

MTD IT: What do insurers expect from us?

What will best practice around PI insurance look like when Making Tax Digital for Income Tax is introduced? Robyn Milstead asked an expert

With Making Tax Digital for Income Tax Self Assessment (MTD IT) on the horizon, many accountants and tax advisers are understandably nervous. Questions are flying around about client approvals, submission responsibilities and – crucially – how all this ties into Professional Indemnity (PI) insurance.

I had the privilege of chatting through my own concerns with Sam Cox of Qdos Insurance, to explore what best practice really looks like in this new compliance landscape — and how PI cover fits into it all.

One of the reasons I spoke to Sam was because insurers haven't had much to say about MTD IT so far. Sam, however, was able to reassure me that that's not a sign they're ignoring it – it's just how they operate.

Insurers tend to be reactive, not proactive. They wait to see how new rules play out and where claims emerge before they start issuing guidance or adjusting terms.

Right now, MTD IT is seen as low risk from an insurance standpoint. It's a compliance exercise, not an advice-driven one. Even so this still feels like a scary new world... but there are some points from our conversation which I hope will elevate some of the fears.

Two key roles for PII

Let's start with a fundamental point Sam raised: PI insurance serves two roles in your professional life:

1. Preventing claims – through encouraging best practice that reduces risk.
2. Protecting you when claims arise – stepping in where genuine mistakes are made.

Understanding that dual role is important when looking at MTD IT, where the line between compliance and advice can feel blurry.

Questions we need answered

1. Quarterly updates: is client approval actually needed?

One of the big questions is whether clients need to formally approve quarterly updates before they're submitted to HMRC.

Here's the good news: current guidance doesn't require it. As I wrote in the last issue of this magazine, PCRT (Professional Conduct in Relation to Taxation) doesn't mandate client approval for these updates. So, from a PI insurer's perspective, you're not doing anything wrong if you don't seek sign-off.

What about risk? Well, unless a client can show that you did something wrong and that they suffered a financial loss, it's very unlikely a claim would succeed. And given that quarterly updates don't determine the final tax position, proving loss would be a tough ask.

2. If no quarterly update approval is needed, what is?

Even though formal approval isn't required, clear communication is still essential.

The advice here? Get your engagement terms watertight. That means making sure you've:

- Explained what information you need and why;
- Clarified how you'll use that information; and
- Defined what the client can (and can't) rely on.

If you cover this in your terms of business and maintain good records you're on the right track.

3. Two submission stages, one critical moment – which is it?

MTD IT introduces a slightly awkward process when it comes to final submissions that has been causing me a bit of worry:

1. You first submit data to retrieve a tax calculation from HMRC.
2. The eventual approval of that tax calculation is what constitutes successful submission for the year.

So, do you need client approval at both points or just one?

PCRT makes it clear that approval is needed at some point in the end of year process.

From Sam's point of view, the first stage of retrieving a calculation doesn't trigger any PI alarm bells, but that the final stage should have agreement. Final submission equals final responsibility. In practical terms an agent may well seek that approval at the first stage, relying on a software produced calculation, and then proceed to retrieve the HMRC calculation and submit without further agreement from the client – provided the two calculations match each other.

4. What counts as client approval?

According to Sam, a signature isn't necessarily required (although this is of course the gold standard that most will revert to). In lieu of a signature you do need a clear audit trail showing that you told the client what was being submitted, and they agreed to it.

A strong email chain is also acceptable. A documented phone call might cut it but is less robust. And if HMRC or your professional body ever starts requiring signatures, best practice will change accordingly.

Remember: PI insurance will still step in if you've made a mistake — say, you thought you had approval but didn't. What it won't cover is knowingly acting without consent or submitting false data — that moves into criminal territory.

Security a growing concern

In light of the above, MTD may not add much direct risk from a PI perspective but it does expand your digital footprint – which makes cybersecurity a growing concern.

Accountants are an attractive target for cyber criminals, and MTD IT may increase that appeal.

Sam's advice?

- Stick to reputable software providers.
- Do your due diligence, especially when recommending tools to clients.
- If you're a larger firm, seriously consider specialist cyber insurance — the standard 'cyber extension' on your PI policy often isn't enough.

Final thoughts

If you're feeling overwhelmed by MTD IT, you're not alone. But from an insurance and risk perspective it's relatively straightforward:

- Stick to PCRT and HMRC guidance.
- Be clear in your engagement letters.
- Document client approvals — even if they're not always required.
- And check your PI and cyber cover — especially if you're not chartered.

PI insurance exists to protect you when things go wrong. But the best protection of all is clear, consistent, and well-documented communication with your clients, which you're likely already doing anyway.

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