



Credit Card vs. Debit Card: What's the Difference?

Description

On the surface, credit cards and debit cards seem indistinguishable from one another. Both offer a quick and convenient way to pay for purchases, are marked with your card account number, and are made of plastic. However, that's where the similarities end.

The fundamental difference between the two cards lies in the source they pull funds from to facilitate purchases. A [credit card](#) allows you to borrow money from your card issuer. A debit card, on the other hand, draws money directly from your bank account.

There are also other notable differences between credit cards and debit cards, some of which can significantly impact your finances, so they're worth exploring.

Spending limits

Almost every [credit card type](#) comes with a [credit limit](#), restricting you from making unlimited purchases. After all, it's not really your *own* money you're spending, is it? If you exceed your credit limit, your card issuer may charge you an over-limit fee, decline your transaction, or hike your interest rate.

Repeated attempts to surpass your limit may result in your account getting closed. Your card issuer can raise or lower your credit limit at their discretion. There aren't great statistics on the [average credit limit in Canada](#), but the Bank of Canada has estimated that more than 40% of Canadians have a credit card limit of \$10,000 or more, and [the highest credit limits](#) can get pretty high.

A debit card derives its spending power from your bank account's balance. Therefore, the more money you hold in your bank account, the more you have available to spend via your debit card.

Credit history building

A credit card is one of the ideal financial instruments for building (or repairing) your credit history. You

do this by conducting everyday transactions and making timely payments, as well as maintaining a modest [credit utilization ratio](#). Your credit history makes up a sizeable component of your credit score, so ensuring that it's in top shape is crucial.

On the other hand, your debit card will have absolutely no impact on your credit history, positive or negative. There's no borrowing involved with debit card transactions; the funds you use are entirely your own.

Interest charges

If you're an avid credit card user, you're likely well informed about interest charges. That's because credit cards charge exceedingly high rates (20% on average) compared to other types of debt products, like personal loans or mortgages. You incur interest charges anytime you fail to pay off your outstanding balance by the due date.

A debit card is interest-free because you're not using borrowed funds to conduct transactions. There's one exception, though. If your bank account balance reaches zero, you can ask your financial institutions to provide you with an overdraft to ensure your transactions are processed.

An overdraft is essentially a loan, and like any typical loan, it's accompanied by interest charges.

Fees

There's no shortage of fees to contend with if you're a heavy credit card user. Such fees include:

- [Annual fees](#)
- Over limit fees
- [Foreign transactions fees](#)
- [Cash advance fees](#)
- Inactive account fees
- Late payment fees
- Balance transfer fees

However, depending on the type of credit card you own and your spending habits, you may be able to avoid all or at least most of these fees.

When it comes to debit cards, there are no fees to worry about apart from your monthly bank account maintenance charge. But you can even bypass this fee by opening a no-fee bank account.

Occasionally, you'll be subject to an overdraft fee or non-sufficient funds (NSF) fee. Still, you'll only encounter these if your bank account is constantly running dangerously low on funds.

Fraud protection

It's no secret that credit cards are popular targets for fraudulent activity. As a result, card issuers equip them with advanced security features to detect unauthorized transactions. Even if someone

circumvents them and charges a slew of fraudulent purchases to your card, federal law limits your total liability to \$50.

Of course, you'll have to notify your card issuers and prove you didn't initiate the transactions. Luckily, most allow you a 30-60 day window of opportunity to dispute any unauthorized charges.

Debit cards are less prone to fraud than credit cards and account for a smaller percentage of such cases. Still, financial institutions take debit card fraud very seriously and continuously monitor your account for suspicious activity. They will usually reimburse you for any money stolen from your account.

However, suppose they can prove that your actions contributed to your loss (or you waited too long to report it). In that case, they may refuse to reinstate the lost funds, no matter what the amount. As a result, you could potentially incur more substantial losses through debit card fraud than credit card fraud.

Rewards

Many credit cards allow you to accumulate [rewards points](#), miles, or [cashback](#), which you can redeem to save money on everything from groceries to airfare.

Debit cards don't offer any rewards programs, so you won't derive any other perks from using them. Some financial institutions provide chequing accounts with rewards, but they're a rarity in Canada.

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