



Here's Why I'm Not Getting a Crypto Credit Card Just Yet (Spoiler: Taxes)

Description

Last year, the cryptodotcom Visa card finally made it to Canada. For crypto enthusiasts, this was the moment they had been waiting for. Finally, they could take their hardcore earnings and *buy* things.

As it turns out, using a crypto card to make purchases is a little more difficult than we thought. The cards work fine, but an old investing foe has made crypto transactions rather burdensome: taxes.

How crypto credit cards work

First off, it's important to note that crypto "credit cards" aren't really credit cards. There's no borrowing involved, you don't have a line of credit, and your crypto card doesn't affect your credit score.

Instead, they're more like prepaid cards. You load them with funds from your crypto wallet, and your card converts them into Canadian dollars. You can then use your card to make everyday purchases, and in some cases, your crypto card may earn rewards.

How taxation on crypto cards works

Recall that whenever you use crypto to buy a good or service, you trigger a taxable event. The CRA will tax the difference between the cost basis of your crypto (the price at which you bought your coins) and the market value at the time of your purchase.

As an easy example, let's say you bought Bitcoin at \$10,000 in 2017. You saw that your Bitcoin portfolio grew to \$60,000 this year, and you decided to use it to buy a **Tesla**. In this case, the difference between the cost basis (\$10,000) and the market value (\$60,000) is \$50,000, and the CRA will tax the \$50,000 at your marginal tax rate.

But tax events aren't limited to big purchases. You'll also pay taxes on small purchases, too, such as gas, coffee, groceries, and snacks. Even though you're not technically selling your crypto (you're exchanging it), you're still triggering tax events. And, if you don't pay taxes on these purchases, you're

technically evading taxation. While I highly doubt the CRA will come after you for a single \$5 cup of coffee, they may pursue legal action if your small purchases add up to a large amount.

What about crypto rewards?

These, too, are subject to taxes.

Like cashback credit cards, some crypto cards will help you earn money at a set rate, such as 1% or 2%. If you make a \$100 purchase, for instance, you'll get a \$1 back. You can then use this \$1 to buy cryptocurrency from the card's trading platform.

As an easy example, let's say you amassed \$1,000 in cashback and bought \$1,000 in Bitcoin. You wait until your \$1,000 investment grows to \$2,500, and you decide to buy a Peloton. Well, just like with Tesla, the CRA is going to tax the difference between the cost basis (\$1,000) and the market value (\$2,500), or \$1,500 at your marginal tax rate. So you get rewarded for spending money, but you'll also pay capital gains taxes on whatever you earn.

Crypto cards: Are they right for you?

So far, the Canadian government has responded to cryptocurrency in the same way as many other governments around the world: denial, confusion, fear, finally some acceptance, though not without some hesitation. Because cryptocurrency is still relatively new, with policies still nascent, I'm a little hesitant to use a crypto card to buy goods.

Paying capital gains taxes on your crypto in retirement, when your marginal tax rate is lower than it is now, is one thing. Paying capital gains taxes *now*, however, seems like a waste of money.

That said, if you want to spend your crypto, a crypto card might be your best option. Most cards are issued by Visa or Mastercard, meaning you can use them wherever those cards are accepted, and in some cases, you might earn some hefty cashback.

But if you're looking [to earn some rewards, I would still get one of Canada's best rewards or cashback cards](#). You can't beat the earn rates on these cards, and you won't pay taxes on your earnings.

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