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Debit vs. Credit Card? A Few Rules of Thumb

Your items are scanned and bagged—now it's time to pay. Do you reach for your debit or credit card?

The best choice depends on what you're buying, where you're buying it and what your spending habits are. Here's a guide for when to use debit and credit.

Debit may be better when:

You're on a Tight Budget

When you pay with a debit card connected to your checking account, it's more difficult to spend money you don't have.

It's an Emergency

Everyone should have money set aside in an emergency fund to deal with unexpected costs like medical bills, car accidents or unemployment. Many experts recommend having at least enough money to cover three months' worth of expenses. If you want your emergency fund to work for you, put it in a [high yield savings account](#), where it will add interest.

When You're Shopping at a Local Store

Every time you swipe a credit card, the store owner pays a fee—typically around 2% but up to possibly twice that, according to the National Retail Federation. That might not bother you at big box retailers, but neighborhood shops with narrow margins will feel the pinch. By using a debit card, you're supporting local businesses.

Credit may be better when:

You Want to Swipe, Sign and Move on

Convenience is the main appeal of a credit card. You'll save time by not getting cash and avoiding any ATM fees, and you can wait until the end of the month to pay the balance.

You're Building Credit

Employers, landlords and banks usually check your credit score before doing business with you. Maintaining and paying off a credit card over time is a great way to build good credit. The key here is to pay off the entire balance every month. When building your credit score, treat your credit card like you would a debit card: Spend only money you have on hand and keep your overall credit usage low.

You Need Protection

Credit cards offer a number of useful protections:

- **Stolen card:** If someone takes your credit card, you'll only be liable for \$50 worth of any fraudulent purchases, as mandated by federal law. Debit cards also offer theft protections, but they sometimes aren't as generous.
- **Disputed purchases:** If you didn't sign off on a purchase or an online order arrives damaged or goes missing, you can dispute the charge through your credit card company—an especially powerful tool if the seller is causing issues.
- **Travel protection:** Some credit cards offer travel insurance for things like trip cancellation, travel delays or lost luggage.

You Want Rewards

Credit card companies offer sign-up bonuses, cash back on purchases and travel benefits to get you in the door. Just make sure you read the fine print. Many cards with large rewards charge a hefty annual fee, and only make sense for big spenders. Other cards offer generous rewards to travelers but aren't ideal for everyone. Review the options closely and choose the card that fits your spending habits.

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Byline/Bio: By James Thorne

James Thorne is a freelance journalist who has written for CNBC and Reuters, among other publications.

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Disclosures:

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