive income as money that lands in the bank account without lifting a finger. The honest truth, after decades of watching depositors and investors, is that almost no income is truly passive at the very beginning. Every stream covered in this guide needs either capital, skill, or

sustained effort to set up. What becomes passive is the *ongoing* maintenance — once the structure is built, the income keeps flowing with only periodic attention.

This distinction matters because it shapes expectations. A fixed deposit needs capital today to pay interest for years. A blog needs months of writing before it earns its first rupee of advertising income. Understanding this upfront prevents disappointment and helps in choosing streams that match one's current resources — money, time, or expertise.

The sections that follow cover the principal passive income avenues open to an individual investor in India as of June 2026, the approximate returns each offers, the effort and risk involved, and practical steps to get started.

2. Government-Backed Fixed Income Schemes

These remain the safest building blocks of any passive income plan because both the principal and the rate are backed by the Government of India.

Scheme	Current Rate*	Tenure	Payout
Public Provident Fund (PPF)	7.1% p.a.	15 years (extendable in 5-yr blocks)	Compounds annually; paid at maturity/withdrawal
Senior Citizen Savings Scheme (SCSS)	8.2% p.a.	5 years (extendable by 3)	Quarterly
Post Office Monthly Income Scheme (POMIS)	7.4% p.a.	5 years	Monthly
National Savings Certificate (NSC)	7.7% p.a.	5 years	Compounds annually; paid at maturity
Post Office Time Deposit (1-5 yr)	6.9% - 7.5% p.a.	1 to 5 years	As chosen; 5-yr qualifies for 80C

**Rates are reviewed by the Ministry of Finance every quarter and were unchanged for several consecutive quarters through Q1 FY 2026-27 (April-June 2026). Always check the latest notified rate before investing.*

How to monetize: Open accounts at any post office or designated bank branch (most public sector and several private banks now offer PPF and SCSS). For SCSS and POMIS, opt for interest credit to a linked savings account for automatic monthly or quarterly income. PPF interest is entirely tax-free (the scheme enjoys "Exempt-Exempt-Exempt" status), while SCSS, POMIS, and NSC interest is taxable at the investor's slab rate — though senior citizens get an additional Rs 50,000 exemption on interest income under Section 80TTB. These instruments work best as the fixed-income floor of a retirement income plan — not for growth, but for certainty.

3. Bank Fixed and Recurring Deposits

Bank FDs remain the most familiar passive income tool for Indian households. As of June 2026, general FD rates across major banks for tenures of one to five years broadly range between 6.25% and 7.05%, with senior citizens typically earning an additional 0.50% over the general rate (occasionally a special promotional scheme adds a bit more for a limited period). Recurring deposits work on the same principle but build the corpus through monthly contributions rather than a lump sum.

Practical tips:

- Choose the "non-cumulative" option with monthly or quarterly interest payout to convert the deposit into a regular income stream, rather than letting interest compound and pay out only at maturity.
- Ladder deposits across different tenures (1, 2, 3, 5 years) so some amount matures each year — this gives flexibility and protects against being locked into one rate for too long.
- Each depositor's funds in a bank, including FDs, are insured only up to Rs 5 lakh per bank under the DICGC scheme — spreading large amounts across two or three banks reduces this concentration risk.

Interest is fully taxable at the slab rate, and the bank deducts TDS once interest crosses Rs 40,000 a year (Rs 50,000 for senior citizens). Form 15G/15H can be submitted to avoid TDS where total income is below the taxable limit.

4. RBI Floating Rate Savings Bonds

For investors wanting a government-guaranteed instrument with a rate that resets periodically rather than being locked in for years, the RBI Floating Rate Savings Bonds 2020 (Taxable) are worth considering. The rate is reset every six months, pegged at 0.35% above the prevailing NSC rate — currently **8.05% p.a.** for the January–June 2026 half-year. Interest is paid semi-annually directly to the bank account, the minimum investment is just Rs 1,000 with no upper ceiling, and the tenure is seven years, with limited premature withdrawal allowed only for eligible senior citizens after a minimum holding period.

How to monetise: Apply through any nationalised bank, a few authorised private banks, or the Stock Holding Corporation of India (SHCIL). Because there is no upper investment limit, this bond can absorb a larger lump sum than PPF or SCSS, making it a useful complement once those caps are reached. Interest is fully taxable, with TDS applicable once annual interest crosses Rs 10,000, and the bonds cannot be pledged as loan collateral.

5. Dividend-Paying Stocks

Owning shares of companies that consistently distribute part of their profits as dividends is one of the oldest passive income strategies. In India, sectors historically known for steadier payouts include public sector banks, oil marketing and exploration companies, established IT services firms, and large FMCG companies — though no dividend is ever guaranteed, and payout policy can change with a company's profitability or capital requirements.

How to monetise: Build a basket of established, profitable companies across sectors rather than relying on one or two stocks, and reinvest dividends if immediate income is not needed. Track the dividend *yield* (annual dividend divided by current share price) rather than just the absolute rupee amount — a high yield on a sharply falling stock price is often a warning sign rather than a bargain. Dividend income is added to total income and taxed at the applicable slab rate; TDS now applies once dividend income from a single company crosses Rs 10,000 in a financial year.

Risk to keep in mind: unlike fixed deposit interest, dividend income and the underlying share price both move with company performance and market sentiment, so this stream sits higher on the risk ladder than government schemes or bank deposits.

6. REITs and InvITs — Owning Real Estate and Infrastructure Without Buying Property

Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) let an individual own a small slice of large commercial properties or infrastructure assets — office parks, malls, roads, power transmission lines — without the hassle of buying, maintaining, or finding tenants for physical property.

India currently has five listed REITs — Embassy Office Parks REIT, Mindspace Business Parks REIT, Brookfield India Real Estate Trust, Nexus Select Trust, and the more recently listed Knowledge Realty Trust — together holding office parks and retail malls across major cities. SEBI mandates that REITs distribute at least 90% of net distributable cash flow to unit holders, generally every quarter. Current distribution yields across these REITs broadly range between roughly 5% and 7%, varying with occupancy levels and asset quality. InvITs follow a similar structure but hold infrastructure assets such as power transmission networks, roads, and gas pipelines, with comparable mandatory distribution rules.

How to monetise: REIT and InvIT units are bought and sold on the NSE and BSE through a regular demat account, just like shares, with a minimum purchase of a single unit — making the entry cost manageable for most investors. A part of each distribution may be tax-free (treated as return of capital), while the remainder is taxed as interest or dividend depending on the structure of the underlying special purpose vehicle, so the post-tax yield is often somewhat better than the headline number suggests. Before investing, it is worth checking occupancy rates, the debt-to-equity ratio of the trust, and its distribution history over several quarters, rather than chasing the single highest current yield.

7. Mutual Funds: The SIP-to-SWP Route

Mutual funds offer perhaps the most flexible passive income structure available today through the Systematic Withdrawal Plan (SWP). The idea is simple: build a corpus, often through a Systematic Investment Plan (SIP) over the working years, then switch to withdrawing a fixed amount every month from that corpus after retirement or whenever regular income is needed.

The tax efficiency of an SWP is its biggest advantage over a fixed deposit. Each monthly withdrawal is treated as a partial redemption of mutual fund units, and only the capital gains portion of that withdrawal is taxed — not the entire amount, as is the case with FD interest. For equity-oriented funds, long-term capital gains (units held over 12 months) are taxed at 12.5% on gains above Rs 1.25 lakh in a financial year, while short-term gains are taxed at 20%. For debt-oriented funds, gains on units purchased after April 2023 are taxed at the investor's slab rate regardless of the holding period, so the tax advantage there is more limited — though debt funds still offer better liquidity and diversification than a single FD.

How to monetise: Choose the "growth" option rather than the "IDCW" (dividend) option when building the corpus, since growth funds don't trigger tax until units are actually redeemed, giving full control over the timing of withdrawals. Set the SWP amount conservatively — many retirees aim to withdraw around 4-6% of the corpus annually — so the fund continues to grow even after withdrawals, rather than depleting principal too quickly. The IDCW option, by contrast, pays out income periodically, but that payout is added to taxable income immediately at the slab rate, with TDS applicable above certain thresholds.

8. Direct Real Estate Rental Income

Owning a flat, shop, or commercial space and renting it out remains a familiar, tangible passive income stream for many Indian households, even though it requires more hands-on management

than the financial instruments above. Gross rental yields on residential property in most Indian cities tend to run modest — typically in the range of 2% to 3% of the property's market value annually — considerably lower than REIT distribution yields, though property also offers the possibility of capital appreciation over the long run.

How to monetise: Commercial property (shops, offices) generally yields better rental returns than residential property, though it also carries higher vacancy risk between tenants. A written, registered rental agreement protects both parties and is useful for tax records. On the tax side, individual or HUF tenants paying more than Rs 50,000 a month in rent must deduct TDS at 2% under Section 194-IB, while companies and other entities paying rent for land or buildings deduct TDS at 10% under Section 194-I once the relevant annual threshold is crossed (recently revised upward in scope) — landlords should track this through Form 26AS and claim credit at the time of filing. Rental income itself, after deducting municipal taxes and a standard 30% deduction for repairs and maintenance, is taxed at the individual's slab rate under "Income from House Property."

9. Gold-Based Income — What Has Changed

For years, Sovereign Gold Bonds (SGBs) were the preferred way to earn an income (2.5% annual interest) on top of gold price appreciation, with the added benefit of tax-free capital gains at maturity. That door has effectively closed: the government has not issued a fresh SGB tranche since early 2024, and the scheme has been paused on account of its high cost as a borrowing instrument for the exchequer. Investors who already hold SGBs continue to receive interest as scheduled and can redeem prematurely on the designated half-yearly windows after five years, or hold to the eight-year maturity — but no new subscriptions are currently being accepted.

For those still wanting gold exposure today, Gold ETFs and gold mutual funds remain available, but they track only the price of gold and do not pay any periodic income — the return comes entirely from price appreciation, taxed as capital gains on redemption. Physical gold, similarly, generates no income unless leased out commercially, which is not a practical route for most individuals. In short, gold today is best viewed as a long-term store of value and a portfolio diversifier rather than an active passive-income generator.

10. Peer-to-Peer (P2P) Lending

P2P lending platforms connect individual lenders directly with borrowers through an RBI-regulated NBFC-P2P structure, offering interest rates typically in the range of 10% to 18% per annum — markedly higher than fixed deposits, reflecting the higher risk taken on.

Following tighter RBI norms introduced in 2024, platforms can no longer promise guaranteed returns or offer instant-liquidity features, and every lender now bears the actual credit risk of the borrowers they are matched with. A single lender's total exposure across all P2P platforms is capped at Rs 50 lakh, and lending beyond Rs 10 lakh requires a chartered accountant's certificate confirming a minimum net worth of Rs 50 lakh.

How to monetise: Diversify a P2P allocation across many small loans rather than a few large ones, since individual borrower defaults are common in this asset class and diversification is the only real protection. Only register with platforms holding a valid NBFC-P2P licence from the RBI. Interest earned is fully taxable as "Income from Other Sources" at the slab rate, with no concessional rate. Given the absence of any deposit insurance or government guarantee, this stream should occupy a small, clearly-bounded portion of an overall portfolio — not a core holding.

11. Annuities, NPS, and Pension-Linked Income

For those wanting a guaranteed income stream for life rather than a fixed term, annuity plans from life insurance companies and the National Pension System (NPS) serve that purpose. Under NPS, at least 40% of the accumulated corpus must be used to purchase an annuity at retirement, which then pays a fixed monthly or annual amount for life (or for a chosen period), depending on the option selected — single life, joint life with spouse, or with return of purchase price to nominees. Annuity payout rates vary by provider and by prevailing interest rates at the time of purchase, and once locked in, the rate generally cannot be revised — so timing the purchase when rates are favourable matters.

How to monetise: Compare annuity quotes across two or three insurers before committing, since payout rates can differ meaningfully for the same corpus. Annuity income is taxed at the slab rate in the year it is received, similar to a pension. While annuities trade away liquidity and flexibility for the certainty of lifelong income, they serve a useful role for the portion of retirement savings specifically meant to cover essential, recurring expenses.

12. Digital and Content-Based Passive Income

This category looks different from the financial instruments above: it requires an upfront investment of skill, time, and consistent effort rather than capital, but once an audience or product is established, the income can continue with comparatively little ongoing work.

- **Bloggng and content writing:** A well-maintained blog or website can earn through display advertising (such as Google AdSense), sponsored content, and affiliate marketing, where a commission is earned on products recommended to readers. Income typically builds slowly over the first year or two as search engines and readers discover the content, then becomes more passive as older articles continue attracting traffic.
- **YouTube and video content:** Once a channel meets the platform's monetisation thresholds for subscribers and watch time, advertising revenue, channel memberships, and sponsorships can provide recurring income from videos published months or years earlier.
- **E-books and online courses:** Writing an e-book or recording a course once, then selling it repeatedly through platforms such as Amazon Kindle Direct Publishing or course marketplaces, converts one-time effort into a recurring royalty stream.
- **Stock photography and design templates:** Photographs, illustrations, or design templates uploaded to stock platforms can earn a small royalty every time they are downloaded or licensed, for years after the original upload.
- **Royalties from authored books:** For those who write and publish books through established or self-publishing platforms, royalties continue to accrue on every sale, often with annual or quarterly payouts from the publisher.

How to monetise: Treat the first several months as pure investment of time and effort, with little or no income, and judge success over a one-to-two-year horizon rather than weeks. Income from these activities is generally taxable as "Income from Other Sources" or "Business Income" depending on scale and regularity, and may attract TDS under Section 194J (professional/royalty income) when paid by an Indian platform or publisher above the prescribed threshold. Maintaining simple records of income and related expenses — domain costs, equipment, software subscriptions — helps at tax-filing time and allows these costs to be set off against income earned.

13. Taxation at a Glance

Income Stream	Tax Treatment
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PPF interest	Fully tax-free (EEE status)
SCSS / POMIS / NSC / FD / RBI Bond interest	Taxed at slab rate; TDS above prescribed thresholds
Dividend income (stocks / REIT dividend component)	Taxed at slab rate; TDS above Rs 10,000/year per payer
Equity mutual funds / shares — LTCG (>12 months)	12.5% on gains above Rs 1.25 lakh per financial year
Equity mutual funds / shares — STCG (≤ 12 months)	20%
Debt mutual funds (units bought after April 2023)	Taxed at slab rate; always treated as short-term
REIT / InvIT distributions	Mixed — partly tax-free (return of capital), partly taxed at slab rate
P2P lending interest	Taxed at slab rate as "Income from Other Sources"
Rental income	Taxed at slab rate, after standard 30% deduction and municipal taxes
Annuity / pension payouts	Taxed at slab rate, similar to salary/pension income

Tax rules change with each Union Budget, and the rates above reflect the position as of mid-2026. Please verify the current position with a chartered accountant or the Income Tax Department's website before filing returns.

14. Building a Passive Income Portfolio That Works

No single stream above is sufficient on its own. The prudent approach, drawn from decades of advising depositors and investors, is to layer several streams according to one's age, risk appetite, and need for liquidity.

- **The safety floor:** PPF, SCSS, POMIS, bank FDs, and RBI Floating Rate Bonds, for the portion of the corpus that must never be at risk — typically the funds needed for essential monthly expenses.
- **The growth-with-income layer:** REITs, InvITs, dividend-paying stocks, and equity mutual funds with SWP, for the portion willing to bear market fluctuation in exchange for a better long-term return and some inflation protection.
- **The higher-risk satellite:** P2P lending, in a small, clearly capped allocation, for investors comfortable with the additional credit risk in exchange for a higher running yield.
- **The effort-based stream:** blogging, content creation, or other digital income, built alongside the financial portfolio over time, which can eventually become a meaningful, low-cost-of-capital income source.

A practical rule many retirees use is to keep three to five years of expected expenses in the safety floor, with the remainder allocated to the growth layer — rebalancing this mix periodically as life circumstances, interest rates, and market conditions change.

15. Common Mistakes to Avoid

- Chasing the highest headline yield without checking the underlying risk — a P2P platform advertising 18% returns, or a stock with an unusually high dividend yield, often carries proportionately higher risk of capital loss.

- Putting all savings into a single bank, scheme, or instrument, ignoring the value of diversification and the Rs 5 lakh DICGC insurance limit per bank.
- Treating dividend or interest income as guaranteed for life — company dividend policies and even government scheme rates can and do change over time.
- Ignoring taxation while planning monthly income needs, then being surprised by a lower-than-expected post-tax amount.
- Expecting digital or content-based income to start producing money within the first few weeks — these streams typically need sustained effort over months before any meaningful income appears.

Closing Thoughts

Building passive income is less about finding one perfect instrument and more about thoughtfully combining several — each playing to its own strength, whether that is safety, tax efficiency, growth, or simply diversification of risk. The schemes, rates, and rules described here reflect the position as of June 2026; since government rates are revised quarterly and tax rules change with each Budget, it is worth revisiting this plan at least once a year and adjusting it as circumstances evolve.

Disclaimer

This article is prepared for general educational and informational purposes only and does not constitute investment, financial, tax, or legal advice. Interest rates, dividend yields, taxation rules, and scheme features mentioned herein are accurate to the best of the author's knowledge as of June 2026, are sourced from publicly available information, and are subject to change by the Government of India, the Reserve Bank of India, SEBI, individual companies, and other regulatory authorities from time to time. Readers are strongly advised to verify current rates and rules from official sources and to consult a SEBI-registered investment adviser, chartered accountant, or other qualified professional before making any investment or financial decision. The author and publisher accept no liability for any loss or damage arising from reliance on the information contained in this article.

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