



## What Is Cash Back?

### Description

The term *cash back* describes a perk on credit cards that rewards you with, well, cash. With cash back, you'll earn back a percentage of your purchases. When you've accumulated enough cash back, you can redeem it for statement credits, online purchases, cheques, or even a deposit into your chequing or savings account.

How does cash back work and what should you know before taking out a [cash back credit card](#)? Let's take a closer look.

### What *is* cash back?

Cash back is a rewards program that gives you a certain percentage of the transaction amount in the form of cash. The amount that you earn depends on your card's earn rate, as well as any bonus rate your card may have. For instance, if your cash back credit card has a 2% earn rate, then you would earn \$2 for every \$100 you spend.

Most transactions will earn you cash back, though not all. [Balance transfers](#), for instance, and [cash advances](#) typically won't qualify for cash back rewards. This includes any cash-like transactions, such as buying lottery tickets, casino chips, travellers cheques, and even gift cards.

### How do you earn cash back?

The short answer? By spending money. The longish answer — the amount you earn depends on the card.

Some credit cards come with a flat earn rate that rewards you the same cash back reward whether you're buying gas, groceries, or a watch. These cards are often called "flat-rate cards," and they're ideal for those Canadians who want only one credit card.

Other cards will give you a flat rate along with a higher earn rate for certain types of transactions. Often

called “bonus category” cards, these cards will reward you higher cash back for specific purchases, such as gas, entertainment, dining, and groceries.

For instance, let’s say you have a cash back credit card with a flat rate of 1% and a 3% bonus earn rate on groceries. In this case, you’d earn \$3 for every \$100 you spend at the grocery store and \$1 for every \$100 you spend on everything else.

Finally, cash back can come in the form of rotating bonus categories. Similar to a bonus category card, you will earn more cash back for certain purchases. But instead of those purchase categories being fixed, they’ll change periodically, usually every quarter. For instance, you may earn 5% on gas for the first quarter, then 5% on dining the second quarter, 5% on groceries the third, and so on.

## How do you redeem cash back?

Credit card companies typically give you multiple ways to redeem your cash back. The most popular ways are receiving a statement credit, which reduces your account balance, a mailed cheque, a deposit into a savings or chequing account, or even gift cards. You can also use your cash back to make purchases through your card’s shopping portal.

Some credit cards come with a limit on how much you must earn before you can redeem your cash back. For instance, your card may come with a \$25 minimum. In this case, once you’ve earned at least \$25, you can start redeeming them for rewards.

## Is there a limit on how much cash back you can earn?

Occasionally, some cards will have a limit on how much cash back you can earn, especially if you have a bonus category card (rotating or not). Typically, this limit is pretty high, however. For instance, it’s not all that rare to see a \$6,000 limit on cards with large earn rates. With a card that earns 3% on bonus categories, you’d have to spend \$200,000 to hit that limit, a pretty hefty sum for most Canadians.

## Is cash back right for you?

A cash back credit card is a great way to earn back money on your everyday spending. If you have [good to excellent credit](#), if you can handle debt responsibly, you almost can’t go wrong with a good cash back card.

Perhaps the only exception is if you’re a frequent traveller or you shop frequently at specific retail stores, such as **Loblaws** or Discount Tire, or even online stores, such as **Amazon**. In this case, you might be better off with a [rewards credit card](#). These cards give you points or miles for every purchase you make. If you redeem the points right (for purchases inside the retail stores, for instance), you’ll get more value for your points.

You typically won’t get as much value for cash back redemptions on rewards cards, however. So, if you’d rather have the option of getting cold hard cash, a [cash back credit card](#) is probably right for you.

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