



Does it Ever Make Sense to Pay Your Income Taxes With a Rewards Credit Card?

Description

The CRA doesn't accept credit cards directly as a valid of payment. That said, they do accept third-party services, such as Plastiq and PaySimple, which allow you to use a cash back or rewards credit card to cover your tax bill.

It seems like a smart idea. You owe on your income taxes — say, \$2,000 — and you think to yourself, “I can earn a *tonne* of rewards points on this.” Even 2% on a [cash-back credit card](#) can turn \$2,000 into \$40, which is free cash that's *not* taxable.

But here's the catch (you knew it was coming): while the CRA accepts credit cards via third-party services, those services charge a processing fee. The fees are outrageously high, too, from 2.5% to 2.8%, which will basically nullify any rewards or cash back you earn on the card.

That said, there are two instances when it makes sense to use a [rewards credit card](#) to pay your income taxes.

Low interest credit cards

The first instance is to take advantage of a low interest credit card.

Many credit cards come with low promotional [APRs](#), which charge you less interest for a certain period of time. Often, these cards work in tandem with a balance transfer, helping you move credit card debt from a card with a high APR to one with a lower one.

But you could use a credit card with a low promotional APR to cover a tax bill you can't afford. The CRA usually charges about 1% in interest for every month you don't pay your taxes and up to 12% after 12 months. Many low-APR cards would charge you less than 1%, and you would have the low APR for six to 12 months.

But do the math yourself. You'll pay a processing fee to Plastiq or PaySimple. Then you'll pay a small

portion in APR on your credit card for every month you don't pay your taxes back. Even with the fee, you might pay less in overall interest with the credit card, especially if you don't plan to pay your taxes for the next six months or more.

Earn a welcome bonus

It might make sense to use your [rewards](#) or [cash-back credit card](#) to pay off your taxes if it means snagging a welcome bonus.

Many credit cards come with hefty welcome bonuses that you unlock when you charge a certain amount to a credit card. You typically have a deadline (like three months after you open your credit card account), and certain cash activities don't count toward the bonus (like cash advances and buying lottery tickets).

If you can't meet the spending threshold before the deadline, paying your taxes on a credit card could put you over. You'd snag the bonus, even if it meant paying a processing fee.

But do this only as a last resort. Those processing fees are high. Unless you're churning credit card bonuses (in which paying taxes with a card would be an easy way to get one), you don't want those fees eating into your earnings.

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