

## What is the System of Record for cost basis?

July 6, 2012 By [Krisan Marotta](#)



System of Record (SOR) became a necessary part of our cost basis terminology in 2008 when Congress passed the “[Emergency Economic Stabilization Act](#).”

The System of Record is the official record for tax purposes and the system responsible for providing the realized gain/loss information that the investor should use report to the IRS. [When/if there is a discrepancy in the data](#), the SOR contains the official numbers that should be used for calculating taxes. The SOR could be either the custodian or PortfolioCenter.

As more of the cost-basis-compliance burden shifts to the custodian and we face into the problems of [keeping PortfolioCenter cost basis in sync](#) with the broker, I see more managers opting to designate their custodian as the SOR.

However, you should evaluate your situation and consult a tax professional, weighing the completeness and accuracy of both your PortfolioCenter data and your custodian's data along with your firm's practices and accounting methods. You may also decide that PortfolioCenter is the historical SOR (prior to January 1, 2011 for example) and the broker is the SOR after that date.

Once you make this decision with each of your clients, I suggest you document it and make every effort to ensure the SOR contains the most accurate data available. If you have multiple brokers, you may want [to create custom field and a Smart Set](#) to track the SOR for each account.

If you decide your custodian is the SOR, the next decision is [whether to continue providing realized gain/loss and other tax reports from PortfolioCenter](#). Depending on how accurately you maintain your PortfolioCenter cost basis data, these reports may help or confuse your clients. Again, weigh your situation and consider adding an appropriate disclaimer to your tax reports so the client knows whether or not to report the PortfolioCenter numbers to the IRS.