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Bitcoin Trading Fees and How to Reduce Them

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As Bitcoin continues to rally, transaction fees will increase. Reduce your BTC fees by streamlining data packets, transacting during off-peak periods, using SegWit and more.

Bitcoin fees have been getting a lot of attention since Bitcoin and other cryptocurrencies began to rally in 2020. As the prices reached new peaks again and again in 2021, there was even more attention focused on them. The reason being, higher value Bitcoin (BTC) tokens required BTC users to pay higher transaction fees.

Factors Affecting Bitcoin Transaction Fees

Bitcoin transaction fees are based on four primary factors: the number of inputs, the number of outputs, the script complexity and the multi-signature feature.

Amount of Inputs

When BTC users initiate transactions, they send different bits of information with the transaction. As BTC users increase the inputs in their transactions, their transactions will have larger data packets. Since Bitcoin blocks are limited to 4 MB, large size transactions limit the number of BTC transactions that can be included in a block. Consequently, large BTC transactions will have higher transaction fees than smaller transactions.

Amount of Outputs

BTC transaction initiators are charged for outputs too. The outputs are what is sent to the transaction initiators and recipients after the transactions are processed by miners. BTC transaction initiators must pay in advance for the outputs that must be produced and sent to different BTC user account addresses.

Script Complexity

If a BTC transaction uses script complexity to reduce the size of a data packet, increase the security of the transaction, or for some other reason, there will most likely be a fee assessed for the 'privilege' of using the complex script.

Multi-Signature Function

The multi-signature feature reduces the cost of smart contracts and BTC payments by requiring a certain number of signatures before a transaction can be processed by a platform. Platforms charge BTC users high transaction fees for using the multi-signature feature. The multi-signature feature saves BTC smart contract users money but costs them more in transaction fees.



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Ways to Reduce Bitcoin Transaction Fees

Here we list some ways to reduce the fees:

Smaller Packets & Segregated Witness (SegWit)

Do not send unnecessarily large data packets for processing on the blockchain. Streamline your transactions and make use of any special features, protocols, or platforms that can reduce the size of your data packets.

Use SegWit to reduce the size of your data packet. With a smaller data packet, you will pay lower transaction fees and your transaction will probably be processed faster.

Trade During Off-Peak Hours At The Platform

Process your transactions on the platform when there is low traffic on it. The lower the demand for platform services, the lower your transaction fees and the faster the processing of your transaction.

Use Lightning Network

Use the Lightning Network to process your transactions on a side-chain and then have the results of the transaction sent to the main blockchain. Plus, you can process a string of transactions and then consolidate them on the Lightning Network. Overall, your transaction fees will be lower, your transactions processed faster, and the results of your transactions will be recorded on the blockchain's ledger.

Select a best Crypto Exchange

Cryptocurrency exchanges charge different fees, have different payment methods available, and offer different services. Select your cryptocurrency exchange based on the services it offers, fee structure, and how well it meets the other criteria (e.g., security, payment methods) that are important to you.

Carefully Choose Your Payment Method

The payment method that incurs the lowest transaction fee is bank transfer. The ones that incur the highest fees are PayPal and credit/debit cards. Before sending a transaction to the mempool, consider the payment method and how it will affect the cost of your transaction.

Integrate Your Inputs

When you process multiple transactions on a blockchain, you are charged separately for each transaction. It is cheaper for you to consolidate your smaller transactions into one big transaction than to send numerous small transactions to the blockchain.

Confirmation of All Transaction Fees

Before selecting a platform to process your transactions, make sure that you are aware of all the fees that you may be charged when using that platform. You should review multiple platforms, and use the ones that assess you the lowest transaction costs and may have different levels of congestion.

Conclusion

And there you have it — here are some methods you can use the next time you transact in Bitcoin. Plan your transactions, use these strategies and you'll find your Bitcoin transaction fees lower!