

## **EFFECT OF INTELLECTUAL CAPITAL, DEFERRED TAX EXPENSES, AND PROFITABILITY FOR PROFIT MANAGEMENT**

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### **ABSTRACT**

*This study aims to examine the effect of intellectual capital, deferred tax expense and profitability on earnings management. The type of research used in this study is quantitative data. The data source used in this study is secondary data. The population in this study were property and real estate companies listed on the Indonesia Stock Exchange (IDX) during the period 2013-2017. Determination of this research sample using purposive sampling method and obtained a sample of 15 companies with a total of 75 research sample data. The analytical method used in this study is multiple linear regression analysis, correlation coefficient, coefficient of determination, t test and F test. Data analysis using the help of SPSS 24 software. The results of this study show that intellectual capital has a significantly on earnings management with a level of 98.4%. Deferred tax expense does not affect earnings management with a level of 34.5% and profitability also does not affect earnings management at the level of 21.5%. While simultaneously showing that intellectual capital, deferred tax expense and profitability together have a significant effect on earnings management with a rate of 99,7%.*

*Keywords: Intellectual Capital, Deferred Tax Load, Profitability, Earnings Management*

### **1. INTRODUCTION**

Financial statements are the results of the accounting process that can be used as a tool to communicate financial data or company activities to interested parties.

Profits Management practices can occur because basically accounting does not impose absolute uniformity on the accounting standards used. Financial statements for commercial or business purposes are prepared based on generally accepted principles, namely Financial Accounting Standards (SAK), making it easier for management to choose accounting procedures or methods that are appropriate to their business conditions (Official Siti, 2017). The importance of profit information for its users makes every company competing

to increase its earnings in order to gain investor confidence to invest their funds.

### **2. LITERATURE REVIEW**

Agency theory is a theory that regulates the relationship between shareholders (principal) as the owner of interests and management (agent) as the party who runs the interests. This theory explains the existence of conflicts of interest, namely differences in interests between management and company owners, agency relationships arise when one or more people (principals) employ another person (agent) to provide a service and then give authority in carrying out the interests of the agent (Aggitasari, 2012 in Thistle 2013).

**Intellectual Capital**

Intellectual capital is one of the resources owned by the company. Intellectual capital is an important asset for companies that contribute to creating corporate wealth. Intellectual capital can also be called intellectual property, intellectual assets, and knowledge assets. But actually these three terms have different concepts. Intellectual capital is an intangible asset or non-monetary asset that can be identified and has no physical form (Marisi Purba, 2013).

**Deferred Tax Expense**

Deferred tax is the amount of income tax that is recovered in the coming period as a result of temporary differences that may be deducted from the remaining compensated loss. Deferred tax expense can be measured by:

<i>Deferred Tax Expense =</i>	<i>DTE it</i>
	<i>TAit - 1</i>

Explanation:

DTE it: Deferred corporate tax expense i in year t

TAi t-1: Total assets of company i in year t-1.

The calculation of deferred tax expense is calculated using the indicator weighting deferred tax expense with total assets or total assets. This is done to weight the deferred tax expense with total assets in the period t-1 to obtain proportional calculated value.

**Profitability**

Profitability is the company's ability to generate profits from normal business activities and as a benchmark to determine the effectiveness of management in carrying out company operations. The operational goal of most companies is to maximize profits, both short-term and long-term profits.

Management is required to increase returns for company owners while increasing employee welfare, of course this can only happen if the company makes a profit in its business activities. The indicators I use to measure this variable are:

$$ROA = \frac{\text{Profit after tax}}{\text{Total assets}} \times 100 \%$$

**Profit Management**

Profit Management is measured based on the ratio of working capital accruals to sales. This model is based on the study of McNichols (2000) and Dechow & Skinner (2000) who suggest that earnings management research uses a specific model of accruals or frequency distribution. The use of a simpler ratio of working capital to sales accruals as a proxy for earnings management is also suggested by Peasnell, et al. (2000). by using the following formula:

$$Profit Mg = \frac{\text{Working capital accruals}}{\text{Period sales}}$$

Explanation:

Working capital accruals(t) = company working capital x year to t

Sales(t) = Sales made by the company x year to t

**3. DATA AND RESEARCH TECHNIQUE ANALISYS**

**Classic Assumption Test**

The research method used. Classical Assumptions Test Multiple linear regression models can be called a good model if the model meets the assumptions of data normality and is free from classical statistical assumptions, both multicollinearity, autocorrelation, and heteroskedastisitas (Bambang Suharjo, 2017). The classic assumption test used as follows:

### **Normality Test**

Normality test is a test of basic assumptions conducted by researchers as a prerequisite for conducting parametric static tests. Normality test is used to determine whether the population data is normally distributed or not (Ricki Yuliardi and Zuli Nuraeni, 2017). So it can be concluded that the normality test is useful for knowing whether the dependent variable, independent, or both are normally distributed, approaching normal or not. The research sample was tested by the Kolmogorov-Smirnov test to determine whether the sample is a normal distribution type. If the Kolmogorov-Smirnov Sig > 0.05 significance value indicates that the data are normally distributed. Conversely, if the significance value of Kolmogorov-Smirnov Sig < 0.05, it indicates that the data are not normally distributed. A variable is said to be normal if the distribution image with data points that spread around the diagonal line, and the distribution of data points in the direction following the diagonal line (Ghozali, 2016).

### **Heteroscedasticity Test**

Detection of heteroscedasticity can be done by using a scatter plot method by plotting ZPRED (Standardized Predicted Value) or predictive value with SRESID (Studentized Residual) or residual value. A good model is obtained if there are no specific patterns in the scatter plot graph between SRESID and ZPRED, where the Y axis has been predicted and the X axis is residual, such as a pattern gathering in the middle, narrowing then widening or vice versa widening then narrowing.

to find out whether there is heteroscedasticity in the research can be

seen with the glacier test, this test is used to regress the absolute residual value of the independent variables, so that the degree of trustworthiness of 5% can be known. If the significance value of the independent variable > 0.05, heteroscedasticity does not occur. Conversely, if the significance value of the independent variable < 0.05, heteroscedasticity occurs.

### **Multicollinearity Test**

Bambang Suharjo (2013) argues that the multicollinearity test is the occurrence of correlation between independent variables. Multicollinearity test aims to test whether in a regression model found a correlation between independent variables. If there is a correlation, then there is a case or a multicollinearity problem.

### **Autocorrelation Test**

Autocorrelation test is a correlation between the value of the variable with the value of the same variable in the time period of one or more previous times. Autocorrelation test shows whether in a linear regression model there is a correlation between residuals in the time period and residuals in the previous time period. A good regression model is free from autocorrelation. Detection of the presence or absence of autocorrelation can be done using the Durbin Watson test (DW-test). According to Danang Sunyoto (2016) to test the presence or absence of autocorrelation, the residual data is first calculated from the Durbin-Watson (D-W) statistical value.

### **Multiple Linear Regression**

Multiple regression analysis is to add the number of independent variables that were previously only one variable to two or more independent

variables, because a dependent variable can not only be explained by one independent variable but needs to be explained by several dependent variables (Bambang Suharjo, 2013). The purpose of multiple linear regression analysis is to determine whether the independent variable influences the dependent variable. In this research to test hypothesis one and hypothesis two, the model used in multiple regression analysis is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

### **Correlation Coefficient**

According to Bambang Suharjo (2013) the correlation test is a number that shows the strength or weakness of the influence between two variables. The magnitude of the correlation coefficient (r) between the two variables is that it can provide an interpretation of the strength or weakness of the influence the guidelines used are:

**Table 1 Correlation Coefficient Interpretation**

No	Coefficient Interval	Relation Level
1	0,00 – 0,199	Very low
2	0,20 – 0,399	Low
3	0,40 – 0,599	Medium
4	0,60 – 0,799	Strong
5	0,80 – 0,100	Very Strong

### **Coefficient of Determination**

The coefficient of determination test (r<sup>2</sup>) aims to find out how much the ability of the independent variable to explain the dependent variable expressed as a percentage. The value of r<sup>2</sup> is 1, meaning that the fluctuation of the dependent variable can all be explained by the independent variable and there are no other factors that cause the fluctuation of the dependent variable. If r<sup>2</sup> is 0 to 1, it means that the stronger ability of the variable can explain the fluctuation of the dependent variable.

### **Statistical Test t**

T test is used to test the significance of each independent variable on the dependent variable (Sugiyono, 2017: 215).

### **Statistical Test F**

According to Ghozali (2013) the F test is used to show whether all independent variables included in the model have an effect simultaneously on the independent variables. Hypothesis testing with the F test is based on the significance value, whether the variable intellectual capital, deferred tax burden and profitability simultaneously have a significant effect or not on earnings management.

## **4. RESULT AND DISCUSSION**

### **Descriptive statistics**

Descriptive statistics will be used to explain statistically the variables studied. Descriptive statistics explain how data is categorized into data groups that are more easily analyzed or read by information users. The following table results:

**Table 2 : Descriptive Statistics**

<b>Descriptive Statistics</b>					
	N	Minimum	Maximum	Mean	Std. Deviation
Intellectual Capital	75	1,45	36,98	8,0289	7,20347
Beban Pajak Tangguhan	75	0,00	0,03	0,0015	0,00428
Profitabilitas Manajemen Laba	75	0,00	0,32	0,0715	0,05886
Valid N (listwise)	75	-0,48	1,08	0,1571	0,33364

Source: Self Proceed

**Classic Assumption Test**  
**Normality Test**

Normality test is used to determine whether the population data is normally

distributed or not. To detect whether residuals are normally distributed or not with the normal P-P plot of regression or the Kolmogorov-Smirnov test.

**Table 3 Kolmogorov Smirnov Statistical Test**  
 One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		75
Normal Parameters <sup>a,b</sup>	Mean	0,0000000
	Std. Deviation	0,30192693
	Most Extreme Differences	
	Absolute	0,089
	Positive	0,046
	Negative	-0,089
Test Statistic		0,089
Asymp. Sig. (2-tailed)		,200 <sup>c,d</sup>

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.
- d. This is a lower bound of the true significance.

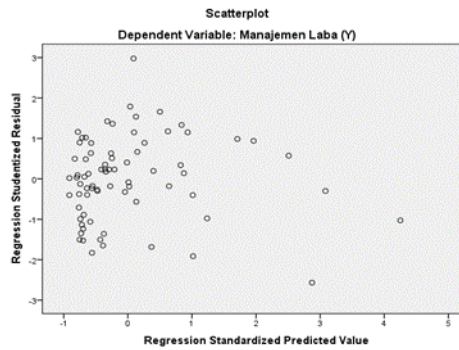
Source: Self Proceed

Kolmogorov-Smirnov statistical test results were at 0.089 with a significance value of 0.200. This shows that the model used in this study is normally distributed, because the significance value of the dependent and independent variables is more than 0.05. So it can be concluded that the data processed is data that is normally distributed and normality tests are met.

**Heteroscedasticity Test**

From the picture above it can be seen that these points spread with irregular patterns below and above 0 on the Y axis. So it can be concluded that there is no heteroscedasticity.

These points spread with irregular patterns below and above 0 on the Y axis. So it can be concluded that Heteroscedasticity does not occur.



**Picture 1 Heteroscedasticity Test**  
 Source: *Self Proceed*

**Multicollinearity Test**

**Table 4 Multicollinearity Test**

Model		Coefficients <sup>a</sup>					Collinearity Statistics		
		Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Tolerance	VIF
		B	Std. Error	Beta					
1	(Constant)	-0.002	0.055		-0.042	0.967			
	Intellectual Capital	0.022	0.009	0.471	2.465	0.016	0.315	3.170	
	Beban Pajak Tangmahan	3.656	8.464	0.047	0.435	0.665	0.978	1.022	
	Profitabilitas	-0.267	1.077	-0.052	-0.276	0.784	0.316	3.131	

a. Dependent Variable: Manajemen Laba

Source: *Self Proceed*

From the results of the table above it can be seen that the value of the variance inflation factor (VIF) for the independent variable is still smaller than 10 (VIF <10) and the tolerance value is greater than 0.10 (tolerance >

0.10). So it can be concluded that in this study there was no multicollinity problem.

**Autocorrelation Test**

**Table 5 Autocorrelation Test**

Model Summary <sup>a</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.426 <sup>b</sup>	.181	.146	0.30824	1.024

a. Predictors: (Constant), Profitabilitas (X3), Beban Pajak Tangmahan (X2), Intellectual Capital  
 b. Dependent Variable: Manajemen Laba (Y)

Source : *Self Proceed*

The table shows the Durbin Watson value of 1,024. These results indicate that the DW value is between -2 and +2 or -2 <1.024 <+2. So it can be concluded that all regression models are independent of the autocorrelation problem, both positive and negative.

**Multiple Linear Regression**

Multiple linear regression analysis aims to determine whether the independent variable influences the dependent variable that uses more than two independent variables. The multiple linear regression equation can be stated in the following equation:

**Table 6: Multiple Linear Regression Analysis**

Model		Coefficients <sup>a</sup>				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
B	Std. Error	Beta				
1	(Constant)	-0.002	0.059		-0.042	0.967
	Intellectual Capital	0,022	0,009	0,471	2,465	0,016
	Beban Pajak Tangguhan	3,686	8,464	0,047	0,435	0,665
	Profitabilitas	-0,297	1,077	-0,052	-0,276	0,784

a. Dependent Variable: Manajemen Laba

Source: Self Proceed

The multiple regression equation model is as follows:

$$ML = -0,002 + 0,022IC + 3,686BPT + -0,297PRF$$

1. Constant value of -0.002 means that if the variable intellectual capital, deferred tax expense and profitability are zero then the profits management variable will be worth -0.002 units.
2. The intellectual capital regression coefficient is 0.022 if the intellectual capital variable increases by one unit and the other variable is constant, then the earnings management variable will increase by 0.022 units, the positive coefficient means that there is a positive relationship between intellectual capital and profit management.
3. The deferred tax expense regression coefficient is 3.686, the deferred tax expense variable increases by one unit and the other variables are constant, the earnings management variable will increase by 3.686 units, the positive value coefficient means that there is a positive relationship between the deferred tax expense and earnings management.
4. Profitability regression coefficient of -0.297 which means that if the profitability variable increases by one unit and the other variable is constant, then the earnings management variable will decrease by -0.297 units, the coefficient of negative value means

that there is a negative relationship between the deferred tax expense and profit management.

**Correlation Coefficient Test**

R coefficient value is 0.426, which means the relationship between the independent variable and the dependent variable is 42.6%. So it can be concluded that there is a moderate relationship between intellectual capital, deferred tax burden and profitability on earnings management. While the direction of the relationship is positive because R is positive, it means that the higher the effect of intellectual capital, the deferred tax burden and the profitability of the company, the higher the profits management practices will occur.

**Coefficient Determination**

The coefficient of determination test (adjusted r<sup>2</sup>) aims to find out how much the ability of the independent variable to explain the dependent variable expressed as a percentage.

The adjusted determination coefficient (Adjust R Square) is 0.146 or 14.6%. This means that 14.6% of the dependent variable that is Profit Management can be explained or influenced by independent variables namely Intellectual Capital, Deferred Tax Burden and Profitability. While the remaining 85.4% is explained by other

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variables that are more dominant, namely leverage, independent commissioners and managerial ownership.

**Table 7: Corelation Coefficient and Coefficient Determination**  
**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.426 <sup>a</sup>	0,181	0,146	0,30824

a. Predictors: (Constant), Profitabilitas, Beban Pajak Tangguhan,

b. Dependent Variable: Manajemen Laba

Source: Self Proceed

**Statistical Test t**

Significant level of intellectual capital of 0.016 <0.05 (smaller than 0.05) and with t count of 2.465 greater than t table 1.99394 which shows that the intellectual capital variable influences earnings management.

Deferred tax expense is significant at 0.665 > 0.05 (greater than 0.05) with t arithmetic of 0.435 less than

t table 1.99394 which shows that the deferred tax expense variable has no effect on earnings management. Likewise, the profitability variable with a significance of 0.784 > 0.05 (greater than 0.05) with a t count of -0.276 lower than t table 1.99394 which shows the profitability variable has no effect on profits management.

**Table 8: Statistical t Test Result**

Model		Coefficients <sup>a</sup>			t	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	-0.002	0.059		-0.042	0.967
	Intellectual Capital	0,022	0,009	0,471	2,465	0,016
	Beban Pajak Tangguhan	3,686	8,464	0,047	0,435	0,665
	Profitabilitas	-0.297	1.077	-0.052	-0.276	0.784

a. Dependent Variable: Manajemen Laba

Source: Self Proceed

**Statistical Test F**

The results of the statistical F test or ANOVA test can be seen that the significance value of 0.003 <0.05 (smaller than 0.05) with an F count of

5.233 is greater than the F table of 2.73 then this regression equation model can show that intellectual capital , deferred tax expense and profitability jointly or simultaneously affect earnings management.

**Table 9: Statistical F Test Result**

Model		ANOVA <sup>a</sup>			F	Sig.
		Sum of Squares	df	Mean Square		
1	Regression	1,492	3	0,497	5,233	.003 <sup>b</sup>
	Residual	6,746	71	0,095		
	Total	8,237	74			

a. Dependent Variable: Manajemen Laba (Y)

b. Predictors: (Constant), Profitabilitas (X3), Beban Pajak Tangguhan (X2), Intellectual

Source: Self Proceed



## 5. CONCLUSION

The results of testing the first hypothesis found that the variable intellectual capital significantly affects earnings management. the higher the level of intellectual capital owned by the company will further increase the existence of earnings management practices carried out by company management. Conversely, low intellectual capital will reduce earnings management practices by company management.

The second hypothesis testing results found that the deferred tax expense variable does not significantly influence earnings management. This means that the level of deferred tax burden owned by the company has a low level of earnings management. Which means the amount of deferred tax expense in a company does not necessarily indicate the company is doing earnings management. This is because the emergence of deferred tax expense accounts can be caused by the possibility of tax planning activities carried out by management.

The third hypothesis testing results found that the profitability variable does not significantly influence earnings management. This means that the level of profitability of the company has a low level of earnings management. This is because investors tend to ignore the Return On Asset (ROA) information contained in the financial statements, so that management is not motivated to practice earnings management through profitability variables.

The fourth hypothesis testing results found that the variables intellectual capital, deferred tax burden and profitability simultaneously affect earnings management. This means that simultaneously the higher level of intellectual capital, deferred tax burden and profitability owned by the company

will further increase the existence of earnings management practices undertaken by the company's management.

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