

# 6 things to know about cash-back credit cards

Cash-back credit cards are a great way to start using a credit card, offering benefits every time you swipe. But are they a good idea?

The biggest reward of cash-back credit cards is that you get money for using a credit card as you already would. Cash-back cards are a good idea if:

1. You want to start earning rewards with a simple, easy credit card.
2. You want to earn cash back for spending you would make anyway.
3. You can maximize your rewards by targeting your spending in specific areas.

Not all credit cards are right for everyone. As you peruse cash-back credit cards, make sure you understand how they function and if they're the right choice for you.



## 1. No annual fees

Most cash-back cards, including those from Bank of America and Chase, don't charge annual fees for use. As introductory cash-back cards go, they're a great way to learn how they work and take advantage of benefits without shelling out a fee for use. If you're new to credit cards or at least cash-back cards, this is a big benefit. You'll be able to manage your credit and earn some money while you're at it.

If you have a cash-back credit card that charges an annual fee, weigh the cost with your rewards. If you pay more in annual fees than what you earn in cash-back rewards, a cash-back card with an annual fee might not be worth it. But if you earn more with your card that has an annual fee versus one that doesn't, you may want to keep it in rotation.

## 2. 'Cash back' is different based on the card you use

The term cash back can come in many different forms, including:

1. **Actual cash back.** This is a deposit straight into your bank account consisting of the cash you earned from using your credit card.
2. **Statement credit.** You'll save a little money off what you owe on your credit card. It's not a direct cash deposit, but it alleviates how much you owe on your bill.
3. **Gift cards.** Redeem your cash-back earnings for gift cards to various restaurants and retailers, sometimes for a discount off what you would pay for the gift cards elsewhere.
4. **Travel points.** Certain credit cards will allow you to transfer your cash back to travel points to redeem on flights and hotels.

Before you sign up for a cash-back credit card, make sure the redemption options are in line with your needs. If you want actual cash versus a statement credit, review the details to see if the card you're looking at offers this benefit.

## 3. You still pay interest

Many credit cards have introductory bonuses and interest-free promotions that might eliminate interest for a certain period of time, but that doesn't mean it's forever.

Having a cash-back card still means you should use it responsibly. Avoid spending more than what you can afford and pay off your balance in full every month. If you don't pay off your balance every month, you could get hit with hefty interest charges. At that point, your interest charges might outweigh your cash-back rewards.

## 4. Cash back cap

While many cards don't limit how much you can earn in cash-back rewards, some do. For high spenders, this might not be ideal. If you have an earnings cap, that means you can't maximize the rewards you could earn.

The Blue Cash Everyday card from American Express lets you earn 3% cash back at grocery stores but limits that to up to \$6,000 a year in purchases. If you spend more than that, you'll still earn some cash back, but instead of 3%, it's 1%.

## 5. Travel rewards are separate

Some credit cards, like the Chase Freedom Credit Card, offer travel redemption on cash-back rewards. But not all cards offer this perk. For those who stay close to home, this isn't a bad thing since you aren't using travel rewards often, if at all. But if you're a frequent traveler, you may want to look at travel-specific credit cards that offer rewards around what works best for your lifestyle.

## 6. But other shopping perks exist

The vast majority of credit cards offer larger cash-back rewards through a variety of different shopping ventures, including:

1. Restaurants
2. Grocery stores
3. Gas
4. Wholesale clubs
5. Online streaming services
6. Amazon

Within specific categories, you might have a card that offers bonus rewards that rotate each quarter. For example, you might earn 5% cash back at restaurants this quarter, rather than your standard 2% or 3%. And remember, each time you swipe, you're likely to earn at least 1% on everything else.

Also keep in mind that there are hidden credit card perks you could take advantage of, depending on the card you choose. You could expect enhanced cash back -- even up to 8% -- on certain purchases you make with specific cards.

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