2011 is here and, as we approach tax season, some of you are probably sitting and thinking about how much debt you got yourself in for the holidays.

2011 is here and, as we approach tax season, some of you are probably sitting and thinking about how much debt you got yourself in for the holidays.

What method did you use can tell a lot about the time and extra money you will pay.

Take the case of a debit card versus a credit card.

Increasingly, people have come to believe their debit card is the sweeter answer to credit. Credit card use is at an all-time low as people turn to pay-now options such as debit cards.

I often laugh at the Chase commercial where they ask “what’s in your wallet” because as the theory goes, a debit card is considered the good plastic. Over forty percent of holiday shoppers pulled that almighty debit card out to purchase their gifts.

While I was standing in line at Walmart, during the holiday season, the woman in front of me asked her husband if he had the credit card. He answered, ‘no, I left it at home.’

Many families may have choose to leave credit cards at home as they shopped this year, making sure to only purchase what’s on their list and within their budget.

Which card you should use when making purchases has been a topic of conversation for some time and many people lean in one direction while others could care less.

One thing is certain, since 2003, Americans have been using plastic in each form more than cash or checks. Obviously the largest distinction between using the two lies in the origination of funds for purchases. Debit cards use money that is already in your checking account while credit cards use “credit” that you will be responsible for repaying at a later date.

It is clear that consumers enjoy the convenience and ease of using both debit and credit cards. Both options have benefits as long as they are used responsibly. The best way to manage your personal finances does not begin with how you pay for your purchases but with your spending habits themselves.

If you stick to a budget and live within or below your means both options should serve your purchasing needs sufficiently.

When using your debit card, you must first ensure you have the resources available in your checking account to cover your purchases. Consumers who are not particularly organized may find it difficult to track expenses and risk overdrawing their checking account if transactions are not noted properly.

When using your debit card, know that transactions which require a signature generally take up to three days to clear while PIN transactions can clear immediately or within 24 hours.

Credit card purchases generally do not post to your account immediately, however an authorization to hold funds takes place. If you are close to approaching your credit limit, using your card on several occasions in a short period of time may result in going over your credit limit resulting in additional fees and higher interest rates being applied to your balance.

Visa and Mastercard offer zero-liability policies for credit card holders which mean you are not responsible for any charges made when your credit card is not present. This covers online purchases or instances where credit card numbers are entered manually versus swiping the physical card at the merchant location. While zero-liability policies exist for debit card holders, it only applies to transactions that do not require use of your PIN.

Regulations and policies protect you in the event your credit or debit card are lost, stolen or used by an unauthorized person. While the protection is there for both, the level of protection differs for each card. If your credit card is lost or stolen and you notify your card company before charges have posted to your account you are not responsible for any unauthorized charges.

If charges have already posted, you will only be responsible for the first $50 of charges.

Debit cards offer this protection as well but you must notify your card issuer with two days of discovering unauthorized charges or the loss of your card.

Notifying your card holder within two days limits your liability to $50. If you don't notice the transaction within two days and report the charge between 2 and 60 days, your liability increases to $500, after 60 days your liability could be limitless.

In the meantime, you are out that cash and even if you are credited the amount in the future, don't expect the credit to appear in a timely manner.

My personal belief is credit cards offer a variety of benefits to users, especially when the balance is paid off every month. One of those benefits is that with the grace period before the payment is due, using a credit card is like having a short-term interest free loan.

Depending on how far into the billing cycle the card is used, this grace period could be as much as four weeks. Even at the low interest rates banks are paying, if you're earning interest on the money for a month before you have to pay for your purchase, you're ahead.

Another way your credit card can help you earn money is if it's a cash back card.

A lot of cards offer cash back programs ranging from 1 to 3 percent or even 5 percent on some or all purchases. If you're using the card to buy things you would normally buy, even at the lowest cash back amount of 1 percent, everything you buy costs at least 1 percent less. That's

money in your pocket.

Most, if not all, credit cards have fraud protection benefits which prevent the owner of a stolen card from having to pay for fraudulent charges. Debit cards also offer this protection, but with a big difference – when using a credit cad, if a fraudulent charge appears on a statement, it can be contested before payment is made; with a debit card, an account may have been depleted or cleaned out before the fraud is caught causing checks, payments, or debits to bounce.

While this can be recouped, it is not without a certain amount of hassle and aggravation.

Write Wade at the Call & Post, 11800 Shaker Blvd., Cleveland, OH 44120, or e-mail him at jwade@call-post.com.
Comments and questions are welcome but, because of the volume of mail, personal responses are not always possible. Please note that comments or questions may be used in a future column.