CardRatings.com Launches 2021 Guide to Credit Cards and Taxes

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Experts weigh in on the pros and cons of paying tax bills with a credit card, and more, in this new guide

Foster City, CA – Feb. 25, 2021 – As millions of Americans embark on the dreaded annual task of filing taxes, CardRatings.com introduces a new guide to help navigate issues surrounding credit cards and the IRS. The leader in online credit card ratings answers tricky questions that include, “Are my credit card rewards taxable?” and “Is it advisable to pay taxes with a credit card?”

Find the new resource here: 2021 Guide to Credit Cards and Taxes

Are credit card rewards taxable?

Sometimes credit card rewards have to be reported to the IRS; other times, it is not necessary. Typically, the IRS views credit cards as rebates and most rewards are not taxable, according to experts.

One example of a taxable credit card reward is when money wasn’t spent to earn that reward. For instance, some introductory offers for new credit cards don’t require any spending to reap the reward.

Is it a great idea to pay taxes with a credit card?

This can be confusing for both tax filers and tax accountants. There are pros and cons to paying taxes with a credit card.

One of the attractive “pros” to paying taxes with a credit card is the ability to earn rewards, but credit industry specialists usually advise against using credit cards to pay taxes just to earn some every day rewards; that’s because the fees that accompany the tax payment will offset the minimal rewards that could be earned.

”Paying taxes with a credit card will incur a transaction fee and in 2021 that fee ranges from 1.96%-1.99% of the amount paid, depending on the service that is used,” stresses Brooklyn Lowery, CardRatings’ senior managing editor and credit card expert. “Paying that fee to earn just 1% back likely isn’t wise, but paying the bill and earning a good-sized signup bonus that will be worth more than the fee when redeeming the rewards is perhaps worth considering.”

Here are the best credit cards to pay taxes and the reasons why they’re the best choices:

- **Chase Sapphire Preferred Credit Card**: The cardholder must spend $4,000 in three months to earn the signup bonus, and that bonus could be worth a great deal thanks to all the Chase Ultimate Rewards travel partners.
- **Discover It Cash Back**: Discover matches all the cash-back earned during the first year as a cardholder. A large tax bill could generate substantial cash back that will be matched at the end of the first year.
- **Capital One Venture Rewards**: This card earns two miles per $1 spent on all purchases, meaning at least 2% back on the tax bill. Plus, cardholders can earn a welcome bonus after spending $3,000 in three months.
- **Ink Business Preferred**: The signup bonus is substantial (100,000 points), but it’s necessary to spend $15,000 to earn it. A hefty tax bill could go a long way toward earning a bonus and the points earned could be worth well more than the transaction fee.
- **American Express Platinum Card**: Again, the welcome offer is substantial at 75,000 Membership Rewards points, but it requires spending $5,000 in six months to get it.

“Those who decide to pay their taxes, whether estimated or annual, with a credit card should pay off credit card balances as soon as possible, ideally in that same billing period,” adds Lowery. “Carrying a balance will wipe out any rewards earned. In fact, if the cardholder is already carrying a balance on a card and has a tax refund coming, they should certainly consider using the refund to pay down revolving credit card debt to save on interest and possibly improve credit card scores, too.”

Lowery is available for comment and can expand on the relationship between taxes and credit cards, including additional reasons to pay taxes on a credit card, what to consider for business owners with credit card rewards and more.

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CardRatings innovated online credit card ratings and has been offering independent ratings and reviews of credit card offers since 1998. The website collects and maintains data on more than 700 credit card offers and carefully compiles objective lists of the top credit cards by card type, making it easy for consumers to find the right card to fit their needs. Sign up for the bimonthly newsletter here.

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